

A photograph of an American Airlines aircraft wing flying over a sea of white clouds at sunset. The wing is on the left, with the red and blue tail fin visible. The sun is low on the horizon, creating a warm orange glow across the sky and clouds.

American Airlines | Strategic Review

Section 23 Group 58

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American Airlines | BACKGROUND

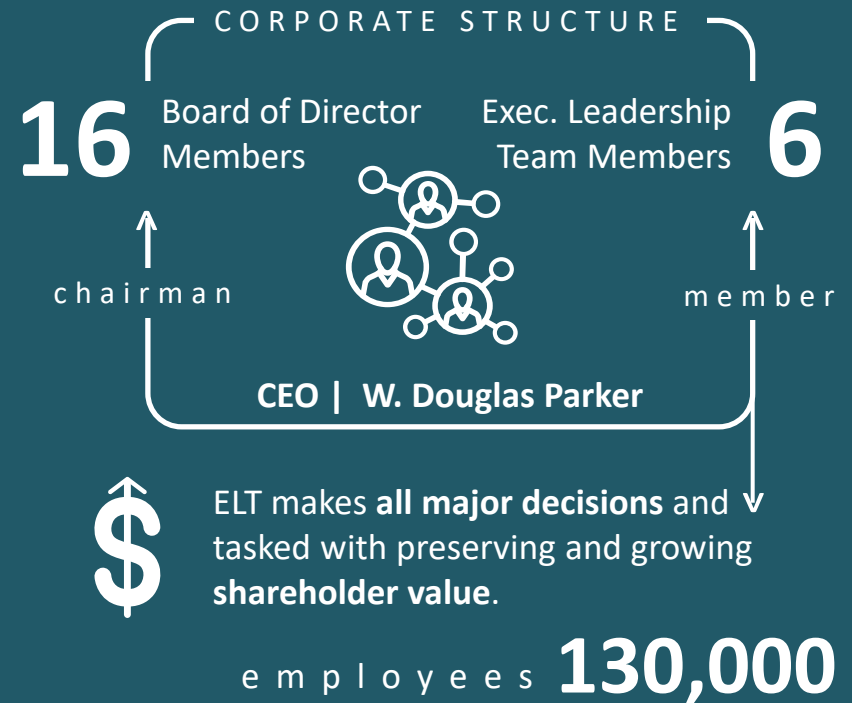


Photo credit: The Dallas Morning News

American Airlines Group Inc. (Ticker AAL) – Since 1926



American Airlines Group Inc.
Headquartered: **Fort Worth, TX, USA**



American Airlines | BACKGROUND



Largest U.S. airline when measured by **fleet size**, scheduled **passengers carried**, and **revenue** passenger mile

nearly
7,000
flights per day
to

350
different
destinations

IN

50
countries
worldwide



500,000

PASSENGERS PER DAY



AAdvantage Rewards Program is the **largest**
frequent flyer program with
members **67 M**

