



Global route development experts



Air Service Development Is it worth the effort?

John Grant

Why bother with Air Service Development?

- Despite the current global crisis collectively Airbus and Boeing supplied some 858 new aircraft to airlines in 2008.
- 80% of these aircraft were single-aisle aircraft and so could in theory land in Madeira for instance.
- Whilst some of these may be for replacement aircraft the headline numbers are staggering...
- Effectively Airbus and Boeing supplied 2 new aircraft every day last year.
- The absolute impact is mind blowing....



Plenty of bums required...

- 858 new aircraft
- 150 seats average per aircraft
- 6 sectors a day
- 365 days
- Assume 70% load factor
- = 197,297,100 passengers

That's a lot of emissions!



Airport Business Development Manager advert...



ANAM Job Vacancy

- Are you looking for a career change?
- Tired of the 9 to 5 routine?
- Fed up of being a success?
- Are you creative and motivated?
- Are you passionate about your career?
- Are you a strategic thinker?
- Then we have the job for you!

Applications to the land of make believe!
Closing date for applications.... yesterday.



Enough fantasy.....let's discuss reality...

- Collectively the aviation industry is in the middle of one of its largest crisis ever faced.
- IATA forecast an industry loss in 2009 of some US\$ 4.7 billion.
- Industry debt is currently only US\$ 170 billion.
- European carriers will lose some US\$ 1 billion.
- European demand is forecast to be some 6.5% lower than last year.
- 'Expecting a significant recovery in 2010 would require more optimism than realism'.



Scary times.....

- ‘Recovery will not come without change.
- There is no doubt that this is a resilient industry capable of catalysing economic growth. But we are structurally sick.
- The historical margin of this hyper-fragmented industry is 0.3%.
- Bail-outs are not the prescription to return to health.
- Access to global capital, the ability to merge and consolidate and the freedom to access markets are needed to run this industry as normal profitable business.”



Giovanni Bisignani – CEO IATA, 24th March 2009
(He’s not scary.....the industry is though!)



Profound thoughts.....

'It's not the despair, I can handle the despair...It's the **HOPE** that's intolerable!'



John Cleese
Clockwise 1995



Air Service is more than aeroplane's and airport's

- The aviation industry is the greatest economic catalyst in the world.
- There are volumes of evidence that confirm air services and economic activity are directly linked.
- Aviation encourages tourism, trade, commerce and industry and allows us to visit relatives (perhaps not so good).
- Today's conference would not be taking place without the aviation sector providing the resources to be here.
- And yet collectively we continually beat ourselves up internally within the industry rather than tackle the industry detractors and NIMBY's.



It's a crazy industry full of paradoxes

- The aviation industry attracts some of the world's leading entrepreneurs....so successful that:-
 - Collectively they have lost millions.
 - Have a higher likelihood of hair loss than counterparts in any other industry.
 - Sleep fewer hours than most other people.
 - **Read more red numbers than most CEO's.**
 - Disregard many conventional business principles.
 - So with that in mind let's look dispel some of the widely held facts from the fiction....



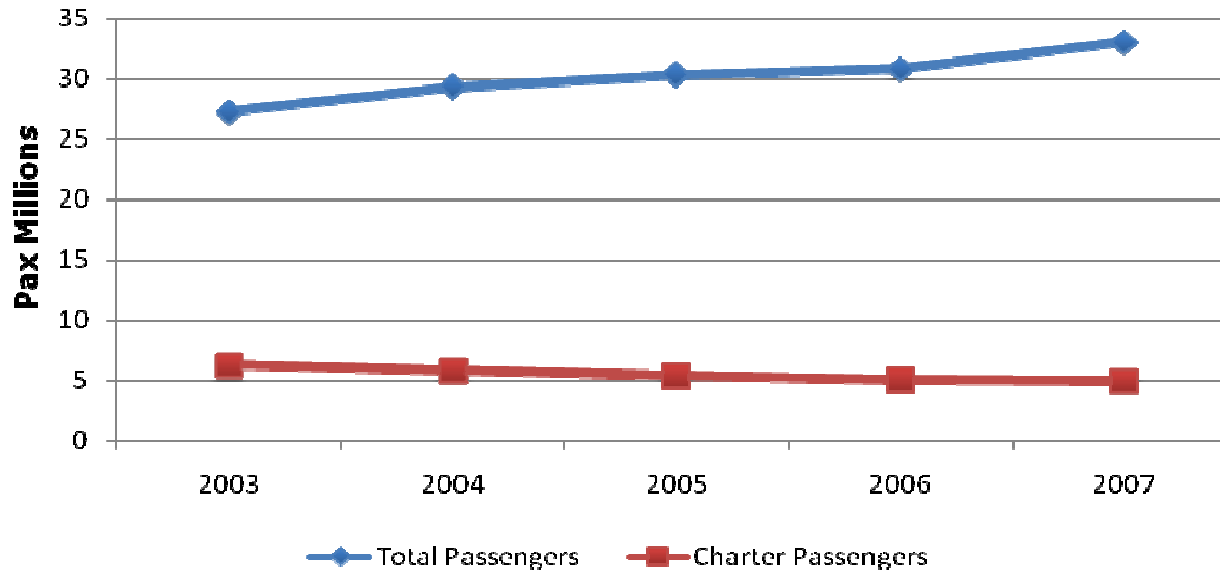
Airline competition is good....in moderation

- The 'hyper - fragmentation' of the airline industry that Snr Bisignani reflects the continual fragmentation of the consumer rather than the industry alone.
- The wider range of choice offered and segmentation is reflected in almost every other consumer product around the world.
- Low cost airlines are not always the rogue's that they are portrayed to be.
- Legacy airlines are not always the expensive dinosaurs that they are painted as by critics.
- And Tour Operators/Charters fulfil a valuable role in both tourism and economic development in many sectors.



