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How airlines can handle busier summers—and comparatively quiet winters

Air travel is becoming more seasonal. What steps can airlines take to adapt to the new shape of demand?

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The shape of passenger demand for air travel is shifting, as leisure travel's increasing share of the total travel market is creating more pronounced summer traffic peaks. This demand shift is generating a new set of complications for airlines—which will require new solutions.

Prior to the disruption caused by the COVID-19 pandemic, leisure travel grew at a faster pace than business travel in many countries and regions. Globally, from 2010 to 2019, the compound annual growth rate for leisure air trips was 6.6 percent, in contrast to only 3.3 percent for business air trips. This growth gap has widened further in some places during air travel's postpandemic recovery. As travel demand continues to ramp back up from its 2020 standstill, leisure traffic—which is the larger category—has recovered more quickly than business traffic in some major regions, including the United States (Exhibit 1).

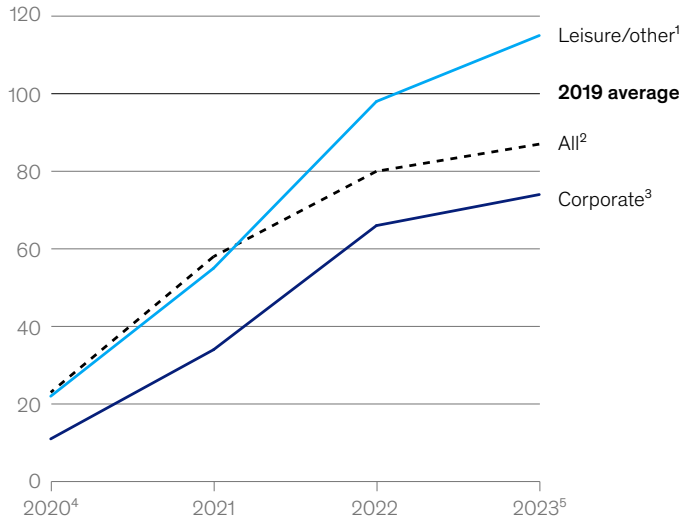
The divergence between leisure and business travel has had a significant effect on the nature of monthly passenger demand. That's because leisure travel is linked far more closely to the seasons—with spikes and lulls corresponding with the Northern Hemisphere's summer and winter, respectively. (The end-of-year holiday season does not produce enough leisure travel demand to offset the winter lows.) This evolution in the shape of demand is creating sharper seasonality patterns for airlines (Exhibit 2).

Seasonality is most pronounced in Europe, where leisure travel is especially concentrated in the summer months. North American vacationers, by contrast, can take shorter flights to warm, popular beach destinations all year round, which tends to spread leisure travel more diffusely across the calendar. In Asia–Pacific, 2023 results were partially affected by the region's different pandemic

Exhibit 1

Business travel demand for US airlines still lags behind leisure travel.

US airline tickets sold, by agency type, % of 2019 yearly average



[1]Agencies that primarily focus on leisure travel and do not primarily execute sales through websites or mobile applications. [2]Includes corporate and leisure agencies. Also includes data from online travel agencies, which are not independently shown. Does not include direct sales through airline websites. [3]Agencies that primarily focus on managed corporate or government travel. [4]Based on data from March to Dec 2020. [5]Oct 2023 YTD average.
Source: Airlines Reporting Corporation