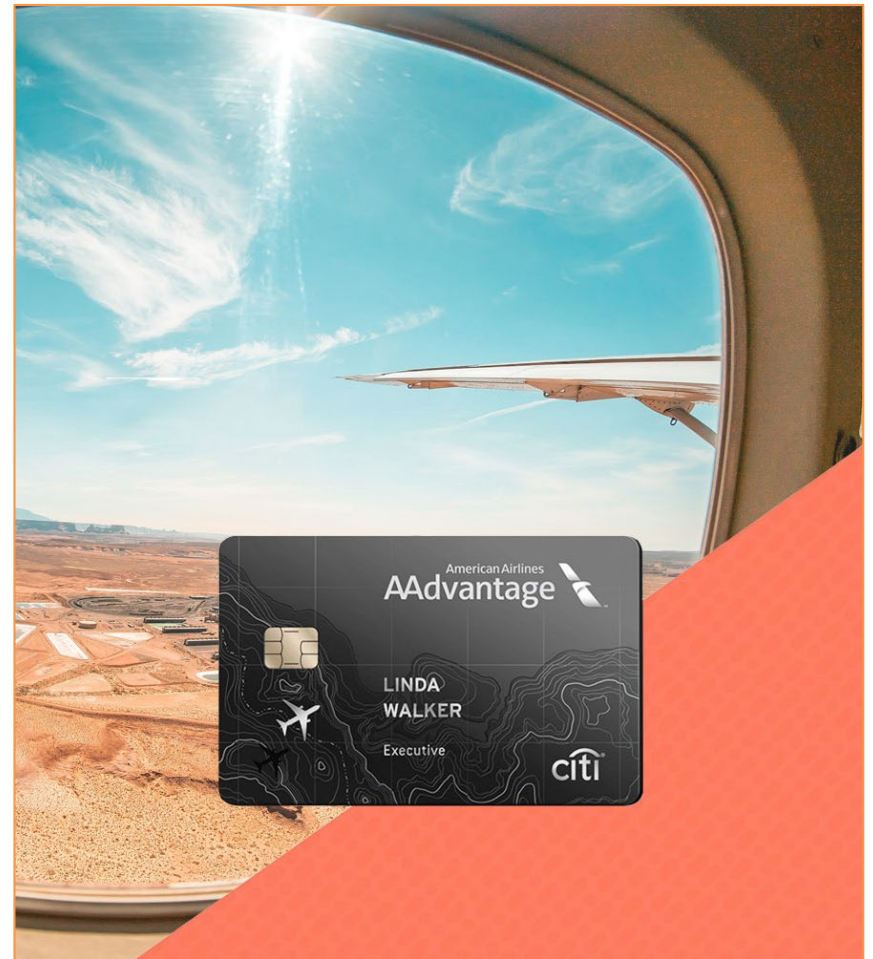
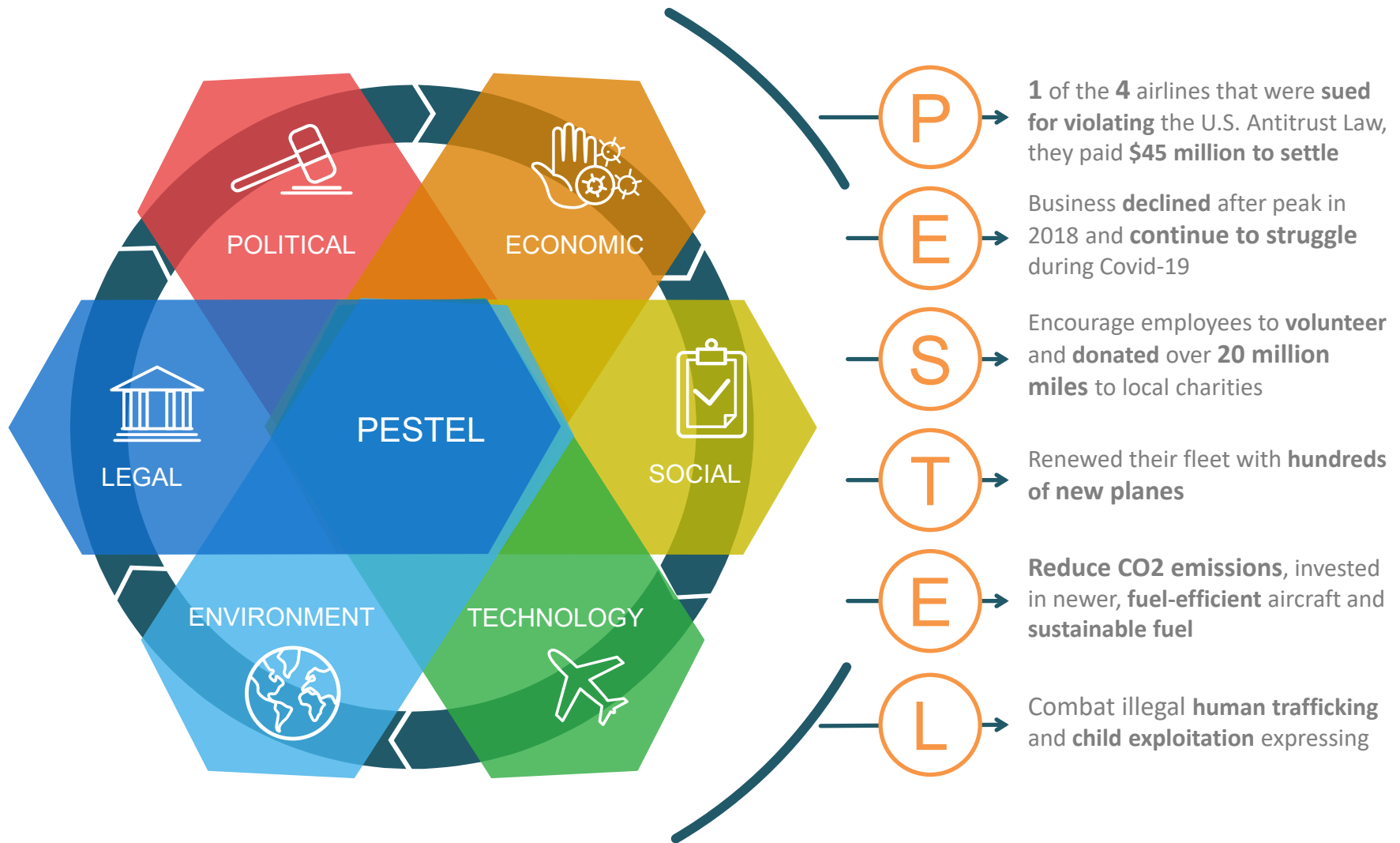


