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Travel Practice

The State of Aviation 2025

May 2025

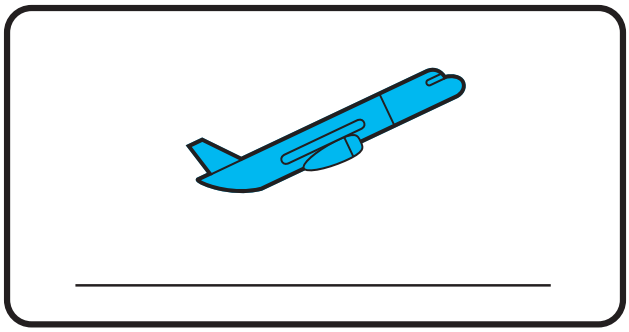
Can the aviation industry soar to new heights, or will headwinds slow its progress?

Contents

The aviation industry is enjoying a welcome boost from resurgent postpandemic air travel demand. But there remain potential storms to navigate. This report analyzes the industry's current trajectory while pointing toward possible future landing spots.

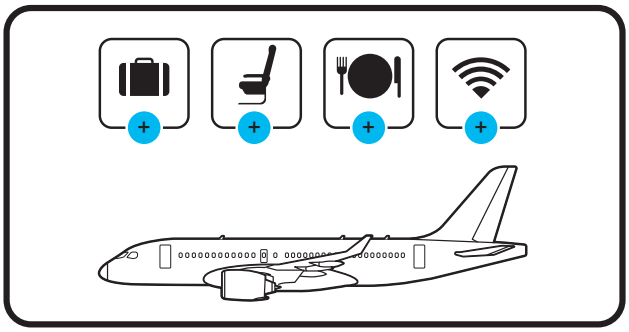
How might economic trends and geopolitical events shape aviation? What product offerings are most likely to find favor with air travelers? How can airlines adjust their business models, plan their schedules, and calibrate their fleets in ways that achieve their commercial and operational goals?

During a moment that combines great promise with great uncertainty, it's crucial for aviation stakeholders to ground their decisions in solid facts, careful analysis, and hard-earned insights.



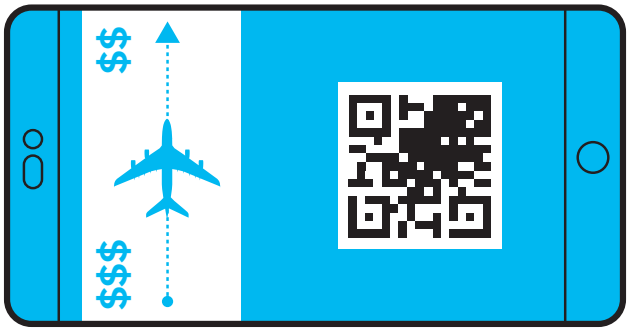
41%

of airlines created positive value in 2024



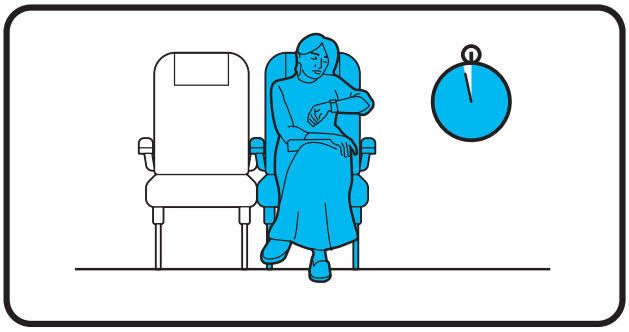
–1.1%

ROIC for North American low-cost airlines in 2024



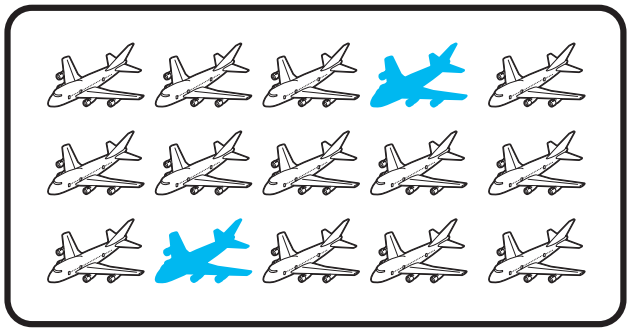
34%

relative importance of price as a driver for air travelers' booking choices



$100

cost to airline for each additional minute an aircraft is delayed



2,000

global aircraft shortage as a result of increased demand and delayed deliveries

Chapter 1

Can the global airline industry continue its climb?

The airline sector had a decent year in 2024. Is it finally cracking the value creation formula?

Running an airline isn't for the timid. Weather events, infrastructure failures, and fickle passenger demand can make an already-tough business even more challenging. As this article goes to publication, economic uncertainty and geopolitical tension are both threatening to alter travel flows, piling yet more stress on airline executives.

These business challenges show up on ledger sheets. Since 2005, we've analyzed the financial performance of the aviation value chain. Our research demonstrates that, compared with other asset-intensive sectors, airlines in aggregate have a long record of mixing positive growth with negative economic profit.

But recent results suggest that this losing streak could at last be nearing an end. Many carriers and multiple regions performed well in 2023, and 2024 data indicate another decent year. Airlines that have reported detailed financial results as of the time of this writing recorded, as a whole, an economic loss of $5 billion (or –0.6 percent of industry revenue), but 41 percent of the airlines we track earned their cost of capital. Considering the state of the industry prior to the COVID-19 pandemic (airlines recorded a $30 billion collective economic loss in 2019), this is a remarkable feat.

What's changed for the industry? Are these changes structural? What can individual airlines learn from the encouraging results? And what could derail the industry's progress?

The airline sector in 2024

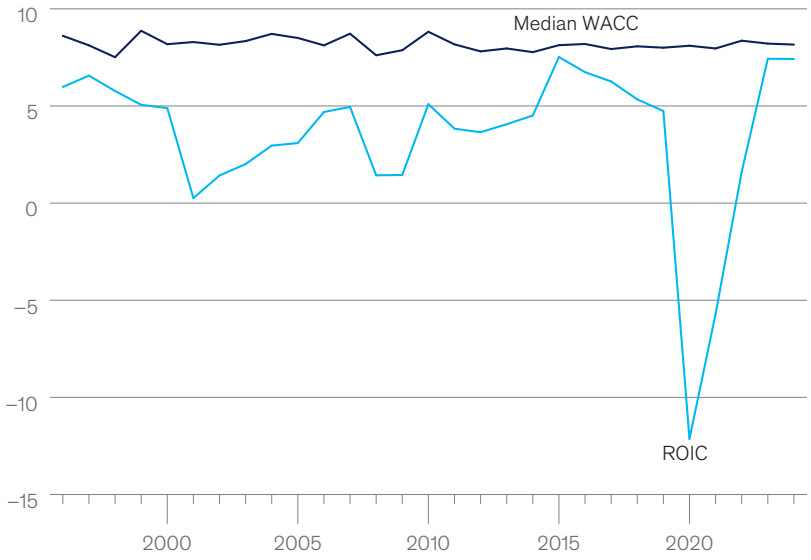
For the purposes of this analysis, we look at value creation from an investor's perspective. Our measure is economic profit, which considers the alternative return from equal-risk opportunities available to investors. It's calculated by subtracting weighted average cost of capital (WACC) from ROIC and then multiplying by invested capital. Positive economic profit—when ROIC is above WACC—signals that a company or sector is creating positive value.

Airline sector ROIC in aggregate has been below its cost of capital since at least 1996, which is the earliest data point in our research (Exhibit 1). Many of the structural factors underlying this poor result remain: Airline passengers are typically very price sensitive, the industry features strong competition paired with low barriers to entry and high barriers to exit, and the regulatory landscape can pose challenges to consolidation. But in 2023 and 2024, results improved. The

Exhibit 1

The global airline industry's ROIC approached its cost of capital in 2023 and 2024.

Global airline industry ROIC[1] and median WACC,[2] %



Note: 2024 figures based on airlines that have reported financial data at the time of publishing.
[1]Including goodwill.
[2]Weighted average cost of capital.
Source: Bloomberg; Company reports; IATA; S&P Capital IQ; The Airline Analyst; McKinsey aviation value chain model

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annual differences between ROIC and WACC, at the sector level, were among the narrowest we've seen in the history of our research.

Regional performance varied. Latin America and the Middle East and Africa (for which only a limited set of airlines had reported data at the time of publication) were value creating. Europe and North America recorded marginal losses. Asia–Pacific accounted for the bulk of the sector's negative results.

But sector averages don't tell the whole story. The number of value creators was historically high in 2023 (when 46 percent of the airlines in our sample created positive value) and in 2024 (when 41 percent created positive value). These are the two best years for this metric since 1996, and they show notable improvement compared with 2019, the last full year of prepandemic results (when only 23 percent of airlines were value creators) (Exhibit 2).

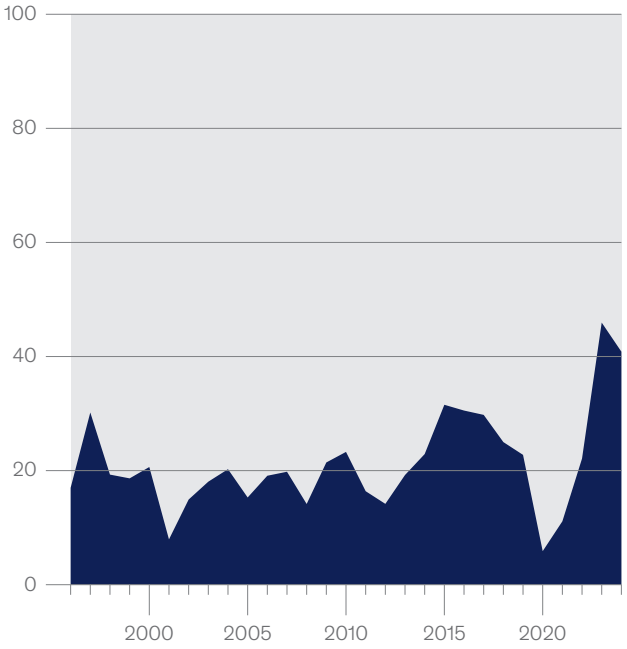
Many airlines don't earn their cost of capital, and the sector average is pulled down by some larger airlines that consistently don't. (Some of these lagging performers are state owned—and perhaps valued more for the roles that they play in serving broader economic agendas than for their financial performance.) Still, there have been several consistent value creators among the airlines that we track.[1] Omitting the pandemic-influenced results of 2020–22, seven airlines in our sample earned their cost of capital every year during the 2015–24 period. Another six were

[1] Our total sample includes more than 100 airlines, representing roughly 85 percent of industry revenue. For 2024, our data set (which includes only those airlines that have already released detailed financial results for the year) includes roughly 70 airlines, accounting for more than 70 percent of industry revenue.

Exhibit 2

A relatively high share of global airlines created value in 2023 and 2024.

Share of global carriers creating value,[1] %



[1]Carriers whose ROIC was greater than their weighted average cost of capital.
Source: Airfinance Global; S&P Capital IQ; McKinsey analysis of company reports; McKinsey aviation value chain model

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value creating for all but one of the years in that period. Twelve airlines were value creating for all but two of those years.

