A large, diagonal photograph of an airplane window view. The window frame is visible at the top and bottom. The view outside shows a dense city skyline with many skyscrapers, a large body of water, and a winding coastline. The sky is a clear, pale blue.

Streaming the sky: a multibillion- dollar opportunity for airlines and media companies

Kearney's latest research on in-flight entertainment and connectivity highlights the substantial financial and customer experience upside opportunity for airlines, media and tech companies, and passengers.

As the flight reaches cruising altitude, Elle reclines her seat as her earbuds' noise-canceling technology envelops her in silence. She closes her eyes for a quick rest, recovering from the early morning rush. After a while, unfolding her tablet, Elle is pleasantly surprised to see she's been given access to a well-known streaming service for the duration of her journey, courtesy of the airline, with complementary Wi-Fi from the streaming provider. Later, after finishing some work, she starts an exciting new movie on the streaming platform. The pre-roll ads include one for a new restaurant at the hotel she booked through the airline's platform. As the hero makes her appearance at the start of the movie, Elle's eyes are drawn to her stunning earrings, and Elle clicks the "buy on board now" bug that subtly appears in the corner of the screen. Elle is only halfway through the movie when it's time to land. She has a long day of meetings, so she's grateful that evening to relax and enjoy the second half in her quiet hotel room and takes up the airline's offer to get a discounted subscription to the service using her frequent flier points.

Up in the air

Recent years have seen radical changes in the media and entertainment sector, both in how we consume content and in the way that providers take it to market. Meanwhile, the connectivity landscape has transformed in parallel, with access to broadband becoming a default expectation. These changes will have a direct impact on the inflight entertainment and connectivity (IFEC) market.

A look at the demand side shows content consumption is rising. The average German, for example, spends 13 percent more time per day consuming media than they did in 2010, with online video viewing increasing by 54 minutes per day. The number of streaming users grew by about 30 percent globally between 2019 and 2022, a boost accelerated by the pandemic.

On the supply side, the number of streaming services has skyrocketed. Disney, Warner Media, and NBC Universal have launched their own direct-to-consumer offerings alongside many other local and global video, music, and gaming streaming services to create a \$400 billion global market. The mix has also changed. In 2015, there were 706 Hollywood movie releases and 420 US scripted series, but in 2020, 493 series outnumbered just 329 movie releases.

Content windowing has collapsed, with studios releasing movies on their services in parallel to the theatrical or aviation window, so there's a higher probability that passengers have already seen the latest blockbuster before they board.

Mobile devices have become a prevalent way to consume content. Each passenger's phone or tablet carried onboard duplicates two elements that the airline is also providing: screen and content. It's an obvious redundancy, compounded by the fact that passengers will likely prefer their personalized streaming content subscriptions over what the airline provides via its in-flight entertainment (IFE) system. It's clear: the classic in-flight entertainment delivery model is already outdated.

Fortunately, in-flight connectivity has also undergone a step-change, with more bandwidth available at a lower cost. The average in-flight broadband speed increased from 0.5mbps in 2015 to 50mbps in 2020, and then Panasonic and ThinKom partnered in 2021 to develop a Ku-band inflight connectivity antenna. Now, 30mbps is available for less than \$20,000 per aircraft per month, which can serve 120 streaming passengers—bringing in-flight entertainment to a potential tipping point.

