Responding to Covid-19: Demand recovery

Approach to modelling demand for aviation during recovery and post Covid-19

Aviation travel is significantly restricted by border closures and travel restrictions. The demand recovery trajectory is uncertain due to potentially extended travel restrictions but also economic impact and behavioral changes in customer travel. Optimizing capacity allocation during the ramp up period and longer term will be critical to financial recovery. Understating demand will mean lost opportunities but overstating demand will be costly. Teneo has developed an approach to forecast demand recovery that reflects the unprecedented levels of uncertainty the aviation sector faces.

Establishing demand recovery framework

Establish counterfactual forecast

- Operators must first reassess what the expected demand would have been in the coming years, with explicit assumptions of the drivers to establish a clear base line
- We model past demand for the years 2017-2019 and take into account relevant socio-economic trends, to establish a counterfactual for the years 2020-2022 (as if the COVID-19 crisis had never taken place)

Drivers of demand suppression

- Demand suppression is applied in 3 stages:
  - Firstly, we model the health-related suppression from border closings and social distancing measures
  - Secondly, we measure the effect of depressed incomes in the medium-term
  - Finally, we look at the existing behavioral trends accelerated due to the pandemic

Leveraging the framework

Assess impact of macro scenarios

- We are able to test out different scenarios about the course of the pandemic; e.g. a relatively quick recovery, a rise in isolationist policies in developing countries or a protracted economic depression
- These scenarios can also be used by to evaluate the sensitivity of their assumptions on the trajectory of the demand recovery
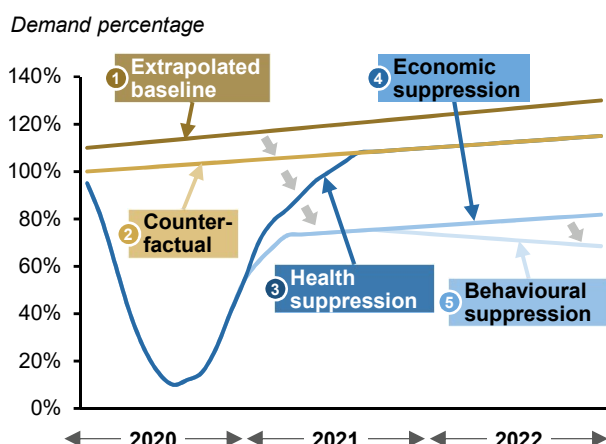
Dynamic impact of local factors

- The model is able to analyze individual routes, airports and airlines
- By applying differential suppression to different geographies, we are able to capture the differentiated spread of the pandemic.
- By the same token, the variation in airport types and destination mixes can be taken into account, and the potential ramifications of weakened airline carriers

Example outputs

Illustrative aviation demand recovery

Demand percentage

1. Extrapolated baseline
2. Counter-factual
3. Health suppression
4. Economic suppression
5. Behavioural suppression

2020 2021 2022

Dynamic drivers of local recovery path

Example key considerations (non-exhaustive)

- Domestic versus international travel
- Virus appearance and timelines
- Local policies and restrictions
- Impact of social/ economic changes
- Purpose of travel
- Primary vs secondary airports
- Incumbent airline operating mix

How Teneo can help

- **Teneo is a CEO advisory firm with a global transport practice**, comprising industry experts who understand the strategic, commercial, and operational principles relevant to aviation businesses,
- We combine this extensive experience and expertise to **help aviation clients navigate the COVID-19 crisis** to become more agile, lean and customer-centric.

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