Jet fuel is generally airlines' largest operating cost, accounting for roughly 20 to 40 percent of an airline's cost base, depending on the business model. Airline sector performance is often thought to be linked directly to jet-fuel-price developments, which lie outside airlines' control. This link, however, isn't as strong as some might imagine: Our research indicates that it's possible for the sector to do well during periods of both higher and lower jet fuel prices. Both 2023 and, to a lesser extent, 2024 were years with higher nominal jet fuel prices, but the sector still performed relatively well in terms of ROIC. Jet fuel prices in 2025 have, thus far, been lower than they were in 2024, though geopolitical tensions could still cause them to fluctuate in the near term.

How do airlines create value?

Value-creating airlines operate in a mix of regions and employ a mix of business models. There is no single path to success. That said, we've written before about six "secrets" that, based on our research, can be key components of superior airline ROIC performance:

— balancing capacity and demand

— generating ancillary revenue (for instance, from selling premium seats and extra-baggage allowances)

— earning a great reputation through reliable, on-time performance

— providing origin and destination (O&D) routes that other airlines don't

OEM and supply chain challenges resulted in fewer available aircraft in 2024, meaning that airlines had less capacity than they perhaps would have liked.

— ensuring high capital productivity (for instance, by making efficient use of aircraft)

— building strong organizational health, featuring a clear strategic vision, well-communicated values, and motivated employees

Recent performance improvement in the airline sector can be traced, in large part, to better execution in some of these six areas. Developments relating to these dynamics could heavily influence future results.

Capacity moving largely in line with demand

In 2023, there were 24 percent fewer aircraft deliveries from manufacturers than in 2018 (which was a strong year for aircraft production). In 2024, there were 30 percent fewer deliveries than in 2018. OEM and supply chain challenges resulted in fewer available aircraft, and airlines had less capacity (meaning fewer available seats on flights) than they perhaps would have liked. This undercapacity was exacerbated by rampant engine problems that required additional maintenance checks, which grounded a substantial number of aircraft.

Airlines have responded to supply constraints by extending aircraft leases (there were 11 percent more lease extensions in 2024 than in 2018) and by keeping older aircraft in service longer (the average age of the narrow- and wide-body passenger fleet in 2024 was 11.3 years, versus 9.7 years in 2018). Still, supply levels have been lower than airlines would prefer. This has led to a change in the supply–demand balance, moving from oversupply to undersupply, and yields have adjusted accordingly. Fewer seats available to passengers means higher ticket prices. The result, in pure economic terms, is better financial performance.

However, supply could soon increase. As of March 2025, airline manufacturers' order books are near all-time highs. This is partly a result of slower deliveries, but it's also an indicator that a considerable number of aircraft are set to join airline fleets in the next few years, creating more available seats.

Meanwhile, a few factors suggest potential decreases in demand. For some mature aviation markets, such as Europe, real-GDP growth over the next few years is expected to be lower than it was from 2000 to 2019. While air travel tends to grow faster than GDP does, growth in GDP is still a core underlying factor for demand.

Airlines are also expected to increase their use of sustainable aviation fuels, which can be two to four times more expensive than regular jet fuel. This cost could be passed on through ticket pricing, and pricier tickets could drive some passengers away.

Recent economic uncertainty posed by global trade developments has caused consumer and business confidence to trend downward, especially in North America. This could lead to lower demand for both business and leisure travel. Rising geopolitical tensions could also reduce travel flows between certain countries. Notably, these tensions could alter supply chains and impede deliveries to certain parts of the world, thereby reducing capacity and counteracting yield drops.

Improved returns from ancillaries

Airlines continue to grow revenue from sources beyond ticket sales, such as baggage fees, in-flight purchases, travel retail commissions, and seat selection and upgrade fees. These ancillaries are generally associated with higher margins and lower price elasticity than base ticket sales are. By some estimates, ancillary revenue share has grown from approximately 5 percent of sector revenue in 2010 to approximately 15 percent in 2024.

Airlines have been expanding the number of ancillaries that they offer. But our analysis suggests that rather than simply increasing the breadth of ancillaries available, airlines could benefit more from a better retailing approach featuring an intensified focus on personalizing offerings, carefully pricing them, and optimizing when and how ancillaries are offered.

Loyalty programs have become considerable sources of value for many airlines. Some airlines, such as the large US network carriers, generate sizable amounts of revenue from cobranded credit cards. This is likely linked in part to the high credit card penetration and interchange rates in the United States. To illustrate, interchange fees in the United States are approximately 1.7 percent, whereas in Europe they're mostly capped at around 0.3 percent. Greater revenue from these transaction fees can help to fund US credit card rewards and benefits.

In markets with lower credit card penetration and interchange rates, loyalty programs can still be an effective device for swinging customer demand. Customers might choose an airline because of a strong preference for its loyalty program, even when the airline doesn't offer the lowest price or the best schedule option.

Reliability's relationship to performance

We find evidence that better on-time performance correlates with better airline financial performance (Exhibit 3). In our survey on airline customer preferences, 34 percent of passengers indicate that reliable, on-time operation makes them more loyal to an airline, making this factor the third-most important after competitive pricing (48 percent) and flight comfort (36 percent). Today's passengers are much more aware of an airline's on-time performance rating, given easy public access to statistics through metasearch engines and tracking websites.

On-time performance in the industry, however, hasn't been on an upward trend. In the United States in 2024, for example, 78 percent of flights were on time. This figure is up from 73 percent in 2000 but down from 81 percent in 2016. Staffing shortages across the value chain may have contributed to this result. Some factors causing delays lie outside an airline's sphere of control, but data-driven operational decision-making, powered by better analytics, can help airlines take proactive steps both to mitigate delays and to keep passengers informed about impending disruptions.

The power of privilege

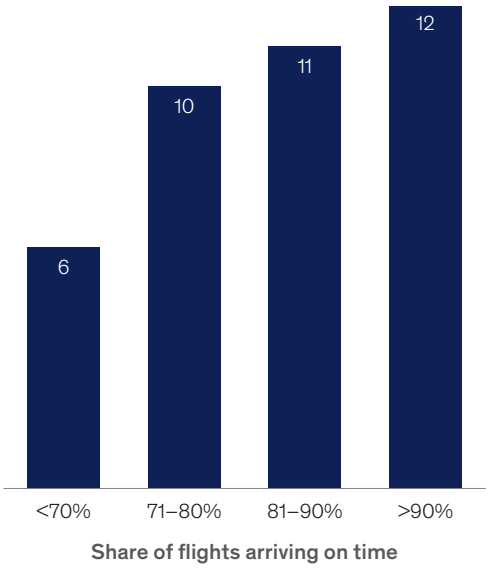
An airline enjoys network privilege if it can offer O&D journeys for which it is the clear best choice for passengers. An airline that has a larger share of its passengers flying on trips for which it's privileged will tend to generate better ROIC. Passengers flying on privileged O&D routes tend to provide higher yields, since they're willing to pay for the airline's distinctive offering.

Privileged O&Ds often occur in secondary markets in which fewer passengers travel the route. For one large network carrier, the average market size for privileged O&D routes was 24 times smaller than that of the most competitively exposed markets (meaning those in which the airline has less than 20 percent expected market share).

Exhibit 3

Airlines' on-time performance correlates with their financial performance.

Average ROIC, by on-time performance, %



Source: Airfinance Global; Flightradar24; S&P Capital IQ; McKinsey analysis of company reports; McKinsey aviation value chain model

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Hubs—when an airline has a concentrated presence at an airport with many routes and a high share of connecting passengers—are one way to create privileged O&D offerings and, in particular, to tap into thinner secondary markets. Hubs allow an airline to group together multiple passenger flows going to a certain secondary city, making service to that smaller city more viable. Some industry observers have suggested that the rise of longer-range aircraft with smaller cabin sizes could lead to the demise of hubs. Although hub market share has slightly decreased, we find that connecting traffic remains a sizable portion of multiple end-to-end passenger flows.

Airlines can further build out network privilege by serving secondary markets in a cost-effective manner and connecting them to at-scale hubs. New aircraft technology in the form of either cost-efficient regional aircraft or longer-range, smaller-gauge aircraft (which can fly long distances but hold fewer passengers) can help strengthen hub operations.

A rise in capital productivity

Capital productivity, or how much revenue is generated per dollar of invested capital, is of vital importance to airline performance. Airlines can maximize capital productivity in a number of ways, such as the following:

— ensuring that new aircraft fly as many hours per day as they can (ten to 12 hours per day for narrow-body aircraft and 15 to 16 hours per day for wide-bodies)

— ordering aircraft at the right moment—when aircraft prices are down or when aircraft deliveries will be timed to arrive amid high passenger demand—which can lock in savings across the aircraft's lifespan

— effectively dealing with demand seasonality by playing with an aircraft fleet's age profile (for instance, by keeping a mix of newer and older aircraft in the fleet and putting older aircraft into service only when demand is high)

Capital productivity has increased over time, in nominal terms. In 2000, airlines at a sector level generated $0.90 for every $1.00 invested. That increased to $1.20 per $1.00 invested by 2023 and to $1.23 by 2024. This increase is in part caused by inflation stemming from supply–demand imbalance, but airlines have also become more capital productive over time.

The value of healthy organizations

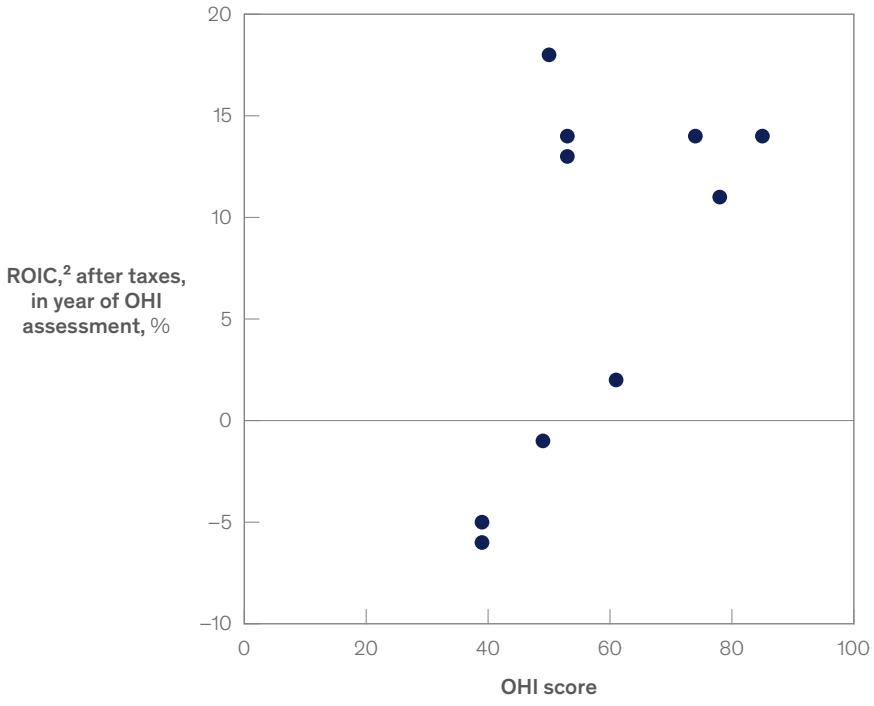
Healthy airline organizations are better able than others to bring disparate functions together to make cross-functional trade-offs, quickly coming to decisions that are best for the airline as a whole (for instance, through integrated planning). They employ motivated workforces that know what's expected and feel trusted to deliver on their objectives. They're typically quite lean.

We measure organizational health using McKinsey's Organizational Health Index, a diagnostic tool that measures the critical elements of a high-performing culture within an organization. Organizational health continues to correlate with better airline performance (Exhibit 4). But many airlines could be healthier. In our sample, 67 percent of airlines exhibit health levels that are in the bottom quartile across sectors.

Exhibit 4

Airlines with better organizational health tend to achieve better ROIC.