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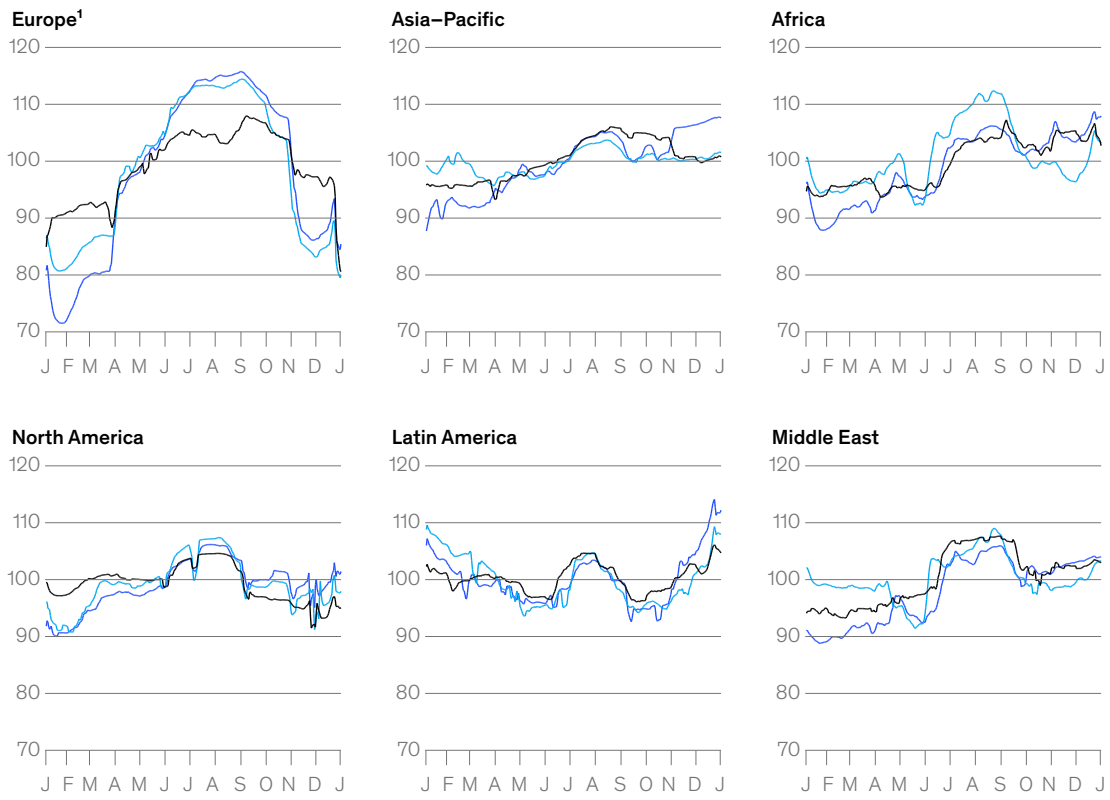
Exhibit 2

There are substantial, and mostly increasing, spreads between peak and trough airline traffic in many regions.

Daily scheduled airline seats to/from listed region,
index (100 = median daily across year, 7-day moving average)



[1]EU-27, Norway, Switzerland, United Kindgom.
Source: Diio Mi

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recovery timeline. But despite differences in intensity and timelines, the seasonality dynamic can be observed in most regions of the world.

Airlines have responded by shifting their schedules to operate more routes at greater frequency during peak periods. In Europe in 2019, for example, airlines scheduled 50 percent more seats for August than February. In 2023, it was 65 percent more seats. Airlines are becoming more adept at identifying pockets of demand and managing schedules to fit them, which aids their quests for growth. But in so doing, they can also create complications for themselves.

Summer peaks can lead to winter problems

In places where seasonality is strong, airlines earn a disproportionate amount of their revenue during the busy summer months. In Europe, for example, the top five airlines in 2019 earned roughly 30 percent

of their annual revenues and 65 percent of their annual operating profits during the third quarter. When airlines struggle to provide enough seats to meet these summer demand peaks, they can leave a lot of money on the table. Meanwhile, these demand peaks can also put significant strain on operations and staff—which might lead to flight delays, stressed employees, and dissatisfied passengers.

