AIRLINE INDUSTRY

The Real Engines of Value Creation in Airlines

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It shouldn't be tough to drive handsome returns on capital in a market that has grown steadily at over 5% a year for more than two decades, should it? No, not unless the market happens to be aviation.

While the number of passengers that the world's airlines carried rose steadily by more than 5% a year from 1980 through 2024, the returns on capital didn't. Most airline companies reported profitability levels that varied greatly over time, with long periods of losses and low returns on capital. (See Exhibit 1 and 2.) The airlines' total shareholder returns (TSR) reflect that fact in the past decade, according to a recent BCG study, with the sector delivering negative returns of 2% compared with the stock market's positive returns of 11% from 2014 through 2024.

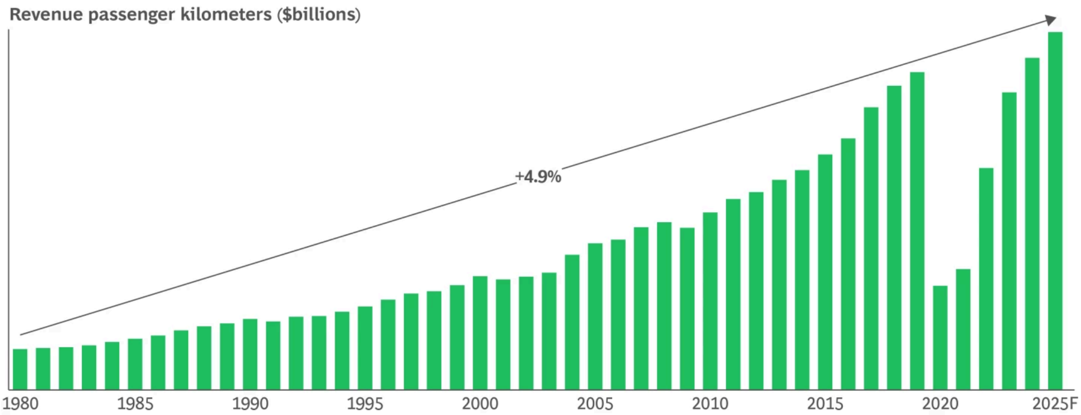
Despite the general gloom in the industry, the top performers did succeed in creating and capturing value in the same period. In fact, the top quartile in our study delivered, on average, 9% TSR over a ten-year period, with the top players delivering returns of more than 20% a year.

However, that only underscores the challenging dynamics of aviation, which is a capital-intensive, cyclical, and low-margin business that constantly demands cost discipline, capacity rationalization, and yield management. There have been many bankruptcies in the business; from 2004 through 2019, before the COVID-19 pandemic, as much as 40% of airline capacity went through bankruptcy proceedings.

Developing a strategy is always a challenge, but when volatility increases, it becomes more difficult—and critical—for success. Currently, airline CEOs have no choice but to identify, and focus on, the most critical levers of profitability if they wish to improve their company's performance. As we will see, the world's top-performing airlines consistently deploy five levers for success, with the best using several of them at the same time. The levers are: financial resilience, strategic consolidation, operational excellence, adjacency diversification, and regional advantage.