ROIC vs McKinsey Organizational Health Index (OHI) score[1]



[1]Average across 9 dimensions of health; years vary. Based on results of 10 individual airlines with ~60,000 respondents.
[2]Including goodwill.

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Healthy airline organizations are better able than others to bring disparate functions together to make cross-functional trade-offs.

Airlines could improve their health levels by focusing on areas such as direction (communicating a clear and compelling vision of where the airline is headed, how it will get there, and what this means for everyone), motivation (nurturing employee loyalty and enthusiasm), and external orientation (engaging with customers, suppliers, partners, and other external stakeholders to create and deliver value).

What could halt airlines' progress in 2025?

Despite positive trends in 2023 and 2024, several developments could stop the airline sector from maintaining or improving its results in 2025. Demand uncertainty linked to changes in business and consumer sentiment could lead to lower demand for certain travel lanes, thereby affecting airlines' financials. Should a recession hit, demand could be further dampened due to the link between GDP growth and air travel growth. Tariffs may put upward pressure on airline input costs.

Knock-on effects are often unpredictable. Lower demand growth might be offset by decreased OEM supply resulting from trade flow tensions. Shifting passenger demand could open up new opportunities for network privilege. Healthier organizations will meet challenges with the cross-functional nimbleness that's required to rapidly respond to changing external conditions.

Airline performance has been climbing, but there are potential storm clouds in the distance. Airlines that can navigate this turbulence could see their financial performance take flight.

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Chapter 2

Are low-cost airlines losing altitude?

Low- and ultra-low-cost airlines have tended to earn better returns than full-service carriers, but their performance has slowed in the United States. Are there lessons here for global airline leaders?

Airlines are often categorized into groups differentiated by their business models—in particular, their cost structures and revenue approaches:

— Legacy carriers (also known as full-service airlines) tend to offer multiclass cabins and a wide range of amenities, with many service features included in the ticket price. Examples include American Airlines, British Airways, and Cathay Pacific.

— Low-cost carriers and ultra-low-cost carriers—a combined group known as (U)LCCs—tend to sell discounted base-fare tickets and then charge extra for a range of amenities. Examples include Southwest Airlines, Spirit Airlines, Ryanair, and AirAsia.

In the course of our research on airline profitability, we've found that (U)LCCs have typically delivered better financial returns than legacy carriers. This outcome has been true across geographies and over multiple decades.

But (U)LCCs in North America, one of the world's largest airline markets, have recently been underperforming their legacy counterparts—falling behind, by some measures, on both growth and profitability. Changing economic conditions that influence passenger demand could, of course, push this trend in unexpected directions, but it's worth investigating how such a major reversal occurred.

Which actions or circumstances clouded the picture for North America's (U)LCCs? And what important business model implications should be considered by airlines of all types, in all regions?

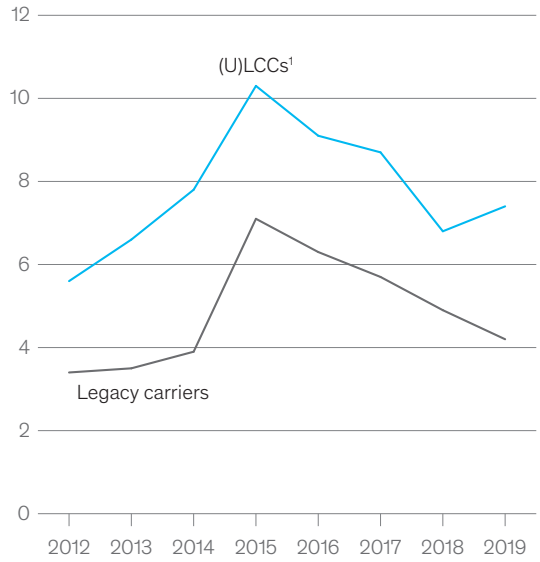
Budget airlines have propelled industry growth and profitability

From 2012 through 2019, (U)LCCs generally outperformed legacy airlines across the globe with respect to ROIC (Exhibit 1). This trend was especially pronounced in the years leading up to the

Exhibit 1

Low-cost airlines generally outperformed full-service carriers prior to the pandemic.

Global airline ROIC, including goodwill, by carrier type, weighted average, %



[1]Low-cost carriers and ultra-low-cost carriers.
Source: Airfinance Global; aviation value chain model; company reports; S&P Capital IQ

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pandemic, when (U)LCCs benefited from structurally leaner cost bases than legacy carriers—thanks to simplified operations and lower overhead and labor costs.

A key factor in (U)LCCs' success has been their overall cost structures. They often use streamlined route network designs, opting for point-to-point service over hub-and-spoke models, thereby enabling more efficient aircraft utilization and limiting the operational complexity of connecting passengers. Additionally, they tend to fly to secondary airports (which generally involves lower costs) and operate denser aircraft with a single-cabin layout (fitting more passengers on the same plane by narrowing the seats and decreasing legroom).

(U)LCCs have also excelled at generating incremental revenue at relatively high margins from optional services such as baggage fees, seat selection, and onboard refreshments. These services are unbundled from base fares, priced dynamically, and often purchased at the point of need. While legacy carriers have adopted similar unbundling strategies, (U)LCCs have built an entire business model around this approach, which reinforces their value-oriented positioning (thanks to low base fares) while bolstering financial performance.

Over the past decade and a half, (U)LCCs have grown at a faster rate than legacy carriers. Across most regions of the world, (U)LCCs' share of total available seat kilometers (ASKs)—a measure of airlines' carrying capacity—has significantly increased (Exhibit 2).

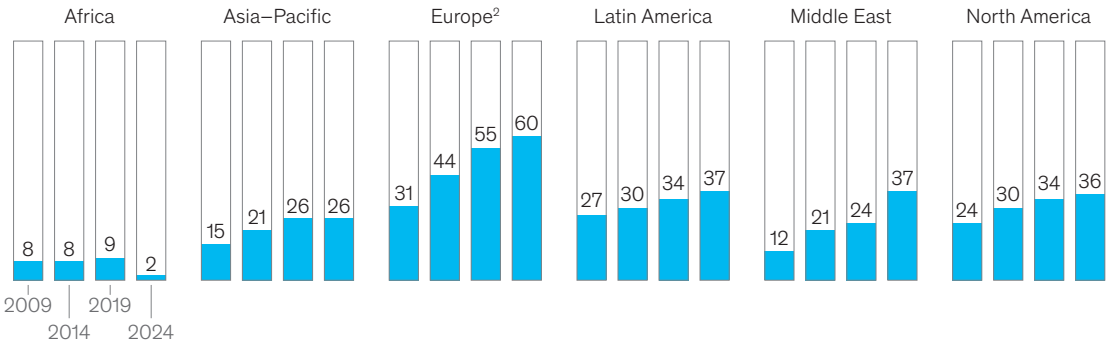
Discount carriers have stalled out in North America

While (U)LCCs outperformed legacy airlines in the period preceding 2020, more recent data show legacy carriers beginning to lead in ROIC in North America (Exhibit 3). Although (U)LCCs continue to grow modestly in terms of scheduled capacity, their growth rate now trails that of legacy carriers for the first time in many years.

Exhibit 2

Low-cost airlines have steadily increased share across most regions.

(U)LCC[1] share of total scheduled available seat kilometers, by region, %



Note: Flights are intraregional.
[1]Low-cost carriers and ultra-low-cost carriers.
[2]EU-28, Norway, Switzerland, and Iceland.
Source: Diio Mi

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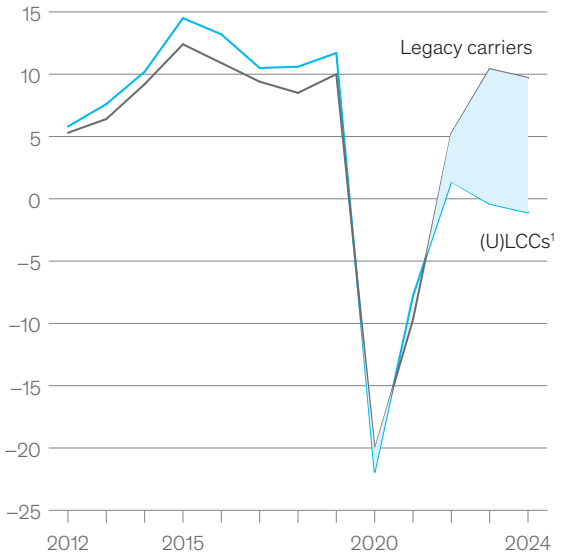
Exhibit 3

In North America, low-cost airlines have recently underperformed compared with legacy carriers.

North American airline ROIC, including goodwill, by carrier type, weighted average, %



[1]Low-cost carriers and ultra-low-cost carriers.
Source: Airfinance Global; aviation value chain model; company reports; S&P Capital IQ

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While North America presents the clearest example of this shift, recent data suggest it is not the only region where changes are afoot. In Latin America, for instance, legacy carriers are now leading (U)LCCs with respect to ROIC (though some have improved their financial positions through postpandemic bankruptcy restructuring). There are indications that the North American trend may not be isolated, and that it could reflect broader changes in the industry's competitive dynamics.

This raises two important questions: What caused this novel divergence in North America? In light of this development, what implications should global airline leaders consider?

What happened to North America's discount airlines?

Based on interviews with airline leaders, public statements from across the industry, and McKinsey research, we find that the slowed performance of North American (U)LCCs—in comparison with their better-performing legacy counterparts—has resulted in large part from three factors: increased labor costs, a divergence in spending between higher-income and lower-income travelers, and a concerted effort by full-service carriers to mimic (U)LCCs' popular offerings while providing better value and improved onboard experiences.

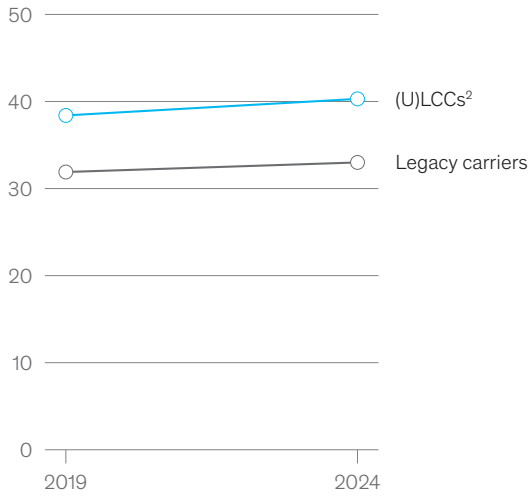
Cost convergence between (U)LCCs and legacy airlines

The postpandemic pilot and labor shortage has increased labor prices for all airlines. For legacy carriers with broadly higher pay scales, this increase was more muted as a percentage of total existing costs. For (U)LCCs, labor costs as a percentage of operational expenditures increased at a far faster pace (Exhibit 4). This increase resulted in a drastic reduction in the cost differential between (U)LCCs and legacy carriers.

Exhibit 4

Labor costs comprise a larger portion of US low-cost airlines' cost bases and have recently increased at a faster pace compared with legacy carriers.

US airline labor costs as share of total operating expenditure, by carrier type,[1] %



[1]4 quarters ending in Q3 of each year shown.
[2]Low-cost carriers and ultra-low-cost carriers.
Source: US Department of Transportation, Form 41

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While North America presents the clearest example of this shift, recent data suggest it is not the only region where changes are afoot. In Latin America, for instance, legacy carriers are now leading (U)LCCs with respect to ROIC.