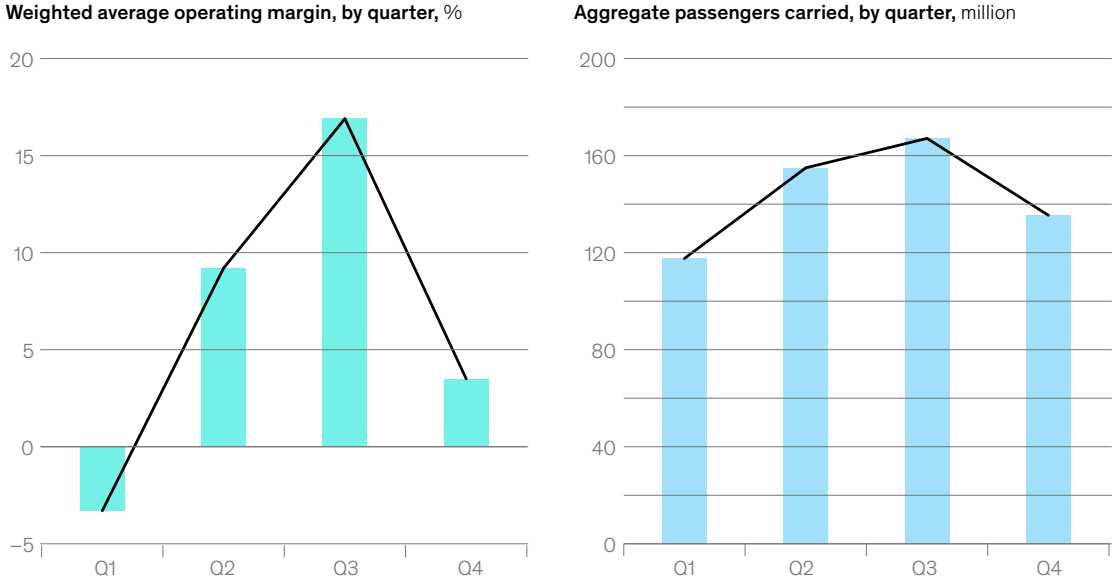
Airlines typically respond to these intense summer peaks by buying more aircraft and hiring more crew. But this leads to having excess crew and aircraft during the quieter winter months, which lowers productivity and aircraft utilization rates.

Capital productivity is a key driver of financial success for airlines. Airlines achieve high capital productivity by ensuring that their most capital-intensive aircraft spend as many hours in the air per day as possible. Keeping up a steady cadence of flights is not a problem in summer when there's ample passenger demand. But in winter, it's harder to maintain profitability at high utilization rates, as far more seats are likely to be empty if planes are flown as often as they are in summer. Some European airlines saw negative margins during the low season in 2019 (Exhibit 3). Winter overcapacity might also have longer-term knock-on effects: emptier aircraft can lead to lower ticket prices, which could create customer expectations that fares will be lower year-round and into the future.

Exhibit 3

For European airlines, demand—and operating margins—peak in summer.

Aggregate quarterly operating margin and passengers, select European airlines,[1] 2019



[1]Aggregate of Aegean Airlines, Air France–KLM, easyJet, IAG, Lufthansa, Ryanair, and Wizz Air.
Source: The Airline Analyst

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This dynamic sets the travel sector apart from other industries. Seasonality is most visible in airline performance, but it is also present in other travel sectors such as lodging and car rentals (Exhibit 4). Some solutions that address seasonality problems for airlines might be applicable, with suitable modifications, in other sectors.