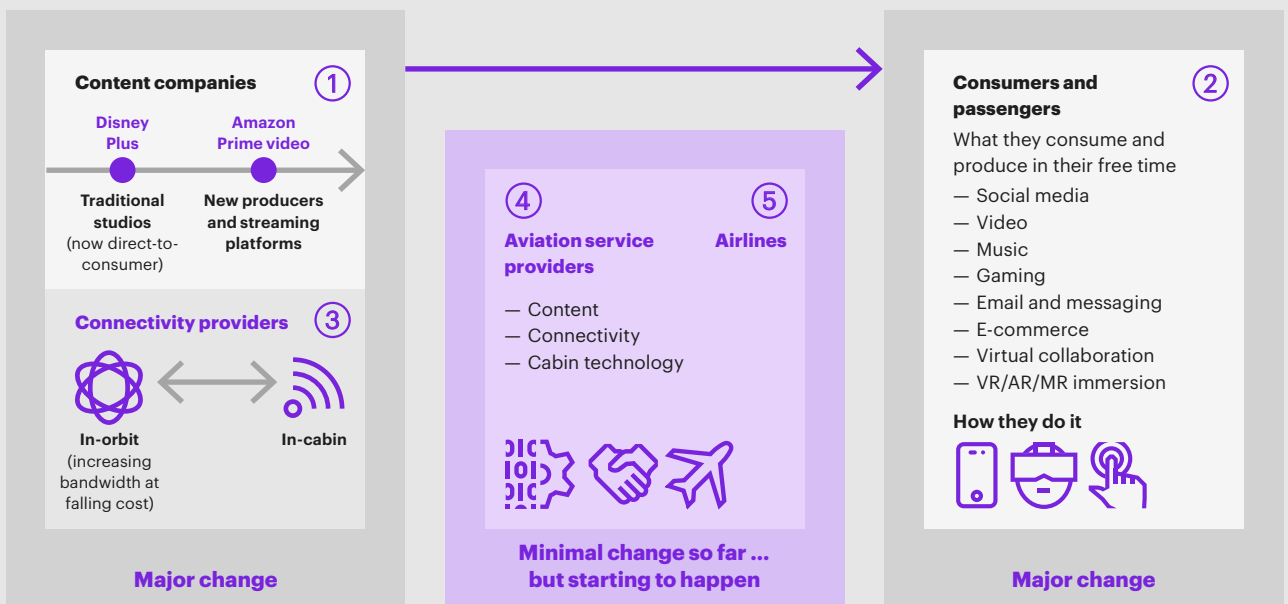
Despite this evolution, the aviation industry has largely stood still. Before the pandemic, in-flight entertainment had seen some small upgrades, such as bigger screens, additional audio content, and some basic onboard Wi-Fi. The accepted norm, however, was to provide a selection of blockbuster movies through an in-built system. As airlines seek to manage costs and open new revenue streams amid the economic challenges that the sector is facing, this is the time to rethink their IFEC models (see figure 1).

Are you not entertained?

Kearney commissioned a study to assess the opportunity for airlines, content companies, and in-flight connectivity providers. The study covers eight large countries with more than 3,000 people responding to 49 questions, generating approximately 160,000 datapoints. We segmented long- and short-haul, various flight classes, passenger demographics, and business versus leisure passengers. We also conducted executive interviews with major airlines, technology companies, content studios, in-flight connectivity providers, and airline content service providers to test and validate our findings.

Figure 1

The media and entertainment landscape has changed significantly, but in-flight entertainment and services have not (yet)



Note: VR is virtual reality; AR is augmented reality; MR is mixed reality.

Source: Kearney analysis

Here are some highlights from our study:

The IFEC offering remains crucial. IFEC is among the top three criteria cited when selecting an airline. More than 80 percent of the people we surveyed consider it an important or very important factor when selecting a long-haul flight, and almost half would switch to another airline after experiencing poor in-flight entertainment.

There is a growing preference for bring-your-own-content and bring-your-own-device models, especially among younger passengers. Nearly twice as many 18- to 35-year-old long-haul passengers in Germany prefer to use their own content and devices over viewing airline content on the IFEC system. Emerging technologies are also showing potential; being able to project your own content to the seat-back screen—right now a niche feature available on only a few airlines—is cited as important by more than a quarter of the respondents in our study.

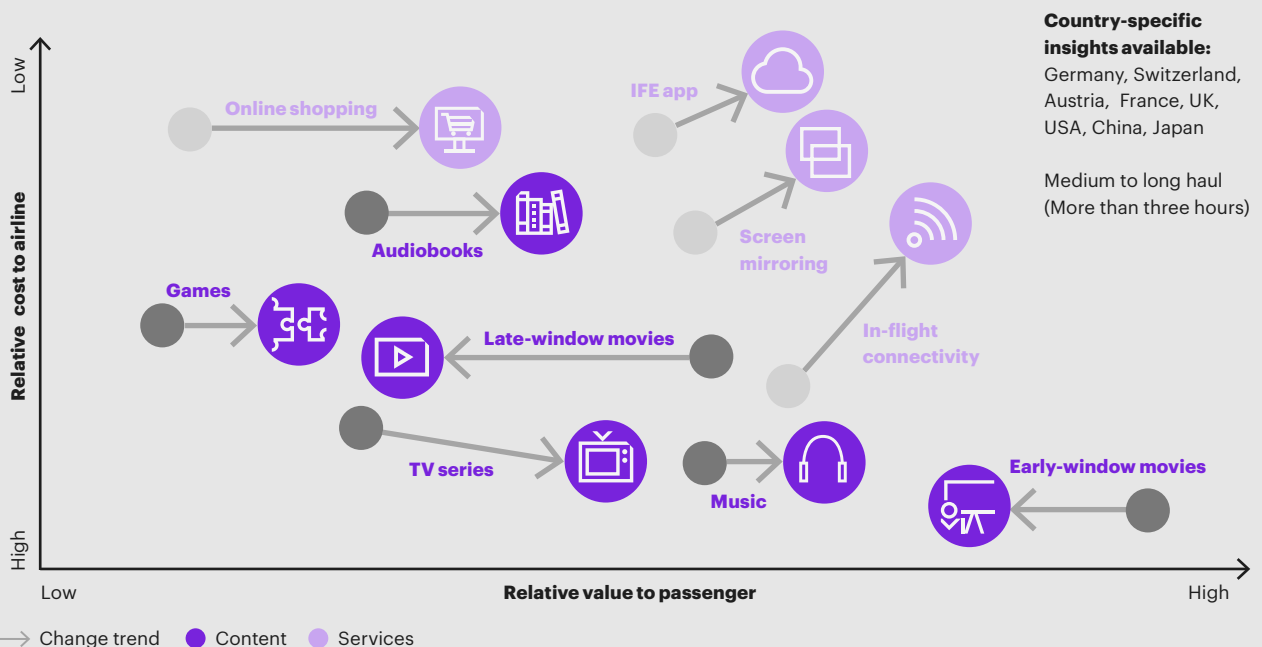
For short-haul flights, offering the connectivity to self-serve is important. More than 40 percent of people prefer to catch up on emails, chat, or browse social media. Forty-three percent of 18- to 35-year-olds and 30 percent of those over age 35 would switch airlines because of a bad content experience.