Growth in premium demand—paired with softer demand for budget options

Postpandemic US consumer spending has become increasingly reliant on households earning more than $250,000 a year—the upper 10 percent by income. These households have increased their spending above inflation levels. Travelers from these households are more likely to value products traditionally associated with legacy carriers (such as premium-economy or business class seats, airport lounges, and other upmarket offerings).

Meanwhile, on the other end of the consumer-spending spectrum, inflation has cut into the discretionary spending budgets of lower-income households. When these households spend less on travel, (U)LCCs feel the effects more acutely than legacy carriers do.

Legacy-carrier products targeting (U)LCC traffic

Legacy carriers have launched their own versions of "basic" economy tickets. United Airlines has reported that more than 15 percent of its ticket sales fit into this category. These products directly target (U)LCC customers, using price points and fare rules that mimic (U)LCC offerings.

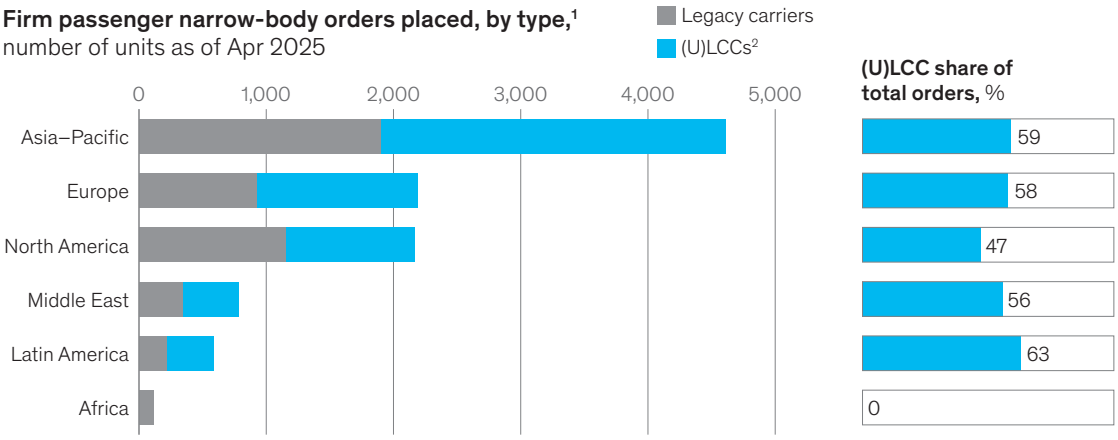
Despite the overall softening of budget demand, legacy carriers have succeeded with budget products by offering basic fares within a broader premium-brand experience—combining low entry prices with expansive route networks, robust loyalty programs, and strong brand familiarity. This strategy has not only attracted budget-conscious travelers but also enabled legacy carriers to upsell passengers to higher-margin options and ancillary services, enhancing overall revenue performance.

What implications should global airline leaders consider?

Based on the state of order books for narrow-body aircraft—a broadly indicative measure—(U)LCC growth still appears to be outpacing legacy-carrier growth outside North America, in line with its past trajectory (Exhibit 5).

Exhibit 5

In most regions outside of North America, low-cost airlines can still be expected to grow faster than legacy carriers.



[1]Excludes firm orders placed without operators assigned. Excludes lessor orders placed.
[2]Low-cost carriers and ultra-low-cost carriers.
Source: Cirium Fleets Analyzer, Apr 2025

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But the same factors that influenced (U)LCCs' fortunes in North America could certainly show up in other geographies. Global airline leaders can monitor whether similar developments are brewing in their own regions. Additionally, they might draw a few broad lessons from the shift in North America:

— *Cost control is crucial.* For airlines of all types, focusing on meaningful cost control will always be a proven path to improving profitability. In today's environment, rising labor costs—particularly for pilots and technical staff—are placing pressure on operating models that were once highly cost-competitive. While these dynamics could be difficult to reverse, there are opportunities to improve efficiency through better utilization, scheduling, and resource deployment. A systematic approach that is grounded in detailed cost diagnostics, bottom-up planning, and implementation across operations could help airlines identify areas of untapped productivity. Amid continuing volatility, building a more resilient cost base will be critical to sustaining performance.

— *The value story matters.* Customers like cheap fares—*and* they want a good experience when they fly. In North America, legacy carriers have been investing in customer experience, for instance, by improving their on-time performance, offering robust streaming or seat-back in-flight entertainment, providing free Wi-Fi, and serving more appealing free snacks and drinks. Many of these enhancements are available to all customers, including those flying on restricted economy tickets. If customers are presented with an attractive price point, they will likely pick the carrier with the better customer experience.

— *Customer segments can be captured using different approaches.* A traveler may choose a full-service, nonrefundable ticket for a week-long trip to Paris and then, a couple of months later, opt for a basic budget fare for a weekend jaunt to Las Vegas. How can an airline best serve both needs? In North America, legacy carriers have introduced basic-economy products—replicating (U)LCC offerings—by creating low-cost, unbundled fares within the same cabin as their full-service products. Similar unbundling strategies have been adopted by legacy carriers worldwide, but there is a notable divergence. North American legacy carriers have largely managed the low-cost challenge within a single airline brand, but legacy carriers in other regions have often responded to low-cost competition by creating group-owned, low-cost carriers under different branding (such as Lufthansa Group's Eurowings, Singapore Airlines' Scoot, and Qantas's Jetstar) while, in many cases, also unbundling their mainline products.

As airline business models continue to converge, the industry may be approaching a turning point. The North American example could portend not just a short-term shift but a deeper change in how airlines compete. Legacy carriers have shown they can adapt by borrowing tactics from (U)LCCs while using broader networks and premium services to compete across customer segments. For (U)LCCs, competing on price alone may no longer be enough, and they could be better served by offering a clearer value proposition—maintaining their low-cost edge while selectively improving the customer experience in ways that build loyalty. The most successful airlines, across categories, will be those that stay agile, rethink their business models regularly, and focus on what customers truly value. As the lines between airline types blur, enduring differentiation becomes even more vital.

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Chapter 3

The eight myths of airline retailing

Airlines are rethinking how they sell their offerings and service their customers. Understanding common misconceptions about airline retailing could help accelerate growth.

Travel not only has recovered but also is exceeding prepandemic levels: In 2024, airline gross bookings reached 115 percent of their 2019 total. At the same time, evolving consumer expectations and behaviors are reshaping how people plan, book, and experience their journeys. Together, these shifts are fueling a rapid transformation of the travel sector.

The airline industry is attempting to meet these expectations through, in part, improving its approach to retailing. What the airline industry refers to as "retailing" primarily encompasses selling (of, for instance, tickets, upgrades, and ancillary offerings) and servicing (of, for instance, refund requests and other traveler needs) across all customer channels, including both airline-controlled websites and apps and third-party online travel agencies (OTAs). Many carriers remain constrained in their retail efforts by siloed structures, legacy technology platforms, and concerns that up-front investments in retailing may not yield immediate or sufficient returns. While some airlines have taken meaningful steps toward modernizing their retailing, there remain untapped opportunities to boost both customer value and commercial potential.

To better understand how traveler expectations about retailing are shifting—and to identify instances in which conventional industry wisdom may be outdated—we conducted a global survey of 7,000 travelers from North America, Europe, the Middle East, and Asia. The survey's findings highlight and debunk eight common myths that continue to shape airline retail strategies, while offering insight into what travelers actually want across the full retail journey from inspiration to post-travel engagement.

Myth #1: Airlines have already captured the full value of customer preferences

Reality: Most travelers are willing to pay more for features they care about—but many airline retail models still rely on static airfare bundles that fail to realize that added value

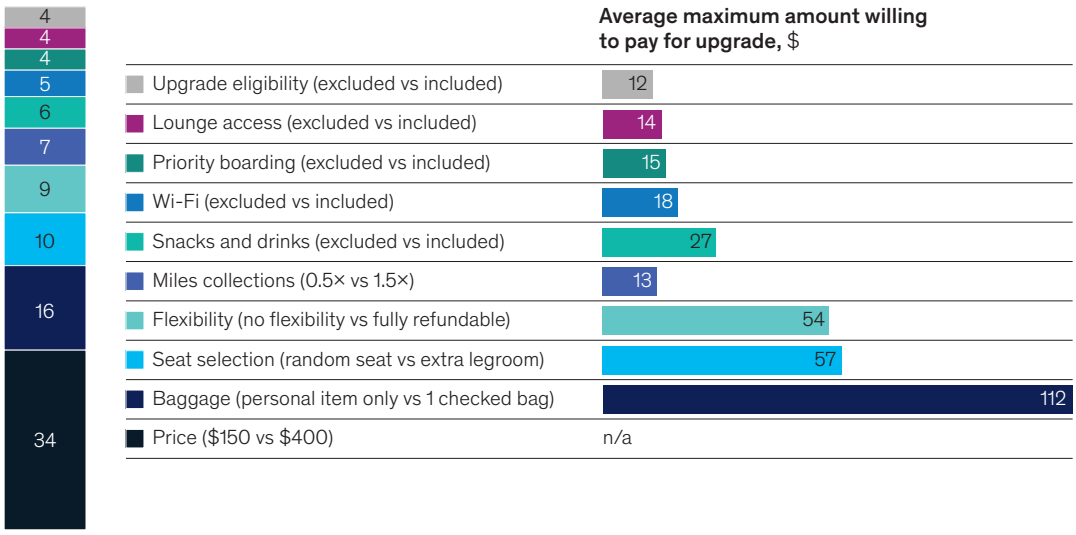
In our survey, 33 percent of respondents cite price as their top booking criterion. But many travelers prioritize other attributes too, including ease of booking (20 percent) and brand trust (20 percent). These findings are consistent with decades of choice-modeling research and industry knowledge, which have shown that price is just one of several decision drivers for consumers.

Our conjoint analysis quantifies these preference patterns (Exhibit 1). While price holds the highest relative weight (34 percent), other features such as baggage allowance (16 percent), seat selection (10 percent), and ticket flexibility (9 percent) are also powerful drivers of travelers' choices—often more so than traditional premium features such as lounge access (4 percent).

The airline industry has made considerable progress in revenue management over the decades, but a breakthrough opportunity awaits airlines that can understand and accommodate a range of preferences that vary substantially across segments. For instance, Japanese travelers assign 42 percent importance to price, compared with just 28 percent among Chinese travelers. Younger travelers (aged 18 to 24) place greater value on features like Wi-Fi and ticket flexibility, while higher-income travelers are more likely to prioritize features such as seat selection and priority services.

Exhibit 1

Travelers consider many factors when assessing an airline ticket bundle.



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey Consumer Survey on airline retailing preferences, Mar 2025 (n = 7,000)

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When asked directly about standard airfare bundle options (economy light, economy standard, and premium economy), respondents indicate certain preferences relating to which components are included in those bundles (such as baggage allowances, seat selection, Wi-Fi access, and ticket refundability). But when exposed to randomized airfare bundle combinations in a structured choice experiment, respondents' preferences often shift—revealing a gap between how airlines package and price offers and what customers actually value.

This gap is especially pronounced because most airlines rely on just a few static airfare bundles—which often fail to reflect the full willingness to pay for individual features. In many cases, travelers are willing to pay for more than what these rigid bundles capture.

Our attribute-level willingness-to-pay modeling (mapped to global passenger volumes and different product structures) reveals a latent customer value opportunity of more than $45 billion across the full airline retail value chain—including, but not limited to, better bundling. This finding is consistent with earlier research from McKinsey and the International Air Transport Association (IATA). Capturing this value doesn't require a complete overhaul. It starts with more precise tailoring—understanding who the customers are, what they care about most, and how much they're willing to pay for each feature.