EXHIBIT 1

Airlines Around the World Have Seen Steady Long-Term Growth in Passenger Traffic

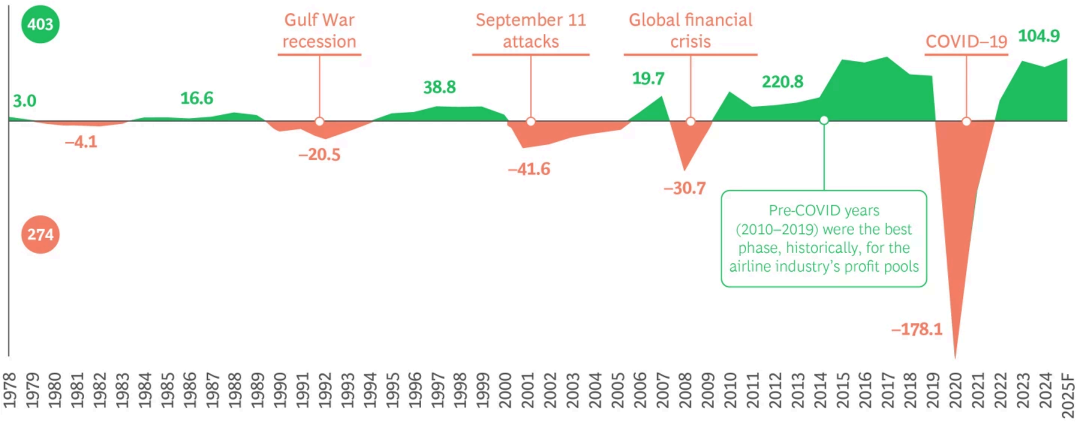


Sources: International Civil Aviation Organization; International Air Transport Association; BCG analysis.

EXHIBIT 2

Airlines' Profitability Has Been Cyclical and Sensitive to External Shocks

Airline industry's net profit worldwide ($billions)



Sources: International Civil Aviation Organization; International Air Transport Association; BCG analysis.
Note: ICAO data was used through 2014; IATA data was used after. ICAO had substantially revised pre-2012 financial data, and this replaces IATA's preliminary and estimated data.

Our Study

The purpose of our study was to identify the winners in the airline industry by focusing on one key metric: TSR. It's the optimum yardstick to measure performance in any industry for several reasons: a company's TSR is easy to benchmark against the market and its peers, difficult to manipulate, and independent of accounting. Profit growth, multiple expansion, and cash all drive TSR.

The sample of 57 publicly traded airlines that we studied was drawn up using three criteria:

- Only passenger airlines
- Only airlines that had at least five years of stock price history
- Each airline had to have a market capitalization of at least $50 million on November 20, 2024

We analyzed TSR performance across several long-term time frames (10 years, 15 years, and the 15 years before COVID) to find consistent outperformers, and we identified 20 airlines that were winners over at least one of those periods. We also looked at shorter-term TSR performance (over 5 years) to see which airlines were emerging as potential winners.

While 34 of the airlines in our sample were full-service carriers, the others were low-cost carriers. There were an equal number of large-cap and medium-cap airlines in the sample (17), while the rest (23) were small-cap ventures. Most were based in Asia-Pacific (25), North America (12), and Europe (11), while 5 were headquartered in the Middle East, and the remaining 4 were in Latin America, ensuring that the study covered the dynamics of different markets.

From a regional perspective, Asia-Pacific airlines outperformed rivals over the past 5 years; those in the Middle East did better than the others over a 10-year period; and North American airlines reported the strongest stock market performance over a 15-year timespan. The latter were typically full-service airlines with large market caps ($5 billion or more). Some Asia-Pacific and Middle East airlines—such as Turkish Airlines and Air Arabia—figured among the top performers on the 10-year returns, while a few newly listed low-cost airlines—such as India’s IndiGo and Thailand’s Bangkok Airways—made it to the top of the 5-year performance scoreboard.