Low cost carriers have stimulated many markets

Palma Airport Passenger Performance



- Palma saw traffic increase by some 21% between 2003/7
- Charter carrier share reduced from 23% to 15% over that time period.
- However, charter volumes declined by 22% over the same period – 1.3 million passengers.
- The airport/region saw a net increase of some 5.8 million passengers between 2003/7.



Low cost airlines encourage 'localised' spend...

- Consumers perceive that they pay less with Low Cost Airlines.
- They are therefore pre-disposed to spend more in market.
 - 4 Star Hotels instead of 3 Star properties
 - Restaurants instead of pizzeria's
 - Taxi's instead of public transport
- This money is retained in the local economy.
- This has to be a positive impact factor.



Tour Operators have remained in most markets

- The emergence of increased scheduled competition has allowed tour operators to develop new higher yielding markets.
- Major European tour operators business models have evolved and fragmented further than the airline industry.
- Their margins have always been stronger than the airlines.
 - TUI Group 2008 Net Margin 10.2%
 - TAP Net Margin 2007 – 0.12%
 - easyJet Net Margin 2007 – 3.5%
- Tour Operating capacity provides additional capacity at peak demand periods and will move capacity to other markets offering higher returns at other times of the year.



Legacy carriers have evolved...

- Legacy carriers have remained in many markets where they were expected to leave.
- Their cost models have been adjusted to reflect the changing market and consumer requirements.
- Their frequency of operation has in many cases been optimised to allow profitable operations.
- Connectivity to major hub airports has remained in place and developed.
- Particular business and leisure segments continue to prefer legacy carriers and will pay a premium for the added value derived.



Low cost carriers create regional markets...

- Aside from the major markets LCC's also create new regional markets; typically with low weekly frequency.
- Madeira for instance is served from Edinburgh; Cardiff has a service to Murcia and Faro has a daily Bristol flight.
 - Tour Operators would not operate such year round frequency
 - Legacy carriers would not entertain year round services
- Year round frequency is generally offered by LCC's which creates valuable off-peak activity in many leisure markets.
- Overseas investment in property has in recent years been driven by the emergence of low cost carriers.



So, room for all...?

- Successfully managed and developed as part of a cohesive strategy the answer is probably YES
- BUT.....
- Who develops that strategy?
- Who implements that strategy?
- who pays for that strategy being implemented?
- And who actually benefits from that strategy?

Of course every part needs a CONSULTANT!



Whose the strategist...?

- Has to be the local community through a combination of public/private sector activity.
- Long term vision rather than short term political expediency needs to be recognised in every market.
 - A change of mayor shouldn't always result in a change of strategy.
 - Singapore and Dubai are best cases examples of long-term vision.
- That strategy needs to be effectively communicated and shared with all stakeholders and that includes:-
 - Airlines
 - Tour operators
 - Investors
- Above all that strategy needs to be implemented.



So who implements...?



Not this guy for sure.



Who really implements...?

- Experience suggests that the most successful implementation is driven by a collection of Stakeholders BUT with the airport driving the delivery of new air services.
- Only airports can combine market knowledge with the operational requirements of the airlines with the provision of required facilities at the right time of the day.
- But that role has to be co-ordinated with the other stakeholders in a disciplined fashion.
- Importantly the airport performs that function more effectively than anyone.
- Very importantly it also earns less than most other stakeholders from that role.
- Therefore airports should not be seen as the sole provider of funding for such activity.



Implementation takes time

- Patience is a virtue....
- In route development it is a necessity.
- Airlines place orders for aircraft 5 or more years in advance.
- Airports build infrastructures for 30 years.
- Such dynamics suggest that a minimum of 18 – 24 months should be considered for securing new services.
- Targets should be identified and distractions avoided.
 - It's very easy to get swayed away from what you really want or need when talking air service.
- Progress should always be reviewed as with any other activity.



And who pays?

- Few new markets are developed today without significant marketing support.
- The risk for any airline is too high in the current environment.
- The risk for an airport is excessive to the individual return.
- A cluster of hoteliers could not support such a development.
- Therefore the only provider has to be a combination of public/private finance structured as marketing support.
- EU legislation provides clear guidance on what should be done..
 - And Ryanair provide real time examples of what can be done.
- The important thing is to recognise that the benefactor has to invest in their market.
- How that is structured varies widely from country to country and culture to culture.



And who benefits... ..?



Pretty obvious really!



And who benefits...

- Over time everyone, but....
- The immediate winners are the hoteliers, secondary impact areas (restaurants, shops, attractions, taxi operators etc).
- Airlines over time establish market positions and reach a point of modest profitability.
- Airports see a marginal increase in revenues but secure greater efficiency of scale over time as traffic develops.
- Everyone benefits but that benefit is not always relative to the level of effort required to secure a new service or market access.



So, is Air Service Development worth it?

- Absolutely
- Every airline is being bombarded with new market opportunities on a daily basis and does react to those messages.
- New aircraft are being delivered faster than a Ronaldo free kick!
- New air services stimulate economic activity and create wealth – that has to be good.
- The relationship between various Stakeholders is now being recognised for the value that it delivers.
- Markets everywhere can demonstrate that adopting a proactive approach can make a real difference to the success of your airport, market and tourism sector.





Questions?