Photo credit: thebalance.com (card)

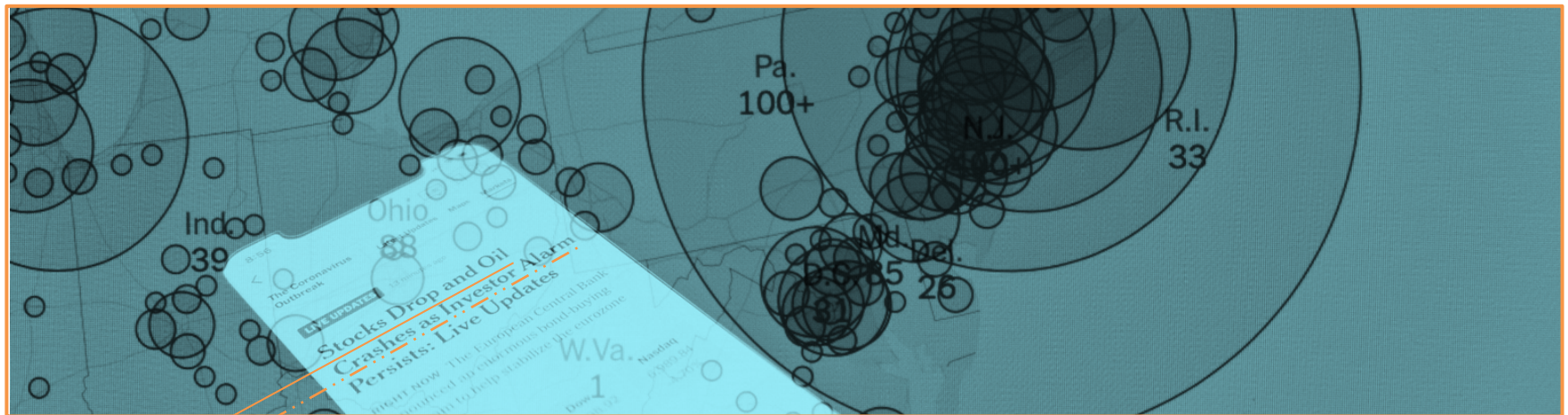
American Airlines | External Environment



American Airlines | External Environment

ONGOINGS

- Covid-19
- Long-distance travel bans
- Trip cancellations
- Vaccination progress in developed countries in the 2nd half of the year
- Aviation fuel price rise from **\$46.6** per barrel in 2020 to **\$68.9** per barrel in 2021