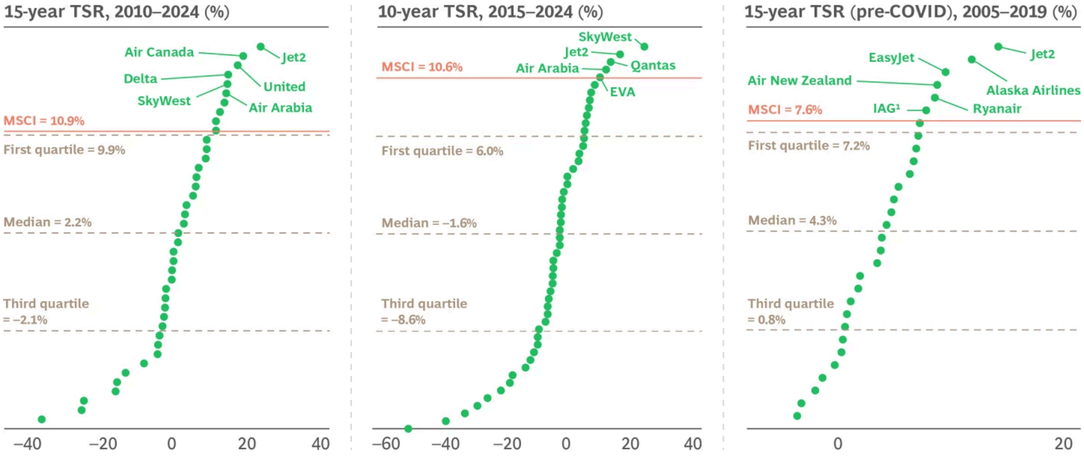
In terms of business models, the low-cost airlines underperformed the full-service carriers, on average, but the top-performing low-cost airlines are among the best in the aviation industry. Indeed, the low-cost carriers’ higher valuation multiples reflected their greater profitability, earnings predictability, and potential for growth.

The Airlines’ Value-Creating Engines

An analysis of the top 20 performers highlighted five levers on which the best-performing airlines focused. (See Exhibit 3.)

EXHIBIT 3

Twenty airlines have outperformed the market across at least one long-term time period



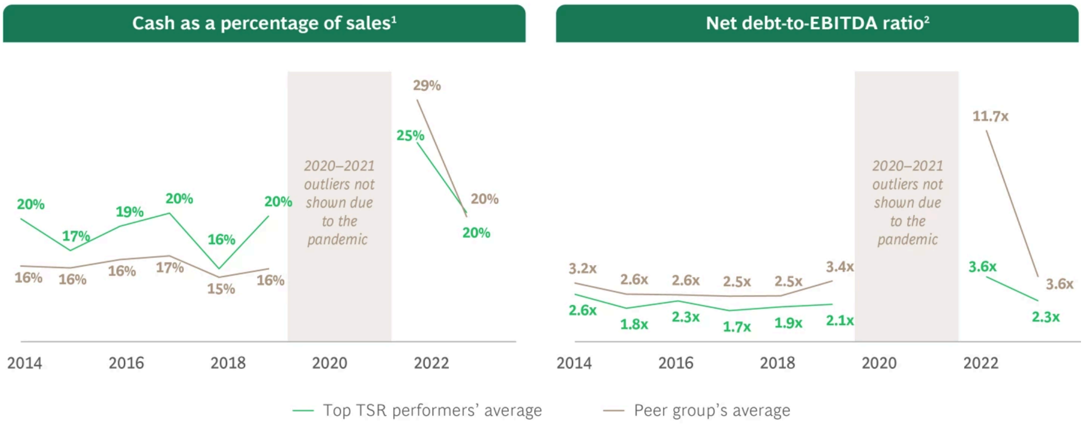
Sources: Morgan Stanley Capital International (MSCI) All Country World Index benchmark; BCG analysis.
[1]Fifteen-year IAG performance includes prior TSR of British Airways and Iberia.

Fortifying Financial Resilience. Aviation's top performers—such as Delta, Ryanair, and United—have displayed considerable balance sheet discipline while meeting the industry's structural challenges. In fact, balance sheet quality was the biggest difference among the leaders and followers in our study, explaining 75% of the former's outperformance as measured by TSR. A disaggregation analysis underscores the impact of recapitalization on shareholder returns, especially over shorter time periods.

The importance of financial conservatism in the airline industry stems from its cyclical nature, with the COVID-19 pandemic imparting the most recent—and biggest—shock to the industry. The top performers maintained stronger balance sheets than their peers did, targeting a liquidity ratio of about 20% and a leverage ratio (net debt to EBITDA) of less than two times, meaning they were only moderately reliant on debt to finance operations and aircraft purchases. (See Exhibit 4.) These companies built stronger cash positions relative to their peers before the pandemic-induced cash crunch.