Passenger preferences are shifting. There is a clear trend away from early-window movies to more diverse content, especially TV series, live TV, audiobooks, and games (see figure 2). Access to the latest Hollywood movies was only important for 35 percent of respondents, reflecting the shifting trend from movies to series.

There's a willingness to pay for quality and accept advertising. More than 50 percent of 18- to 35-year-olds and more than 30 percent of people over age 35 would pay for better Wi-Fi on a flight of more than three hours, and 87 percent don't mind relevant product advertising.

Figure 2

The change in cost-value requires airlines to refocus their spending



Note: IFEC is inflight entertainment system.

Sources: based on market interviews and Kearney 2022 Global IFEC Passenger Study (Germany results only; questions 18, 29, 40); Kearney analysis

New partners on board

Massive increases in both content volume and direct-to-consumer services present a major opportunity for airlines. The dynamics have shifted. Until now, a limited number of studios have licensed their content to airlines via small intermediary content service providers on a B2B basis. They've done this without a need (or an incentive) to consider reach and targeting, as aviation typically accounts for only 1 to 3 percent of studio revenue.

Now, many studios and digital-first streamers are in direct competition for the attention and wallets of end customers. Suddenly airlines, with their scale, reach, and captive audiences, are on the radar as a uniquely attractive distribution and marketing channel. As one executive at a leading global airline told us, "The commercial models and opportunities have changed enormously over the past four years."

All of this opens new possibilities for collaboration between airlines, content providers, and other partners. Studios can license their content—including blockbusters—directly to airlines, bypassing traditional service providers. Streaming providers can offer access to their platforms or select content for the duration of the journey—not just the length of the flight—as a way of promoting their services to potential subscribers.

For example, American Airlines went into partnership with Apple, offering access to AppleTV+, Apple Music, and Apple Books via the airline's in-flight Wi-Fi portal. Emirates offers content from Warner Media's HBO Max streaming service. JetBlue entered into a multifaceted partnership with Amazon. Amazon Prime members can access the full content library onboard JetBlue flights via satellite link, while non-Prime members can rent or purchase certain video content. There is also scope for integration with loyalty programs. In the JetBlue–Amazon deal, passengers can earn extra airline miles when shopping on Amazon during the flight.

On the technical side, many airlines rely on a small group of global content service providers such as Anuvu or Spafax to source and load content, often still manually, into a central in-flight entertainment system on the aircraft that can be accessed via the seat-back screens. Modern connectivity systems enable three Wi-Fi-enabled streaming models on passenger-owned devices: a pre-loaded aircraft content library via an airline portal, passengers' own content from their existing subscriptions, or external content via in-orbit satellite or air-to-ground systems. This has triggered partnerships. Hawaiian Airlines, for example, has signed with Elon Musk's Starlink to offer high-speed Internet on transpacific flights.

All of this opens new possibilities for collaboration between airlines, content providers, and other partners.

New win-win-win commercial models

These developments are a triple-win—for passengers, airlines, and content providers.

Passengers can enjoy more seamless entertainment offerings from the start of their trip, continue them in-flight (potentially casted to a seat-back screen), and finish viewing content later, after arrival. This may incorporate complimentary in-flight access to streaming platforms.