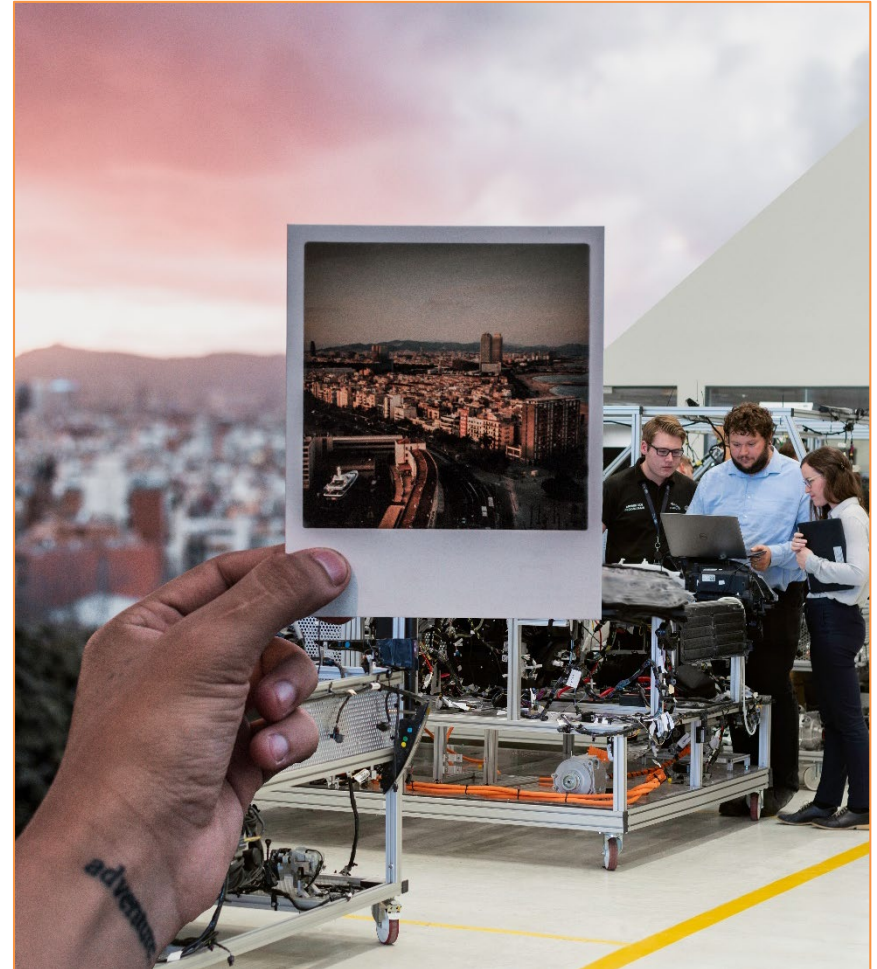
American Airlines | Industry Environment



- Airlines are within the broader aviation industry
- Compete within even larger travel industry
 - Cruises | trains | rideshare | rental cars | long-haul buses

Airline Industry Technology

- Covid-19 launched necessary changes in safety
 - self-driving robot for luggage transportation | automated vehicles on the airfield | biometrics



American Airlines | Industry Environment

competitors
southwest – delta – united



PORTER'S FIVE FORCES

Buyer Power

HIGH

Supplier Power

HIGH

Established Rivals

HIGH

Threat of New Entrants

LOW

Threat of Substitutes

LOW



American Airlines | Industry Environment



STRATEGIES TO STAYING COMPETITIVE

- AA created one of the **largest global fleets**
- Partnered with other airlines worldwide
 - largest selection of destinations
- Restoring domestic seating capacity
 - ahead of the competition
- AA Advantage Rewards Program
 - Points for airline tickets | upgrades | hotels | car rentals

American Airlines | Competitive Analysis

	Transports people and cargo	Third party offerings	Hub-and-Spoke	Point-to-Point
UNITED	✓		✓	
DELTA	✓	✓	✓	
SOUTHWEST	✓	✓		✓
AMERICAN	✓		✓	