EXHIBIT 4

Top-Performing Airlines' Balance Sheets Are Stronger Than Those of Their Peers



Source: S&P Capital IQ.
[1]Cash refers to cash and cash equivalents (that is, convertible deposits, securities, and other instruments with under three months maturity).
[2]Net debt indicates total debt minus total cash and short-term investments; the average leverage was calculated excluding companies with a negative ratio.

Top-performing airlines set strict capital, debt, and equity priorities; some, including Ireland's Ryanair, even target zero debt. Ryanair pursues a conservative balance sheet philosophy that allows the company to better weather unexpected downturns and to focus on countercyclical capital investments and M&A. Its so-called fortress balance sheet, therefore, produces outsized returns through business cycles on a sustained basis.

Executing Strategic Consolidation. Consolidation isn't just a strategy in the aviation industry—it's a necessity. All the winners have benefited from consolidation. That's because overcapacity is systemic in the sector; too many carriers, fueled by cheap capital and misaligned incentives, are chasing passengers, fighting price wars, and confronting shrinking profits.

North America, for instance, is the most consolidated market in the world, supporting the above-average returns of its bigger airlines. The top four North American airlines enjoyed a market share of about 72% in 2023, compared with their counterparts' 59% in the Middle East, 45% in Europe, and 49% in Latin America. The consolidation has been the result of numerous mergers and acquisitions as well as minority partnerships, with as many as 12 major deals being struck from 2000 through 2023.

M&A has been steadily decreasing in recent times because of two factors. One, the decline in demand because of the COVID-19 pandemic stretched balance sheets thin and pushed many airlines into financial trouble. Two, the rising prices of fuel and other inputs have reduced the availability of cash. Both factors are likely to abate in the short term, but structural factors will continue to affect M&A, particularly in the developed world.

Because consolidation has proved to be more challenging, many airlines are looking beyond M&A to striking alliances, partnerships, and working alliances. In our experience, successful code share arrangements and joint ventures can generate upsides of anything from 1.5% to 10% in terms of TSR.

Focusing on Operational Excellence. The world's best-performing airlines—such as Air Arabia, Delta, and Ryanair—did better than their peers on several operational metrics, including costs, revenues, and fleet utilization. However, the most skilled executors didn't focus on everything everywhere all at once; each airline chose to excel in the operational areas that would provide the biggest fillip to its business model.

The best-performing full-service airlines led on metrics such as revenue per available seat kilometer, with Air Canada, China Airlines, Delta, and United outperforming mainly by developing and selling premium offerings. Apart from ANA, Japan Airlines, Korean Air, and Singapore Airlines, few other Asia-Pacific airlines focus on this metric.

> "The best-performing full-service airlines led on metrics such as revenue per available seat kilometer, while many low-cost carriers did better on fleet utilization.

Many low-cost carriers did better on fleet utilization, with easyJet, Ryanair, SkyWest, and Spicejet leading the way. The differences between the best performers and the rest in terms of fleet composition were evident, with the former focused on standardizing fleets. That minimizes maintenance, repair, and overhaul costs, and provides flexibility in deploying spares and staff. For instance, Jazeera Airways and Ryanair use one kind of aircraft, operating only a few subseries from the same manufacturer, while other carriers had more diverse fleets, making their operations more complex.

Fleet replacement cycles are a key driver of returns. The full-service carriers had fleets that were older (more than ten years old, on average) than those of the low-cost carriers, but the consequences differed. Among the former, older fleets were one of the drivers of better shareholder performance because such investments could be spread out over time. However, low-cost carriers with younger fleets performed better than rivals did with older aircraft because the newer aircraft helped them do better on fuel efficiency.

Expanding Through Adjacencies. Airlines can unlock value from adjacencies to help tackle some of their challenges. (See Exhibit 5.) As pointed out earlier, air travel is susceptible to demand shocks and pricing cyclicality, while price-sensitive customers and intense competition result in low margins. Airlines that focus on adjacencies are able to generate more stable growth rates, higher returns on capital, and better margins.