Implications: Airlines that move beyond rigid fare families toward dynamic, segment-tailored offers are best positioned to capture the full value that flows from travelers' genuine priorities. Most consumers are willing to pay incrementally for features they view as value adding—if those features are offered in the right way to the right customer.

Myth #2: More personalization always equals better experiences

Reality: Travelers want personalization that reduces noise and adds practical value—they care more about clarity and control than customization for its own sake

As evidenced above, travelers are willing to pay more when they see clear value—especially for features that enhance control, comfort, or peace of mind. Personalization can support that value perception, but only when the personalization is simple, useful, and relevant.

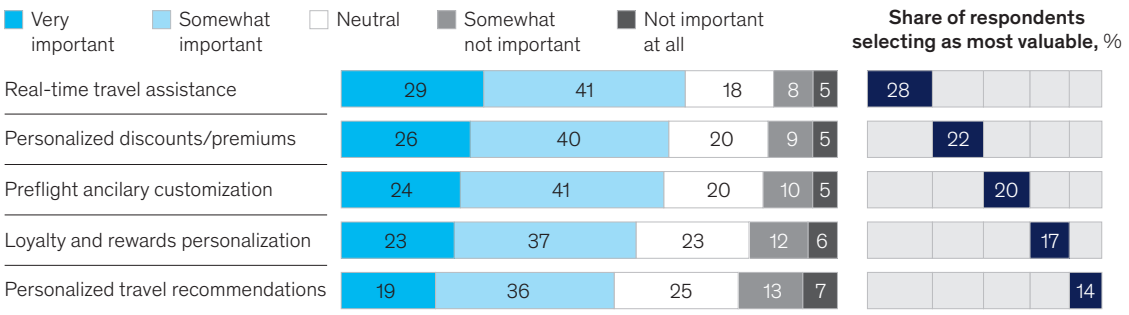
In recent years, airlines have raced to personalize every aspect of the travel experience. They've added new fare classes in economy cabins, multiple seat types in premium cabins, more tiers in loyalty programs, and highly customizable onboard services such as "dine on demand" or entertainment profiles. But more choice doesn't always mean a better experience. Even features that are widely valued—such as seat selection—can become overwhelming when the traveler is presented with too many nuanced or unclear options. One traveler described spending more time choosing a seat than booking the flight itself—because of a fear of picking the "wrong" seat. This particular choice might be made more useful if the airline presented the differences in value between seats instead of just showing a seat map.

Digital experiences have followed a similar path. Travelers might now see hypertailored offers in apps or loyalty portals, based on location, browsing history, or elite status. But when asked to recall which ones were actually useful, many struggle to name even one.

Our survey data suggests that practical features such as real-time travel assistance (for example, gate or delay alerts) and preflight customization (for example, selecting meals or seats) are seen as some of the most valuable types of personalization. Seventy percent and 65 percent of travelers, respectively, rate these as "somewhat" or "very important." Asked to identify the most valuable type of personalization, 28 percent overall (and 37 percent of travelers aged 65 to 74) selected real-time travel assistance. This suggests that what travelers most want is convenience over curation and control over complexity (Exhibit 2)

Exhibit 2

Airline passengers value personalized, real-time travel assistance.



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey Consumer Survey on airline retailing preferences, Mar 2025 (n = 7,000)

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Generative AI could play a growing role in delivering just that—if used wisely. By enabling conversational trip planning, cocreating flexible itineraries, or powering intuitive chatbot interactions, gen AI has the potential to simplify rather than overwhelm. Yet adoption is still early: Fewer than a quarter of travelers report frequently using AI tools when exploring or booking trips, and over a third say they've never experienced AI in their travels. This reveals a significant opportunity for airlines to apply gen AI not just as a novelty but as a tool to enhance practical value across the customer journey.

Implications: Travelers aren't primarily seeking more personalization; they're seeking better personalization that combines convenience and control. Airlines should strive to provide personalization that enhances utility and removes friction, prioritizing timely updates, self-service features, and clear choices that make the journey smoother.

Myth #3: Travelers prefer to book travel components separately

Reality: Many travelers prefer thoughtfully designed travel bundles—as long as those bundles reduce complexity and offer real value

At first glance, it may seem logical that travelers who seek full control over their journeys would prefer to book flights, hotels, and other components individually. After all, previous McKinsey research shows that many travelers enjoy the planning process and value the ability to shape their itineraries on their own terms.

But in practice, many travelers appreciate bundled offers that simplify choices and deliver clear value. Nearly half of all respondents (46 percent) express positive attitudes toward travel bundles that combine flights with other services such as hotels, insurance, activities, or airport transfers. Only 22 percent say they prefer to book each element separately.

The appeal of bundling is rooted in two powerful psychological drivers. First, travelers often perceive bundles as offering a discount—even when the actual savings are modest—tapping into a deeply ingrained behavioral instinct to secure a good deal. Second, bundles provide a sense of relief by simplifying decision-making. In an environment overflowing with options, curated offers help travelers make faster, more confident choices and reduce the stress of planning.

But there's a delicate balance to strike. Poorly constructed travel bundles at the wrong price points can erode trust, cause confusion, and ultimately lead to abandoned bookings. Well-designed travel bundles—tailored to customer needs and sensibly priced—can significantly boost both conversion and satisfaction.

Our survey data reveals deeper insights into consumer preferences. Hotels represent the most appealing bundling opportunity, with 60 percent of travelers indicating they would "often" or "always" consider hotel bookings offered as part of their flight packages. Travel insurance (50 percent), tours and activities (43 percent), and airport parking (43 percent) also show strong potential as travel bundle components.

The age gap in bundling preference is striking: 70 percent of 18-to-24-year-olds use travel bundles often or always, versus only 19 percent of those aged 75 or older. This generational divide suggests that bundling will likely grow in importance as younger travelers gain purchasing power.

Regional variations are also notable: 71 percent of Saudi Arabian travelers and 66 percent of Chinese travelers view bundling positively, compared with just 15 percent of Japanese travelers and 32 percent of US travelers. This suggests a need for market-specific approaches.

Implications: Well-crafted travel bundles that preserve flexibility while offering clear value are compelling to many travelers—especially when adapted to local preferences and generational differences. Since the majority of travelers book their flights first, before other components, airlines are in an ideal position to offer these bundled packages at the moment of highest intent.

Myth #4: Basic digital presence and traditional promotions are enough to sell airline products effectively

Reality: Modern airline merchandising requires sophisticated techniques, including behavioral nudging, immersive content, and seamless omnichannel experiences

Previous myths examined what travelers value—from flexible pricing models to practical personalization to thoughtfully designed bundles. But understanding customer preferences is only half the equation. How these offerings are *presented* to travelers is equally critical, yet it often receives less attention. Our research indicates that advanced merchandising techniques can drive a 10 to 20 percent revenue lift for retail organizations by improving conversion, basket size, and traffic. While many airlines have invested in product development and pricing strategies, they often still rely on basic website functionality and standardized promotional approaches.

The most successful airline retailers have adopted sophisticated techniques that were pioneered by leading e-commerce players. These include grid-based modular layouts that enable dynamic personalization, behavioral nudging tactics that encourage conversion, and immersive visual content that brings the travel experience to life before booking.

McKinsey research on global airline merchandising capabilities reveals clear differences between top performers and lagging players. Top-tier airlines allocate 3.5 times more data and analytics resources and 1.7 times more integrative talent to merchandising, compared with lagging players. Notably, 63 percent of top performers optimize for customer lifetime value as their primary KPI, while none of the lagging players do so.

Behavioral economics principles, applied thoughtfully to the booking flow, can achieve substantial impact. Techniques such as social-proof messaging ("customers like you chose this option"), time-limited offers, and scarcity indicators can increase conversion rates by reducing decision paralysis and creating appropriate urgency. When implemented well, these approaches don't manipulate behavior—they help travelers make confident choices while revealing value opportunities that might otherwise be missed.

Visual merchandising also plays a critical role. According to retail industry research, 83 percent of consumers rate product images and photos as “very” or “extremely” influential in their digital purchase decisions. Airlines with higher shares of ancillary revenue invest substantially more in user experience and design capabilities, recognizing that immersive content, such as 360-degree cabin tours and destination videos, significantly improves conversion.

Perhaps most important, effective merchandising now demands a truly omnichannel approach. Our data indicates that 77 percent of travelers consult multiple channels before booking, often switching between devices during their customer journeys. Airlines that enable seamless transitions—such as saving searches across devices or providing consistent personalization across platforms—capture more bookings and build stronger customer relationships over time.

Implications: Airlines should invest in merchandising as a strategic capability, augmented by dedicated leadership and cross-functional collaboration. The significant revenue potential justifies investments in data analytics, personalization capabilities, and agile teams that can rapidly test and implement digital merchandising concepts that are aimed at improving customer lifetime value instead of just achieving immediate conversion.

Myth #5: Recent growth of direct channels means they will soon dominate flight bookings

Reality: Direct channels have gained ground and have room to grow further—but intermediaries remain strong, and new players are entering the game

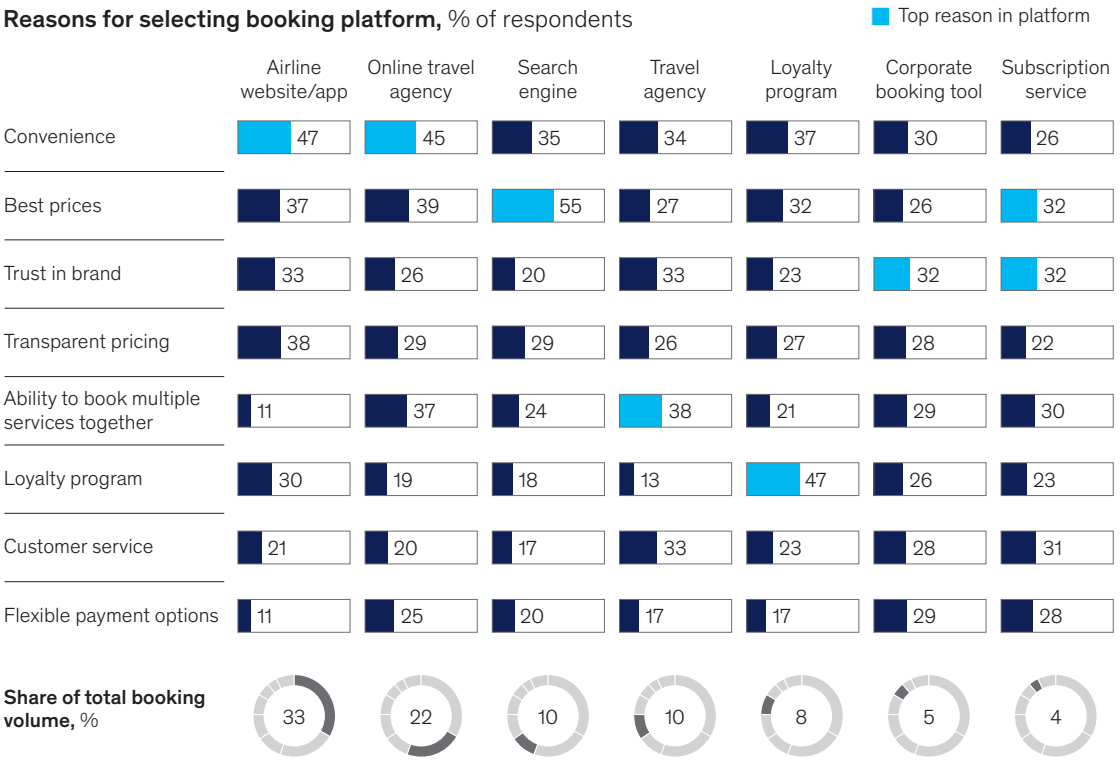
Between 2016 and 2024, the share of global air travel bookings by value via airline-direct online channels (such as airline websites and apps) rose from 34 percent to 49 percent. The share of bookings by value via OTAs also increased, rising from 13 percent to 16 percent. Meanwhile, the share of bookings by value through offline channels (for example, physical travel agencies and airline ticket offices) declined sharply from 54 percent to 35 percent.

