



A NEW GENERATION OF MEDIUM-SIZED, long-range, and fuel-efficient aircraft has opened up non-stop routes that not long ago would have seemed incredible: London, UK to Austin, Texas; Birmingham, UK to New Delhi, India; Stockholm, Sweden to Oakland, California; and San Francisco, California to Chengdu, China, to name just a few.

This technology is connecting mid-sized secondary and small regional markets that previously would have required a stop somewhere along the way to serve long-haul destinations. It's an evolution of technology, rather than a revolution: These new aircraft aren't turning unprofitable airlines profitable, changing travel habits,

or killing off airports. Airlines and airports remain locked in competitive dynamics and still must find innovative ways to draw in passengers and remain relevant. But the new aircraft, if used intelligently, could provide a welcome competitive tool for airlines. At the same time, major hub airports will need to work harder to keep up as the technology boosts traffic and service levels at secondary and regional airports.

### **NEW PLANES, NEW MARKETS**

New aircraft like the Boeing 787 and the Airbus A350 seat fewer passengers than

their long-range counterparts (such as the Boeing 777 and Airbus A380), making it possible for airlines to serve medium- and long-haul markets worldwide that otherwise would not have enough demand to support large aircraft. Airlines can use the planes to schedule more non-stop services, thereby increasing travel time flexibility for business travelers, while higher service levels can be offered at an attractive cost per seat, appealing to business and leisure travelers alike.

Airlines are using the technology to explore some interesting new business models, such as low-cost service for longer flights or to feed network carriers'

hubs. For example, British Airways has launched a London-to-Austin route that uses a 787 with just 214 seats – a roomy, passenger-friendly seating arrangement compared to most transatlantic flights. At the other end of the density spectrum, Norwegian Air Shuttle is now operating low-cost flights from Scandinavia and London to North America, using Boeing 787s configured to hold 291 passengers.

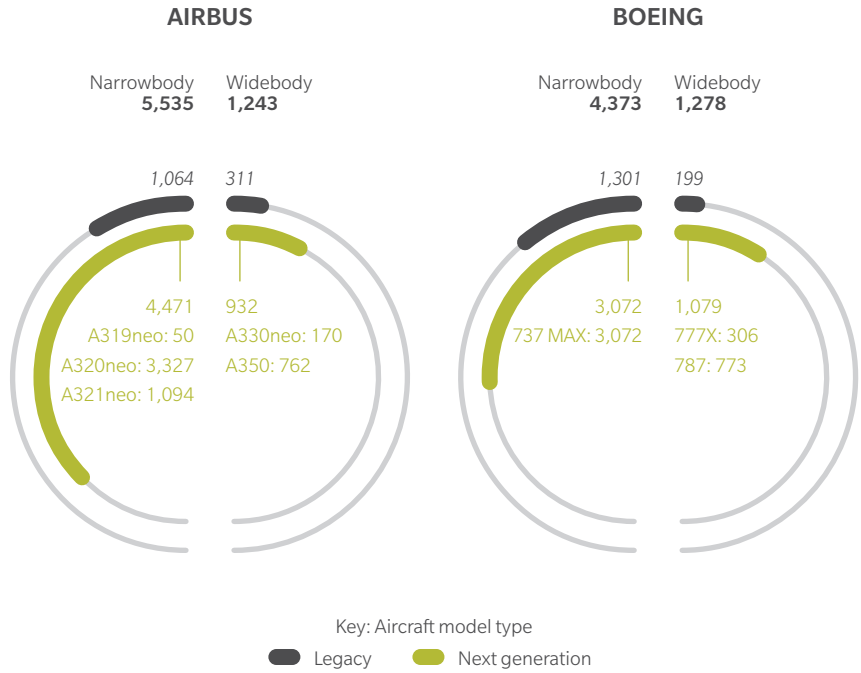
The next generation of smaller, single-aisle aircraft now being built, with around 180 seats (the Airbus A320neo and the Boeing 737 MAX), will add around 500 miles of range over existing models. This will make possible another wave of potential regional routes between the East Coast of North America and Western Europe. WestJet is already testing the potential for such services on Dublin, Ireland-St. John’s, Newfoundland and Halifax, Nova Scotia-Glasgow, Scotland routes, using its existing 737s.

Still, these examples don’t indicate fundamental change to the industry. Rather, they show that airlines are experimenting with how the new technology can be used to increase their competitiveness and open up new markets, while maintaining their traditional hub-and-spoke networks. As a result, many airlines also are using the new planes in traditional ways. For example, British Airways has put 787s on its London Heathrow-Toronto, Canada route to replace larger 777s and aging 767s.

**THE STICKINESS PROBLEM**

Long-haul point-to-point services will increase passenger traffic through some secondary and regional airports, which could reduce the dominance of some hub airports. They are unlikely to be more than a blip on the radar, however, for the largest hub airports and the tens of millions of passengers they carry each year. Hubs that do find themselves under pressure will need to work on making themselves as “sticky” as possible for customers. This will require putting the customer at the center of all activities and delivering a client experience that is a true differentiator – one not easily matched by competitors. This might include state-of-the-art services and operations, such as the fastest and most

LEGACY VERSUS NEXT-GENERATION PASSENGER AIRCRAFT ORDERS



Note As of December 2015. Excludes aircraft models for freight or military use; Airbus (A330-200F) and Boeing (737-800A, 767-300F and 777F)  
 Source Airbus, Boeing, Oliver Wyman analysis

convenient connection services, or top-of-the-line entertainment and shopping. Another option could be innovative collaboration with other stakeholders in the travel value chain, such as joint marketing campaigns with local city, tourism, and hotel organizations to drive incremental demand.

And then there are the innovations to be had from “going digital.” For example, when travelers face a choice over which airports to use, digital innovations such as wayfinding apps or automated parking/transit systems could tip the balance for some customers. At the same time, a “digital inside” focus would seek to maximize data automation and digitalize processes that connect the airport to airlines, ground handlers, and other air service providers.

**LOOK BOTH WAYS NOW**

The most important lesson of the new aircraft technology now in use and coming online over the next few years

is to remind airlines and airports that the choices available to customers are greater now than ever before – and these choices will only multiply. Generating future value will require looking to both the past and the future: embracing innovations such as digitalization, while working harder to achieve traditional strategies such as customer service and operational excellence.

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