EXHIBIT 5

Moving into Adjacent Markets Can Generate Value and Help Mitigate Structural Challenges

Structural challenges	Mitigating adjacencies
Volatile market environment Air travel is susceptible to demand shocks and inherent pricing cyclicality	**Stable growth trajectories** Adjacencies such as loyalty programs are less affected by demand and pricing cycles
Rising customer disintermediation The rise of online travel agencies has reduced direct customer engagement, affecting brand loyalty and pricing power	**Enhanced customer engagement** Tourism packages and loyalty programs build connections with customers, enhancing brand equity and pricing power
Pressured industry margins Price-sensitive customers and intense competition result in low margins	**Higher margins** Some airlines can push into industries with stronger fundamentals and margins such as aircraft repair and maintenance
High capital intensity Significant upfront investment is required for aircraft fleets, infrastructure, and technology	**Capital-light business models** Airlines can develop capital-light business models for adjacencies by adopting digital-first strategies

Source: BCG analysis.

The best-performing airlines focus on adjacencies that emerge from customer loyalty programs and the travel value chain, while full-service airlines try, in addition, to commercialize their largest assets.

Delta, Jet2, and Qantas, for instance, have focused on customer loyalty programs and the travel industry to do better. Loyalty programs aren't affected much by demand cycles and are the most effective adjacency. They're capital-light, generate cash, and drive recurring, high-margin revenues while strengthening customer retention and brand loyalty. Similarly, tourism and holiday packages build connections with customers, enhancing brand equity and pricing power in a capital-light manner.

Some airlines enter higher-margin adjoining businesses such as aircraft maintenance and repair, aircraft and hangar space leasing, crew training, and ground-handling facilities that are extensions of their internal capabilities. Because they are capital intensive, though, these plays are only feasible for large companies that can leverage their scale.

Riding Regional Tailwinds. The importance of regional upside—the potential for increased revenues and margins that come from operating in, or expanding into, fast-growing regions—is often overlooked. Although such upside is an exogenous variable that is not within any CEO's control, regions can be a decisive lever for long-term profitability, especially for full-service carriers competing on long-haul routes.

Several top-performing airlines enjoy locational advantages. For instance, Turkish Airlines had the largest share of scheduled flights in and out of Istanbul Airport in 2023 at 79.8%. The latter has expanded manifold in recent years, mainly because of its strategic location for Europe, the Middle East, Asia-Pacific, and Africa, which has, in turn, greatly benefited Turkish Airlines. Similarly, Aegean Airlines, which has more slot allocations (43% in 2024) than any other airline in Greece's airports, partly because of grandfathered rights, has grown rapidly in a strong tourist market.

Global geopolitics is likely to decide which airlines benefit from locational advantages in the future. For instance, if Russia's war with Ukraine ends, Russia's airspace is likely to reopen, which could alter locational advantages. While Chinese airlines have continued to fly through Russian airspace through the conflict, that advantage could end. Hubs that neighbor Russia, such as Helsinki in Finland, Almaty in Kazakhstan, and Tashkent in Uzbekistan, could then grow by serving as gateways to Europe and Asia-Pacific. With those Eastern European and Central Asian hubs offering more competitive price points, the rapid growth of Middle East-based airlines, such as Turkish Airlines and Gulf Air, may slow.

The focus on day-to-day operations, unit costs, and quarterly pressures is understandable in aviation; it's an industry where even small execution lapses can quickly cascade into major losses. However, doing so makes it easy to lose sight of the structural drivers that actually create value. The airlines that outperform the pack are not just the most cost-efficient but also the ones that reinforce the value drivers that matter.

Market conditions will shift, demand patterns will evolve, and competitive dynamics will continue to intensify, but the airlines that consistently win will be those that treat operational excellence, financial resilience, strategic consolidation, adjacency expansion, and regional tailwinds as long-term strategic levers. By focusing on these fundamentals, CEOs can position airlines not just to survive market fluctuations but to become value-creation winners on a sustained basis

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