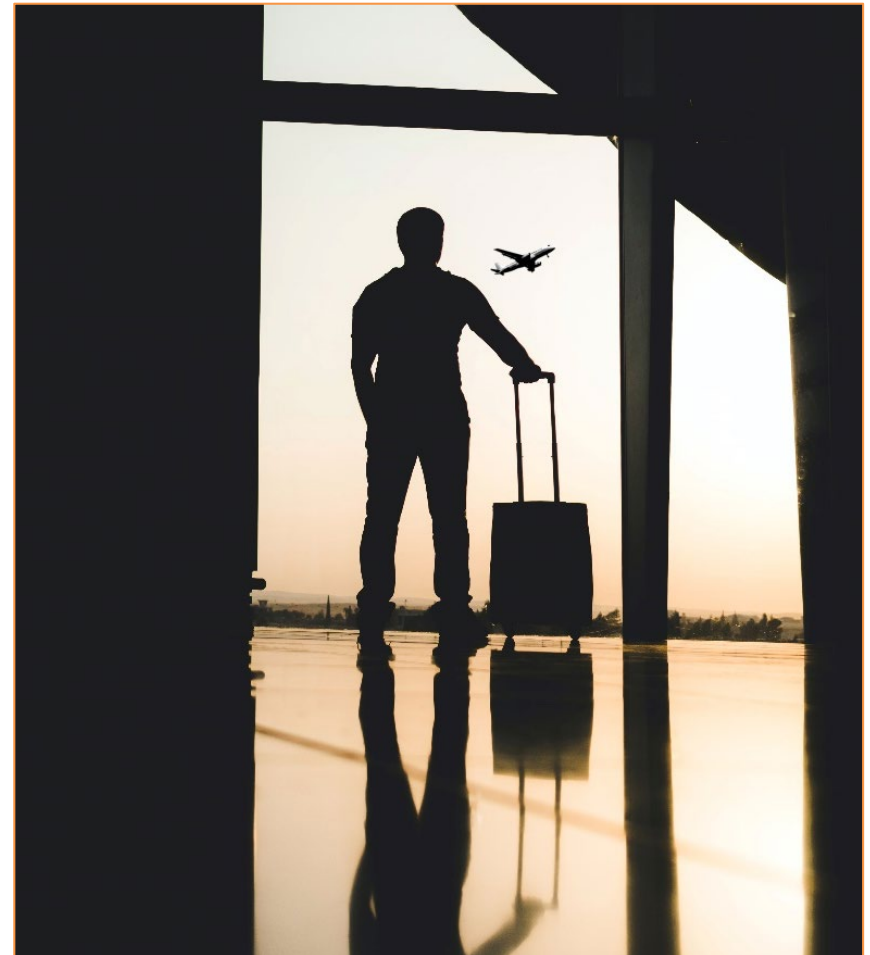
- Aiming to win the market of **higher fare paying customers**
 - corporate business travelers
- Domination of **hubs**, diversity of **destinations**, labor relations, global airline **partnerships**

UNITED, DELTA, AMERICAN

S T R A T E G Y

SOUTHWEST

- Low cost, "**no frills**" structure
- Cost leadership
- **Direct, local**, domestic flights



American Airlines | Competitive Analysis



Photo credit: The Hill – © Getty Images



Photo credit: The Malaysian Reserve | World News – New York

Competitor Interaction

The effects of COVID-19

- New Organizational Reality
- Preserving revenue
- Protecting shareholder value
- Reducing unused capacity
- Cutting unnecessary staff
- Increased focus on customer health and satisfaction

New Objectives

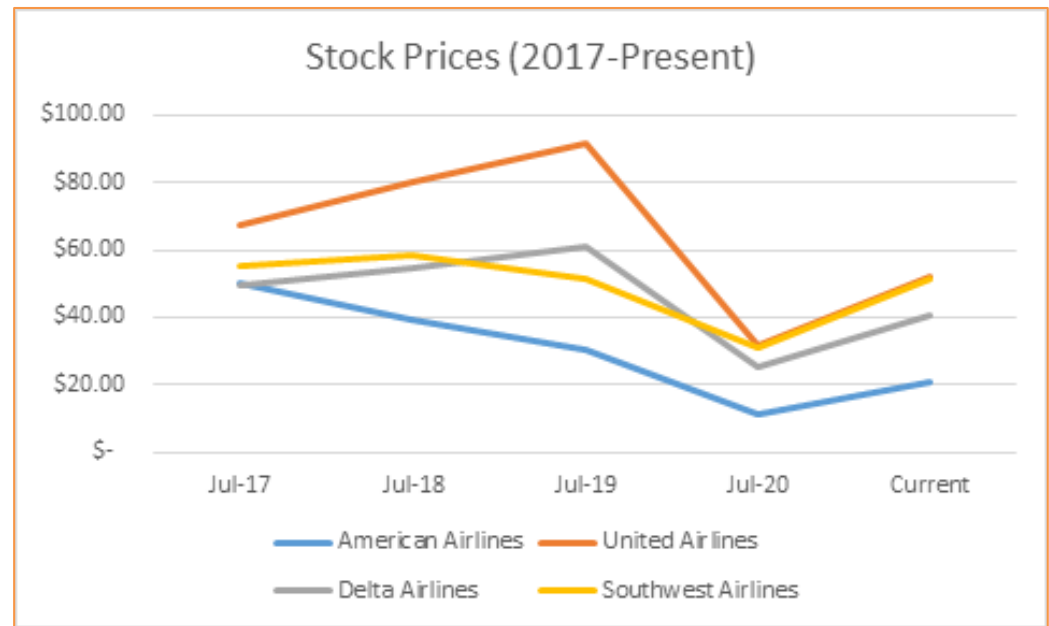
- Preserve **financial stability** and **long-term** solvency