Despite this strong growth in value, direct bookings by volume still lag by comparison (Exhibit 3). Only 33 percent of survey respondents say they currently book flights directly with airlines. This reflects the fact that premium travelers tend to book directly, driving up value share, while cost-conscious or occasional travelers favor intermediaries—driving volume. The generational gap here is notable: just 27 percent of travelers aged 18 to 24 book directly, compared with 64 percent of travelers aged 75 or older. Booking behavior also varies widely by market, highlighting the influence of local dynamics. About 49 percent of respondents from the United States book directly with airlines, versus just 20 percent of respondents from China and 21 percent of respondents from Germany.

At the same time, the distribution landscape is diversifying. New entrants—such as Chase Travel in the United States, Check24 in Germany, and Qunar in China—are gaining traction, lifting nontraditional platforms to a 7 percent share of global flight bookings. These nontraditional platforms often combine elements such as financial services, comparison tools, and loyalty ecosystems. Moreover, they address key traveler concerns by offering price transparency, adding a human touch to service, and providing a more intuitive experience. Many consumers already use these platforms for other purchases, which makes them feel more familiar and trustworthy than airline channels, especially for infrequent bookers. In China and Germany, usage of nontraditional platforms is especially pronounced, reaching 13 percent and 15 percent, respectively. In other major markets, such as Japan and Brazil, usage remains below 2 percent—underscoring that this shift is not uniform and can depend heavily on the influence of individual players.

Exhibit 3

Air travelers cite a variety of reasons for choosing which channel to book tickets through.



Source: McKinsey Consumer Survey on airline retailing preferences, Mar 2025 (n = 7,000)

McKinsey & Company

All this said, traveler preference for direct booking remains strong. About 57 percent of respondents say they would "definitely" book directly if airlines improved the direct-booking experience through better pricing, customer service, and personalized offers.

Implications: Direct channels remain a powerful but underused lever, while a diverse ecosystem of intermediaries continues to play a vital role. By improving digital experiences and addressing regional dynamics, airlines can better capture direct demand while remaining competitive in an increasingly diverse distribution ecosystem.

Myth #6: Travelers' flight-booking frustrations mainly relate to legacy technology

Reality: Concerns about pricing transparency and flexibility far outweigh technical frustrations

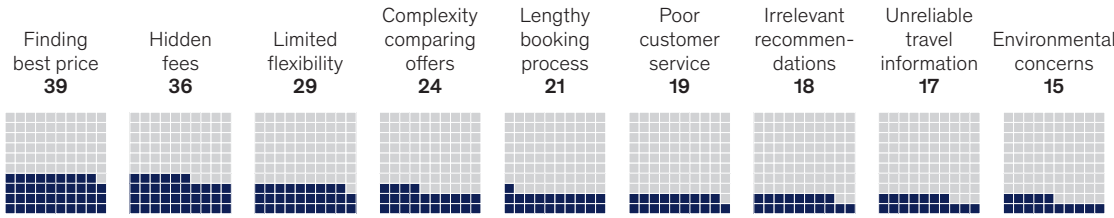
When asked about booking frustrations, travelers most often cite price-related concerns: 39 percent point to finding the best price, 36 percent to hidden fees or lack of transparency, and 29 percent to limited flexibility regarding refunds and changes (Exhibit 4). By contrast, technical concerns about complex comparison tools (24 percent) and lengthy booking processes (21 percent) rank lower.

When travelers report dissatisfaction with their most recent flight experiences, the primary concerns are flight punctuality (46 percent), seat comfort and space (36 percent), and customer service (30 percent).

Exhibit 4

Airline travelers' booking frustrations often relate to pricing, transparency, and flexibility.

Biggest frustrations when booking air travel, % of respondents



Source: McKinsey Consumer Survey on airline retailing preferences, Mar 2025 (n = 7,000)

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These frustrations reveal an interesting generational split, with 25 percent of 18-to-24-year-olds citing long booking processes as a frustration versus just 15 percent of 65-to-74-year-olds. This divide could challenge assumptions that older travelers struggle more with digital tools, or it could indicate that the bar for digital performance is higher for younger generations.

When travelers report dissatisfaction with their most recent flight experiences, the primary concerns are flight punctuality (46 percent), seat comfort and space (36 percent), and customer service (30 percent). Only 25 percent cite booking- and technology-related concerns. This suggests that operational reliability and physical comfort remain more fundamental than booking concerns to overall customer satisfaction.

Implications: While technical improvements to the booking process matter, airlines can prioritize resolving pain points that affect value perception—such as the presence of hidden fees and change restrictions—and can reinforce positive perceptions through providing on-time performance and high-quality service.

Myth #7: Digital convenience has sped up travel decision-making

Reality: Digital access encourages travelers to be more deliberate and research intensive

When it comes to booking, air travel is often the first step—54 percent of travelers book their flights before they book accommodations, activities, or ground transportation. However, before making the actual purchase, most travelers take time to explore their options. As mentioned in myth #4, 77 percent consult more than one booking channel—including airline sites, OTAs, and metasearch engines. According to Expedia, travel bookers consume an average of 141 pages of travel content in the 45 days leading up to booking.

More than one in four travelers spend three or more hours researching before booking. This trend is led by older travelers (33 percent of those aged 55 to 64), but 27 percent of both Gen Z and millennial travelers report investing this amount of time.

Why do travelers invest so much effort into research? As previously mentioned, McKinsey research shows that travelers' top-cited reason for doing research is a simple desire for full control over their itineraries. The second-most-cited reason is simpler still: Many travelers genuinely enjoy the planning process.

Implications: Airlines should expect to meet with sustained consumer engagement across multiple touchpoints, instead of aiming for quick, single-session conversions. Supporting the traveler's research process can be an essential part of earning their booking.

Myth #8: Social media is the dominant source of travel inspiration

Reality: Travelers are influenced by a diverse blend of digital content and trusted personal recommendations

For air travelers aged 18 to 34, platforms such as Instagram, TikTok, and YouTube are indeed influential. About 45 percent of respondents aged 18 to 24 and 46 percent of those aged 25 to 34 cite social media among their top sources of inspiration when planning journeys (Exhibit 5).

But while social media certainly shapes travel inspiration, it doesn't dominate in the way that some industry narratives might suggest. Personal recommendations, for instance, remain powerful, with 39 percent of 18-to-24-year-olds pointing to friends and family as key sources for ideas.

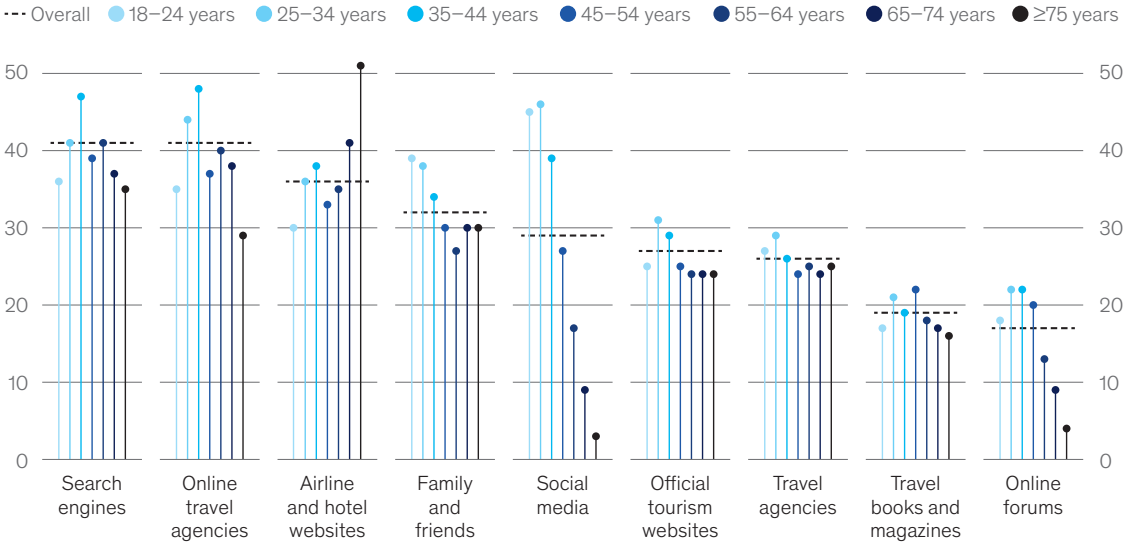
For survey respondents of all ages, traditional digital channels continue to be relevant sources of influence: Search engines (41 percent), OTAs (41 percent), and airline and hotel websites (36 percent) all get cited more often than social platforms (29 percent). Notably, social media's influence declines significantly as age rises. Only 17 percent of 55-to-64-year-olds and just 9 percent of those aged 65 to 74 cite social media as a major inspiration source.

Airline and hotel websites, in particular, resonate strongly with older travelers. Among respondents aged 65 to 74, 41 percent cite these websites as a source of inspiration; for those 75 and older, the number rises to 51 percent.

Exhibit 5

Travelers cite widely ranging sources of inspiration when planning a trip.

Sources of travel inspiration, by age group, % of respondents



Source: McKinsey Consumer Survey on airline retailing preferences, Mar 2025 (n = 7,000)

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Implications: Airlines should adopt multichannel strategies that reach beyond social media—and beyond pure transactions. Many travel sites focus too narrowly on booking, missing earlier chances to engage travelers. By offering compelling content and designing shareable experiences that spark positive word of mouth, airlines can capture more attention during the crucial inspiration phase.

By aligning retail strategies with what travelers care about, airlines can achieve significant incremental revenue gains while also improving customer satisfaction. Survey data reveals that travelers are often more deliberate, value conscious, and practical than conventional wisdom suggests—and that their preferences vary significantly by generation, region, and travel purpose.

Airlines that recognize these nuances and adapt their retail approaches accordingly will be better positioned to compete not just with traditional players but also with the broader set of travel retailers and intermediaries seeking to thrive within the evolving travel ecosystem.

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Chapter 4

How to modernize airline planning

Outdated, nonintegrated approaches won't fly anymore. Airline planning could benefit from an overhaul.

Airline planning is inherently challenging, in part because many planning inputs are outside an airline's control. The global aviation ecosystem relies on interwoven networks shaped by competing stakeholder priorities. Travel demand patterns are forever shifting and tough to forecast. Unpleasant surprises—including major storms, airport infrastructure breakdowns, IT failures, ground staff shortages, and aircraft delivery delays—can add significant uncertainty to any projections. This can be further exacerbated by global crises, geopolitical challenges, and other external factors. Making flawless decisions, up to a year in advance, about which exact aircraft should fly which route, with what crew, and how to react to unforeseen disruptions (and these are only a portion of the variables involved) would require airline executives to be clairvoyant.

That said, airlines could mitigate some of these planning challenges if they took steps to update their tools, methods, and mindsets. Many of the decision-making processes through which airlines establish route maps, schedules, fleet management, airport staffing levels, and so forth remain impeded by siloed communications and outdated technology and metrics. There have been some recent positive developments in the planning sphere. At the same time, many airlines have abandoned many of the collaborative and flexible approaches they pioneered (out of necessity) during the pandemic.