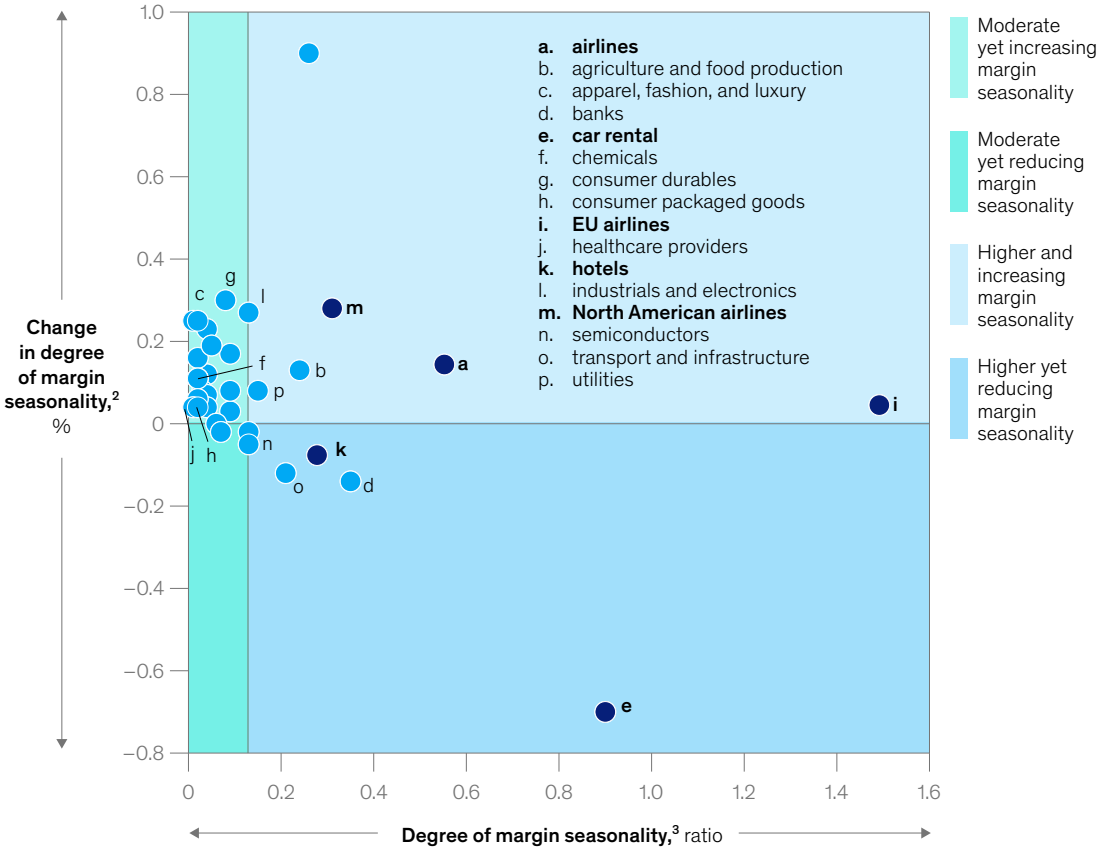
Finding effective responses to seasonality

How can airlines address summer demand peaks and maintain stable operations while minimizing (or, better yet, reversing) winter losses? Three approaches might help airlines overcome the challenges posed by seasonality.

Exhibit 4

Compared with other sectors, airlines exhibit a significant and growing link between margins and seasons.

Link between margins and season, by sector[1]



[1]Analysis based on top 5,000 companies, by market capitalization. Operating-margin seasonality used as measure to look at quarterly operating-profit variability. Car rental based on Hertz and Avis Budget Group data.
[2]Year-over-year change in ratio of standard deviation of weighted average operating margin to simple average operating margin, Q1–Q3 2019 vs Q1–Q3 2023.
[3]Ratio of standard deviation of average operating margin to simple average operating margin, Q1–Q3 2019.
Source: S&P Capital IQ; The Airline Analyst

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Mitigate winter weakness

In winter, when demand is weaker, it's imperative that airlines get the basics right. To optimize yields across flights and destinations, airlines can employ conventional pricing and revenue management levers, as well as enlist network, commercial, and pricing teams to collaborate closely to look for other opportunities to mitigate winter lulls. Some useful approaches include the following:

— integrating screening of foreign holiday periods into the scheduling process to better capture potential traffic boosts created by those holidays—a lever employed by one European airline