American Airlines | Competitive Analysis

Airline Industry Threats

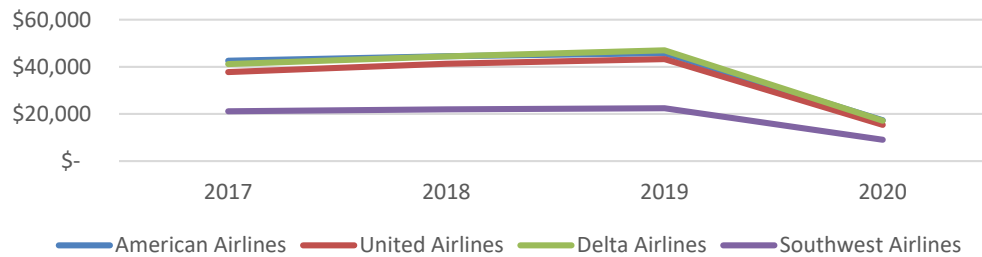
- Economic conditions are directly correlated to airline revenues
- Cost structure and customer loyalty are critical
- Pricing is dependent on competitors



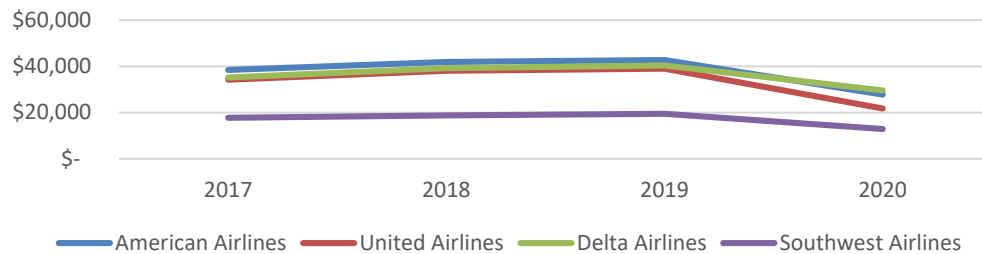


American Airlines | Competitive Analysis

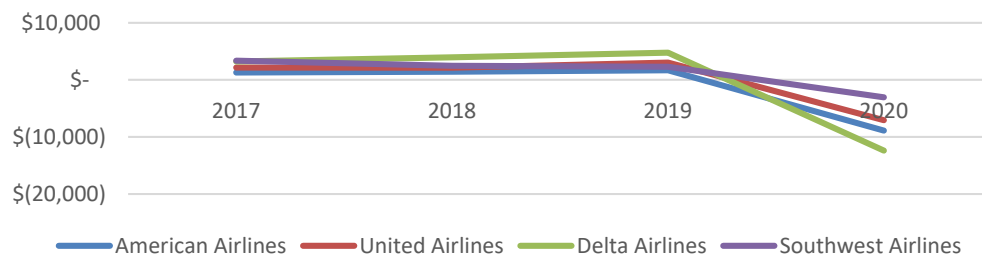
Operating Revenue (\$MM)



Operating Expenses (\$MM)



Net Income (\$MM)



American Airlines

when compared to competitors

- 2nd highest revenue
- Highest operating costs (until 2020)
- Lowest net income

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Problem Identification

Debt Obligation

- American Airline's current financials reflect a high debt-to-income ratio.
- Cash flows need to be made available.