A fully integrated approach to airline planning, using a process that unites commercial and operational considerations, could achieve improved results. There are billions of dollars in opportunities for airlines that can get this right (according to one industry group estimate, each additional minute an airplane spends taxiing or airborne costs the airline more than $100 while also imposing personal costs, such as lost productivity and wages, on delayed passengers). But enacting changes would require airlines to commit to adopting more holistic strategies, building more accurate simulations, modernizing their collection and analysis of data, enabling nimbler decision-making, and intensifying focus on customer experience. This article presents a vision of future integrated planning that could help airlines soar above the competition.

Factors complicating effective airline planning

Synchronizing operational components (such as scheduling, crew management, and maintenance) with commercial objectives (such as maximizing revenue and enhancing customer satisfaction) has always posed a challenge for airline planners. Long lead times and suboptimal tools and processes can add to the difficulty. As the complexity of operating environments increases, these challenges will only be magnified.

Inflexible processes and long lead times

Airline operations are inherently unstable—often constrained by prolonged, externally dictated lead times that can require schedules to be set nearly a year in advance—and they are subject to uncontrolled developments, such as weather issues, equipment malfunctions, or airport construction work that unexpectedly increases ground times. The need to plan for a probability distribution of scenarios, instead of for discrete events, adds considerable complexity to decision-making processes. Different airlines have responded to this challenge in different ways. Network carriers have historically tended to be reactive, waiting for demand to materialize before adding capacity. Low-cost and ultra-low-cost carriers have tended to take more of a venture capitalist–type approach to planning, featuring some successes, many failures, and significant experimentation. Airlines in Europe and other slot-constrained regions (where limited slots are distributed for airport take-offs and landings) must also try to capture changing demand while maintaining their valuable slot portfolios.

Siloed teams with misaligned priorities

Historically, there has been a disconnect between commercial and operational planning within airlines. Fragmented workflows cause both sides to misjudge critical factors. Commercial teams will sometimes underestimate operational constraints (for instance, how aircraft routing can affect crew pairing) when setting a schedule. Operational teams might size the impact of schedule delays without fully understanding the effects on the customer. Without the right tools and a common language, both commercial and operational teams frequently resort to inserting precautionary buffers into schedules to account for potential delays—but these buffers are not always optimally positioned or removed when they are no longer needed.

Inadequate tech

Technology often limits airline planning. Tools sometimes lack adequate capabilities, and upgrades can be very costly to implement. For the most part, existing optimization software is unable to handle the complexity of combining all the aspects of planning into one calculation. It cannot consider every variable (and the interactions between those variables) and isn't quick enough when analyzing a plethora of different scenarios and options.

This means problems frequently need to be broken down into manageable components that are solved independently. The result can be outputs that offer conflicting solutions. This siloed approach to employing tech also often leads to the use of narrow KPIs that focus on the activities of individual departments instead of the overall performance of the airline. For instance, a maintenance planning organization might reroute aircraft to ensure they get to their maintenance slots without realizing that this could cause inefficient crew connections.

Clouds on the horizon

Some emerging trends could exacerbate these challenges. Increasing congestion in both airspaces and airports, potential economic uncertainty or geopolitical tension that causes passenger demand to fluctuate, and rising costs (for items such as fuel, labor, and emerging requirements to compensate passengers for delays and cancellations) could all put additional pressure on planning processes, necessitating more sophisticated and dynamic solutions.

Positive airline planning developments

In recent years, the airline industry has seen some improvements in coordination between commercial and operations functions. Collaborative practices adopted as emergency

The COVID-19 pandemic forced airlines to adopt unprecedented levels of collaboration and flexibility in their planning processes.

measures during the COVID-19 pandemic have emerged as catalysts and crucial building blocks for the future of airline planning. Meanwhile, technology has steadily advanced. Efforts on these fronts should be expanded and incorporated into a cohesive framework.

Creation of joint planning teams

Airlines have increasingly adopted integrated-planning processes to bridge the gap between commercial and operational priorities. Initiatives have ranged from establishing cross-functional planning forums to undertaking full organizational restructuring. In 2023, for example, Southwest Airlines created a joint department[1] that combined its network planning (responsible for deciding where the airline flies to) and network operations center (responsible for monitoring daily flight activity). The airline described this move as an effort to create "a tighter feedback loop between schedule design and schedule execution."

Agile process born from a crisis

The COVID-19 pandemic forced airlines to adopt unprecedented levels of collaboration and flexibility in their planning processes. Business-as-usual processes ceased in most airlines. In many cases, small cross-functional teams would meet daily in the same room to address crew shortages, staffing challenges at airports, rapidly shifting competitor capacity, and changing passenger demands. These approaches proved effective, as airlines communicated end to end, established clear ownership over processes, and prioritized agility and tight feedback loops. As labor shortages eased and commercial considerations regained importance, many airlines reverted to their pre-COVID-19 planning approaches—abandoning some of their hard-won process improvements—while others carried forward the wisdom earned during a challenging moment.

Improved tech to tackle complexity

Airlines are rich with data. Technological innovations can enable greater use of complex data sets and have given airlines tools that can inject the power of simulation (digitally replicating a situation to test different theses) and optimization (automatically generating a solution) into their planning processes. Amadeus' Sky Suite, for instance, incorporates both simulation and optimization capabilities to help airlines rapidly generate and test different network plans. This can allow planners to better understand trade-offs between competing priorities, such as revenue maximization and operational efficiency.

[1] "Southwest Airlines announces leadership promotions," Southwest press release, January 9, 2023.

A vision of fully integrated planning

While there have been green shoots, many airlines continue to plan in much the same way they have for decades. Turning a critical eye on the current state of planning could help airlines imagine a more efficient and effective future.

What if … there was a single tool to plan the airline?

Rather than completing a series of hand-offs from group to group and optimizer to optimizer, a consolidated planning organization could use an integrated architecture (meaning a single tool or ecosystem of connected tools) that incorporates customer demand, aircraft availability, crew requirements, maintenance requirements, gate availability, and other factors to create a schedule that considers and solves for all of these varying constraints. The role of long-term planning would shift from repeating tedious runs on the same data to instead steering the core models and testing new scenarios that could help reach more efficient frontiers. Improved feedback would be seamlessly fed into the system, which quickly learns and adapts to new operating conditions. The organization could confidently balance its commercial, operational, and risk considerations based on current company priorities.

What if … customers mattered more than the schedule?

Airlines could make a leap from thinking about their own binary on-time performance and completion factors to instead thinking about customers' minutes of delay and journey completions. Instead of worrying about whether a flight is 15 or 16 minutes late, airlines would care more about the experience of each individual customer—noting those who are flying on a quick day trip or making an internal connection. This would fundamentally change schedule design features, as density could be built into key lanes to ensure there are recovery options for flight connections or delays. Simulation could be used to model customer flows and outcomes on good days and bad and to make schedule adjustments accordingly. Contingency plans would be built with rerouting options to proactively move customers around major areas of disruption when conditions require. The end result would be greater confidence for customers that the airline will get them where they need to go.

What if … flights were planned days, not months, in advance?

Imagine a world where itineraries can adjust far more dynamically to changing conditions. Months out, customers with more flexibility would purchase arrival *windows* instead of to-the-minute schedules that might change several times before they actually fly. Block times would be far more dynamic and could adjust to changing congestion or airport conditions. Instead of locking the schedule more than two months in advance to account for crew bidding, crews would be flexibly assigned as the day of operation approached, allowing their quality of life to be preserved through enhanced open-time and trading systems. When weather drives large cancellation packages, the aircraft and crew would be reassigned to help route customers around the disruption. While this end state would require contractual and technological enhancements to be realized, the possibilities it offers for utilization, customer satisfaction, and cost efficiency could be transformative.

The path forward

While the vision of fully integrated airline planning holds great promise, realizing it could require overcoming entrenched mindsets and outdated tech. Many of the airline industry's traditional ways of working are deeply embedded in siloed team structures and legacy optimization tools. A successful transformation will involve bold, deliberate, and sustained effort across three critical dimensions: data-driven technology, analytics for integrated processes, and organizational structures.

Building the tech and data foundation

Any effective future planning process will be underpinned by accurate and reliable data. Today, airline data is often fragmented and not organized in a way that enables a constant feedback

loop. For instance, operational data, such as indications of consistent disruptions occurring on a specific route, are often not fully integrated into future planning cycles, undermining schedule reliability.

To address this, airlines should look for ways to create dynamic and interconnected systems to close data gaps and enable continuous learning—particularly around underlying operating constraints and interactions. Better understanding of, for instance, airport staffing approaches (such as part-time options or rules relating to overtime) or the playbooks used by operations control centers (governing which flights to delay or prioritize) could provide valuable inputs for more effective planning. A clear strategic vision and collaboration with technology providers could accelerate new simulation capabilities. Digital-twin technology that constructs replica environments where experiments can be run could enable testing different scenarios and adapting operations in real time.

Establishing analytically integrated processes

The fragmented workflows employed by traditional planning software tools are rooted in airlines' historical reliance on separate, siloed systems for scheduling, crew management, and aircraft maintenance. While these technological tools have served airlines well in the past, they are not equipped to handle the complexities of integrated planning. Disjointed priorities and misaligned KPIs (such as revenue-focused metrics that ignore operational costs) lead to inferior process creation and hinder analytics outputs. To unlock the full potential of digital tools and their teams, airlines should consider how to develop end-to-end processes, supported by shared objectives and KPIs.

After identifying the company-wide and within-workgroup metrics that matter, executives and operators with profit-and-loss responsibilities can make those metrics the focus of weekly, monthly, and quarterly performance discussions. This shift in emphasis can be accelerated by equipping teams and decision-makers with real-time information while building analytics and reporting capabilities that are rooted in the proper data.

Reorganizing planning structures

Achieving integrated planning will require a fundamental rethink of how airline planning is organized. Traditional organizational structures, which separate commercial and operational functions, often reinforce silos and hinder collaboration. Some airlines, such as Air New Zealand, have already implemented agile methodologies in cross-functional teams that focus on end-to-end decision flows instead of departmental boundaries. By breaking down silos, integrated planning can become a core function of an organization, spanning both commercial and operational priorities. Supported by technology, these changes foster collaboration and shared accountability, delivering reliable schedules and consistent service.

The future of airline planning lies in integration—bringing together commercial and operational priorities to create a more nimble, efficient, and customer-centric process. But achieving this vision could require comprehensive technological and organizational transformations. The journey to integrated planning might be full of obstacles, but the potential rewards—greater operational reliability, enhanced customer satisfaction, and improved financial performance—make it a goal worth pursuing.

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Chapter 5

How severe is the aircraft shortage—and what happens next?

Rebounding air travel demand is bumping up against a constrained supply of new aircraft. Assessing the size of this gap—and how it could grow or shrink—can help inform solutions.

There's been a growing gap between air travel demand and the aviation industry's supply of new aircraft to meet it. While passenger demand has rebounded from pandemic-era lows and is projected to keep growing, delivery times for newly manufactured aircraft—and maintenance turnaround times for aircraft in existing fleets—have slowed.

What are the implications of this aircraft shortage for key stakeholders along the aviation value chain? What future scenarios are possible? What useful steps could industry players take to help level this imbalance and minimize risks?

And, finally, how big is this aircraft shortage, really? Our analysis—using a novel framework and set of data points—indicates that, while significant, it could be less severe than some industry observers might assume.