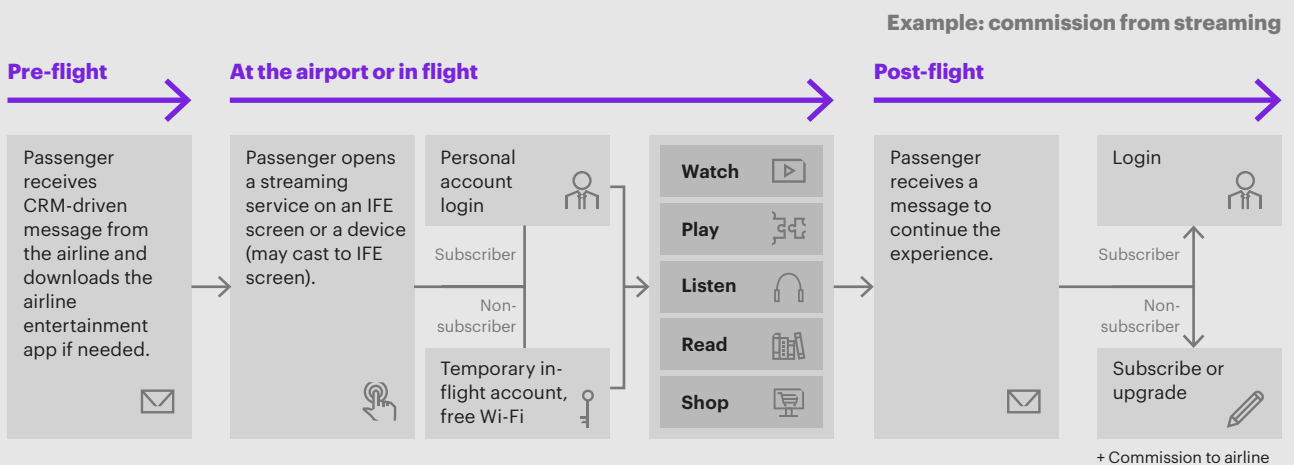
Studios and streaming companies, including the global technology giants, can promote their content to a captive audience and capture subscribers at a low subscriber acquisition cost. Simultaneously, they can generate loyalty to their services, franchise content, and brands among that captive audience.

This presents airlines with an opportunity to improve their economics while enhancing the passenger experience. A broader set of suppliers creates a more competitive environment, which can lead to lower costs. In addition, airlines can enter into revenue-sharing or commission-based deals with content providers. An executive at a major streaming service provider cited in our survey that airlines “would have the opportunity to make more revenue if more passengers sign up for streaming services through a bounty structure.” Another airline executive discussed the opportunity to enter into a sponsored Wi-Fi deal with content providers, which would provide passengers with free Wi-Fi to use their subscription service.

This brings airlines a tantalizing prospect of transforming their in-flight entertainment and connectivity from a cost center to a profit center, with a save-to-spend model (see figure 3). Reduced spend on content can fund investment in better in-flight broadband services, which can in turn be funded by advertising and commissions revenues earned from content partners. The net spend may not only be lower; it has the potential to become negative.

Figure 3

Restructuring the journey and commercial relationship can benefit the content owner, airline, and customer



Opportunity

- The passenger is **time-constrained** in flight, creating a natural push to subscribe to continue with the content.
- The passenger is **captive**, increasing sales effectiveness.

Win-win-win benefits

- **Content owner:** subscriber growth, upgrade, retention
- **Airline:** commission revenue, reduce IFE content cost
- **Customer:** access to favorite content, continue content after flight

Note: CRM is customer relationship management; IFE is inflight entertainment system.

Sources: based on market interviews and Kearney 2022 Global IFE Passenger Study; Kearney analysis

Time to board

During this period of transition and upheaval in aviation, we see three broad imperatives for airlines seeking to get far more from their IFEC offering:

- **Reimagine the customer proposition.** Make travel entertainment seamless and more personal through new customer journeys.
- **Reshape supplier partnerships.** Engage with suppliers' innovation in entertainment and connectivity as well as their drive to build brand equity.
- **Reset the business case.** Turn a cost position into a profit contribution.

Achieving these imperatives will require airlines to boost their own internal capabilities—notably in commercial partnership management, customer experience design, and the collation and analysis of content and advertising data.

If this sounds rather involved, with a need for renewed strategic and operational focus, it is. But the rewards are there for those with the boldness to act decisively and take a leadership role. Whether they want to acknowledge it or not, airlines are increasingly finding themselves important players in the entertainment ecosystem. It's a potentially massive opportunity—if they choose to see it as such.

Let's revisit Elle now, who's back at the office after her tiring but productive business trip. She's talking to her assistant, David, about their next trip, which will involve the whole team. As David starts looking for flights, she mentions she'd prefer to stick with that same airline. "The Wi-Fi was solid," she says, "and that bonus streaming subscription? That was a nice touch."

The rewards are there for those with the boldness to act decisively and take a leadership role.

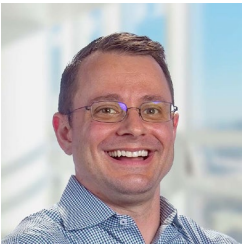
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