Fuel allocation and costs

- Volatility of fuel prices and instability of supply.
- Scarcity of fuel trucks, drivers, and pipeline allocations.

Pandemic-related impacts

- Strict travel and safety restrictions.
- Country-specific regulations and travel bans.
- Reduced capacity and impacted demand.

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RECOMMENDATIONS

ONE

Restructure financial and operating **strategy**



Increase free cash flows via
Aircraft consolidation

TWO

THREE

Reduce fuel and resource costs
through **contract hedging**

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Implementation

Debt Restructuring and Consolidation

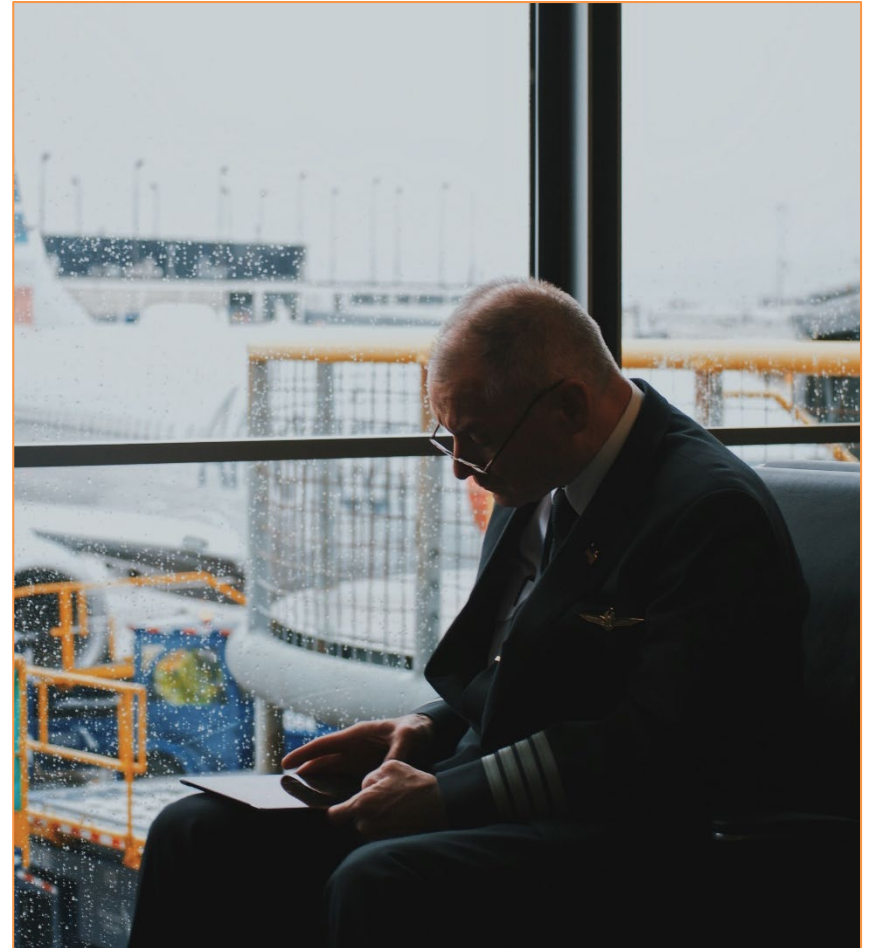
- Refinance existing debt with lower interest rates
- Improve bottom-line profitability
- Increase store of capital

Inventory Management

- Assess current Day Sales of Inventory (DSI) ratio
- Calculated based on the average value of the inventory and cost of goods sold during a given period (Hayes, 2021)
- Sixteen different models in the fleet; highest DSI ratio models eliminated.

Jet Fuel Swap Agreements

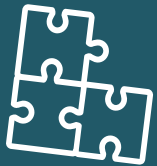
- Execute fuel swaps to hedge costs
- Once the swap is executed, the airline has turned an unknown fuel cost into a known fuel cost, excluding basis risk (Corley, n.d.)



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P R E - M O R T E M

potential threats



Financial **planning** risks impacting **acquisition** strategies

Consolidating fleet can **reduce** **ability to respond** to industry trends



Fuel-hedging strategies **may backfire** if **prices drop** below contracted rates

These threats can be avoided prioritizing bottom-line profitability



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