There's an ongoing struggle to align passenger demand with aircraft supply

For the past few years, the commercial aviation industry has dealt with uncoordinated swings in travel demand and aircraft supply. Balancing these two variables is a tricky equation.

Passenger demand is highly dynamic and can change quickly. Since the COVID-19 pandemic, it's been on a rapid rise. Commercial air travel demand, measured in revenue passenger kilometers (RPKs), grew by 10.4 percent from 2023 to 2024 and is projected to grow at an annual rate of 4.2 percent through 2030.

Conversely, the production system for new aircraft can be slow to ramp up due to its complexity. There has been long-standing turbulence in aerospace supply chains, and OEMs have struggled to secure adequate quantities of manufacturing components such as semiconductors and finished castings and forgings. Shortages in both skilled labor and raw

materials persist in the wake of the demand whiplash induced by pandemic-era air travel slowdowns. Some aircraft models have been unexpectedly grounded, and some new-engine introductions have encountered early hiccups. These combined challenges, which are unlikely to subside in the near term, have caused delays in both new-aircraft deliveries and maintenance turnaround times.

These delays could potentially be exacerbated by global events. The aviation supply chain—for new and aftermarket needs—is highly international and interconnected. An aircraft's engine might be produced through a joint venture between companies in two different countries; its avionics might come from a third country; its landing gear might come from a fourth. Ongoing geopolitical tensions and trade concerns could affect critical suppliers, amplifying disruptions.

How severe is the aircraft shortage, really?

There is, without doubt, a current shortage of new aircraft. This is in part due to a monthslong, near-total production halt during the pandemic. Only about 7,000 aircraft were delivered in the six-year period from 2019 through 2024—far below the prepandemic trajectory, which, if it had continued, would have resulted in the delivery of about 12,000 aircraft over that same time frame. By that measure, one might assume a supply shortage of about 5,000 aircraft.

But lost aircraft deliveries don't, on their own, provide a fully accurate picture of the aircraft shortage in the market. While supply was affected by slowed deliveries, it's important to remember that the pandemic also interrupted passenger demand, which took years just to recover to 2019 levels.

In our view, a more comprehensive analysis of the current aircraft shortage would also consider delayed aircraft retirements. Slowing the phaseout of aircraft is a primary short-term supply lever for both airlines and aircraft lessors. It's what they do when they're concerned about having enough aircraft to meet demand.

The long-term average rate of global aircraft fleet retirements is 2.8 percent annually. From 2019 through 2024, only 1.8 percent of the global fleet was retired annually—nearly 40 percent below the long-term rate. Old aircraft are being kept in service longer because not enough new aircraft are being delivered.

When looking at the aircraft shortage through the lens of this higher-than-expected rate of delayed retirements, our analysis finds that the global shortage could be closer to roughly 2,000 aircraft (with around 75 percent of the shortage relating to narrow-body aircraft). This is considerably smaller than the roughly 5,000-aircraft gap that might be suggested by focusing on the difference between pre- and postpandemic delivery trajectories.

Aircraft shortages affect industry stakeholders in different ways—and not always negatively

Although the current aircraft shortage is likely smaller than some measures might suggest, a shortage of any size can still put pressure on the profitability and growth of various parts of the value chain that are reliant on new-aircraft production. But for stakeholders with ties to existing fleets and aftermarket services, shortages can also create opportunities:

— *Airlines* can face growth challenges (because they can't secure enough new aircraft to meet demand) and incur higher maintenance and fuel costs (because the older aircraft being kept in service longer require more upkeep and burn more fuel per seat). But airlines can collectively benefit from increased load factors (meaning more seats are occupied) and higher yields (meaning ticket prices are higher) if capacity is constrained and markets continue to grow—as in the period directly after the pandemic, when demand suddenly outstripped supply and airlines around the world reported record profits. This can play out differently for each airline, depending on its business model, geography, and competitive dynamics, along with its fleet mix, age, and renewal plans.

When looking at the aircraft shortage through the lens of this higher-than-expected rate of delayed retirements, our analysis finds that the global shortage could be closer to roughly 2,000 aircraft.

— *Aircraft leasing companies* can gain leverage, since they own roughly half of the globally available aircraft in a market with limited supply. Airlines are willing to pay a premium in this context—reflected in rising lease rates, particularly in the narrow-body segment. For instance, the industry intelligence group Aircraft Value Analysis Company reports that the monthly lease rate for a new Boeing 737 MAX 8 rose from a low of $283,000 in April 2021 to $452,000 by April 2025, while the corresponding rate for an Airbus A320neo increased from $289,000 to $442,000 over the same period.

— *Maintenance, repair, and overhaul providers (MROs)* can thrive in a capacity-constrained market, as extended operation of aging aircraft boosts demand for additional maintenance services such as retrofits, modifications, and installation of margin-accretive spare parts.

— *Engine suppliers* can benefit from strong demand for both newly manufactured engines and aftermarket services. When aircraft are kept in service longer, they require more engine shop visits—through which suppliers can earn strong margins from selling spare parts. Suppliers can also benefit from nonperformance: Consider that when production rates remained below prepandemic levels in 2024, top engine suppliers' collective economic performance thrived—earning 18 percent EBITDA margins in 2024 versus 11 percent EBITDA margins from 2017 to 2019.

— *Aircraft OEMs and (nonengine) suppliers* can struggle due to lower-than-expected new-aircraft production rates. The challenge can be especially acute for suppliers of systems such as aerostructures, which have less aftermarket demand than more maintenance-heavy components.

Could this aircraft shortage transform into a surplus?

We've analyzed a multitude of scenarios that could play out along the axes of aircraft supply and travel demand. For instance, demand and supply could deviate further, amplifying the aircraft shortage—and likely helping lessors (as lease rates soar) and MROs (as older aircraft, which require more maintenance, stay in service longer), while offering mixed results for airlines (which could enjoy healthy yields but be limited in their ability to add capacity).

Of all these possibilities, we've chosen to focus this article's analysis on two scenarios that we assess as both plausible and important to contemplate. The first is a soft landing at equilibrium, and the second is a full reversal to oversupply in the next five to ten years. One could require careful collaboration and calibration, and the other could present significant challenges for the industry.

Soft landing at equilibrium

In this scenario, stable growth in air travel demand is met with a steady ramp-up of new-aircraft supply. New-aircraft production would recover to a level that is in line with demand, and retirements of aircraft would rebalance to historically average levels. This is the most favorable scenario for the aviation ecosystem.

The soft-landing scenario could occur in the following circumstances:

— OEMs increase their aircraft production rates in a measured and transparent manner.

— Aviation supply chain performance improves in line with OEMs' ramp-up and some specific issues are solved (such as lagging performance from components and subtier suppliers, particularly relating to engine parts).

— Air travel demand grows steadily (as per current long-term outlooks) and doesn't encounter negative shocks relating to, for example, geopolitical tension or economic uncertainty.

— Decelerated fleet renewal at the world's leading airlines (which could face increased costs and stabilizing yields as capacity development comes in line with travel demand growth) is offset by aircraft demand from fast-growing airlines in developing countries.

A soft landing could be positive for many players in the industry. Aircraft OEMs, engine suppliers, MROs, and airlines could all benefit from equilibrium and stability as OEM production grows in line with demand and the ecosystem is able to plan effectively. Lessors and some niche players—such as late-life-cycle MRO suppliers—could experience recalibration as current, highly favorable conditions settle back to long-term averages.

A reversal straight to oversupply

In this scenario, passenger demand deteriorates at the same time that new-aircraft supply ramps up aggressively. Aviation is a highly cyclical industry, and elements of it can sometimes overcorrect (as has happened in previous downturns). This scenario could create headwinds for many industry players.

The reversal-to-oversupply scenario could occur in the following circumstances:

— OEMs (which have already announced ambitious production growth plans) overcorrect and aggressively increase production in an uncontrolled and uncoordinated manner.

— Air travel demand weakens significantly versus current forecasts—for instance, as a result of a global economic recession—with effects especially concentrated in the highest-yielding flows.

— Airlines' performance outlook weakens further as a result of rising costs and inflation, while yields dilute as industry capacity grows beyond prepandemic levels (and, in response, airlines decelerate fleet renewal plans).

— In response to ramped-up delivery of new aircraft, a large wave of both overdue and early retirements of existing aircraft hits the market.

A reversal to oversupply could affect various industry stakeholders in the following ways:

— *Aircraft OEMs* could initially benefit from a large backlog of orders. Eventually, however, overproduction could affect pricing and suppress long-term demand for new aircraft, thus hurting longer-term financials. OEMs could also face downside risks resulting from worsened aftermarket economics.

— *Engine suppliers* could also benefit from a large increase in orders. However, new engines are often sold at cost or even at a loss. Meanwhile, engine aftermarket services such as maintenance and repair are often a significant component of engine suppliers' businesses, providing margin-accretive revenue streams. A market oversupplied with many new engines, which tend to need less maintenance and repair, could mean reduced aftermarket business for engine suppliers.

— *MROs* are likely to suffer as older, maintenance-heavy aircraft are retired. This could be especially hard on MROs that specialize in late-life-cycle services or platforms.

— *Airlines* could face financial challenges as fewer passengers meet with excess capacity in the market. Overcapacity very frequently leads to fierce competition, lower yields, and higher unit costs for airlines.

— *Lessors* could be disadvantaged as lease rates fall when aircraft availability becomes plentiful.

Taking steps to encourage equilibrium

To avoid the risks inherent in an oversupply scenario—and to help ensure a balanced outcome for the ecosystem—the industry can consider taking a few proactive, coordinated steps.

Align stakeholders in a controlled production ramp-up

The aviation supply chain is highly interconnected, with only a very small number of producers for many important components. Some players can benefit from a supply–demand gap and thus have little incentive to help right the imbalance (particularly if that would involve deploying capital). Trust among suppliers, OEMs, and airlines—if aligned on a realistic production ramp-up—could be restored through steps such as the following:

- ensuring that senior decision-makers at important suppliers are positioned to manage the scale-up road map, align on production plans, and be the first points of contact who can quickly solve escalations
- creating incentives—using agreed-upon processes and transparent performance management, including dashboards that are accessible to all parties—that will encourage adherence to planning
- establishing engineering and supply chain management centers of excellence to collaboratively assess and close structural capability gaps at suppliers
- carefully weighing trade-offs (such as delaying aircraft production despite large order backlogs) and making decisions by looking through an industry-wide lens that considers knock-on effects

Build more flexibility into delivery contracts

Delivery contracts can have long durations (ten years, in many cases) and little leeway for readjustment. Given the general uncertainty inherent in the aviation industry, crafting delivery contracts that offer more flexibility could help airlines navigate geopolitical and economic challenges—and, in the end, help prevent a buildup of aircraft oversupply in the market.

Rigidly structured delivery slots could also be discarded in favor of more dynamic solutions, which could allow the swapping or trading of delivery slots between airlines and OEMs. OEMs could strengthen customer relationships by helping their customers identify beneficial opportunities to trade delivery slots with other airlines or even with other OEMs.

Undertake capital expansions thoughtfully—with copious scenario planning

Any aviation industry player contemplating expansion plans should construct them in ways that allow flexible adaptation to varying market conditions. Modeling best-, base-, and worst-case traffic and production forecasts (that account for variables such as macroeconomic changes, fuel price hikes, and geopolitical risks) can help identify different fleet needs under each scenario. Models should include scenarios in which older aircraft are retired early or leased jets are returned, allowing flexibility in the event that demand undershoots expectations.

A soft landing that balances supply and demand could offer favorable outcomes across the entire aviation industry. Through careful analysis and collaboration, stakeholders can help navigate the industry toward a healthy equilibrium.

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