— identifying countercyclical destinations to help shore up off-season weakness

— seeking out alternative demand sources such as commercial and MICE (meetings, incentives, conferences, and exhibitions) contracts

— linking the terms of contracts for summer tour operators to a commitment by operators to maintain increased volume levels during the low season

— monitoring and quickly seizing on sudden travel demand spikes—created by, for instance, weeks of unexpectedly sunny weather—during the spring and fall shoulder seasons

Adapt to seasonality with flexibility

While the levers noted above can help increase revenue in non-summer months, they will not eliminate seasonality completely. Consequently, airlines can explore how to dynamically adjust their cost bases—scaling them up and down more closely to sync with underlying demand—to address capacity crunches during summer and productivity declines during winter.

Many airlines achieve very high crew productivity levels in summer but see significant drops during winter. By moving crew training sessions to off-peak periods, encouraging employee holiday taking during trough months, and offering workers seasonal contracts, an airline might be able to bridge 50 to 80 percent of the gap between actual and optimal crew hours. Airlines might also consider automating more aspects of the check-in process—for instance, introducing smart-document checks that eliminate the need for staff to manually scan passengers' passports—to maximize resilience during peaks while allowing workers to be redeployed to higher-value roles.

Fleet availability could be maintained during peak demand moments by scheduling planned maintenance for slower periods. Airlines could also think differently about the ideal size and shape a fleet should be to create the most value. And it might be wise for airlines dealing with pronounced seasonality to keep a portion of their fleet that has lower asset costs (generally meaning older, depreciated aircraft) parked in hangars or flown less often during periods of lower demand. This would boost the utilization rates of the newer, more expensive aircraft that are kept in service.

Letting planes sit idle still involves wasted cost, however. Alternatively, instead of sizing their fleets according to peak demand need, airlines might consider permanently shrinking the sizes of their owned fleets as a way to address increased seasonality. When opting for a smaller owned fleet, airlines can make use of outsourcing.

Outsourced capacity providers take different forms. In ACMI (aircraft, crew, maintenance, and insurance) leasing, airline customers outsource not just the aircraft but also the crew and associated ownership duties. ACMI leases (sometimes called "wet leases") are often employed for short-term capacity provision on an as-needed basis—for instance, during peak periods, in the event of maintenance-driven aircraft outages, or when there are unanticipated delays in delivery of new aircraft from a manufacturer. But in a world with increased seasonality—and sharper focus on maximizing aircraft utilization—considering a longer-term partnership in which outsourced

capacity providers help deal with peaks could be an attractive move. If the ACMI market grows as a result, it could in turn become a more frictionless capacity management solution for airlines.

Wet leasing might look expensive at first glance, but in weighing this option airlines should consider the value loss that would be incurred if excess owned aircraft are kept idle all winter. To be worthwhile, any outsourcing option would of course need to offer a suitable combination of cost, service reliability, and passenger experience.

Some airlines might even become ad hoc lessors when opportunities arise. Finnair—with its focus on Europe–Asia routes—found its business significantly disrupted by closures of Russian airspace. It responded by wet leasing its underused aircraft to British Airways and Qantas. This allowed Finnair to scale down its costs, while allowing the lessees to tap into strong demand through temporary additional capacity.

Leverage summer strengths

Airlines might discover they have powerful leverage as the peaks of summer demand encounter limited market supply. They should ensure that their commercial contracts reflect the season's higher margins. And if intense summer demand allows airlines to pick and choose customers, there might be potential to provide less incentive for lower-yield agreements—for instance, corporate MICE contracts—as a way to maximize higher-yield tourist traffic during the period when pricing is strongest.

As seasonality intensifies, airlines will need to find effective ways to cope. Leveraging strong demand and mitigating weak demand can help. More flexible use of assets—including fleets, flight crews, and operations personnel—might allow airlines to adapt to seasonality in ways that maximize profit while reducing pressure on operations.

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