Reshaping the future

From pinpointing the most important technological innovation to revealing the most profitable markets, analysts, airline executives and airport managers explain the industry in 2011 to **Low Cost & Regional Airline Business**

Airlines

What are your company's growth expectations for next year, and why?

Tero Taskila, chief commercial officer, airBaltic: "Baltic countries were hit extremely hard during the economic crisis. We recognised this early on and changed our business model completely, essentially in two IATA schedule seasons. Over late 2008 and early 2009, the airline moved from being a point-to-point low-cost carrier to a competitive network carrier. Since its restructuring, airBaltic has grown rapidly, while the general market has been collapsing. The airline boosted passenger growth at its home base in Riga in a slowing economy with GDP shrinking more than 18% on average over 2009.

"2011 will be the year of consolidation and concentration, with modest expansion, but considerable power build-up to enter a strategically higher level in 2012."

Ed Barnes, CFO, JetBlue: "JetBlue's third quarter revenue exceeded $1 billion for the first time, up 20.5% year-on-year. Revenue passenger miles for the third quarter increased [by] 9.6% to 7.7 billion on an 8.5% increase in capacity, resulting in a third quarter load factor of 84.6%, an increase of 0.9 points year-on-year. Looking ahead, we are encouraged by strong revenue trends – particularly in our Boston and Caribbean markets. We expect this revenue momentum to continue into the fourth quarter."

Alex Cruz, CEO, Vueling: "Our latest outlook is that we will close 2010 with EBIT in the €60 to €70 million range if there are no sudden changes to exchange rates and fuel prices. As for 2011, we obviously have a clear view on what our goals are: further growth and continued, sustainable profitability for our shareholders."

Are you planning expansion?

Taskila, airBaltic: "Due to concentration of the business for the next quantum leap, airBaltic envisages only a modest 8 to 10% growth compared with the average 30% growth of the carrier over the past five years."

Spokesperson, JetBlue: "We have announced five new routes starting next year, including to Turks and Caicos, and Puerto Rico. Capacity is expected to increase between 8 and 10% in the fourth quarter and between 6 and 8% for the full year."

Cruz, Vueling: "2010 has been a year of structural and financial consolidation, with improved profitability and substantial growth despite the tough competitive environment. The work done during these two years puts us in a very solid position to press on so, yes, we will expand. We will add six more aircraft to our fleet taking the total up to 42 by summer of 2011. That means quantitative growth: bases, routes, frequencies, and so on. But we're always looking at how we can improve qualitatively through innovation and creativity as well."

What do you think the most profitable part of the travel market for you will be next year?

Taskila, airBaltic: "With our focus on lowering the unit cost, ticket prices have shown a downward trend for the past seven years, and we do not see any reason for ▶

Mobile check-in will continue to be one of the most important technological improvements in the industry
photo: Brussels South Charleroi Airport

a reverse trend. So we consider most of our opportunities to lie in ancillary revenues, generated from dynamic packaging – a combination of flights, car rentals, hotels and events – additional services and products as well as our loyalty programme."

Dave Barger, CEO, JetBlue: "We continue to see tremendous additional potential in Boston, and we plan to grow to over 100 flights per day in Boston by next summer. Our Caribbean and Latin America markets also continue to perform well, in fact unit revenue growth in the Caribbean has outpaced our system average. By the end of next year we expect roughly 23% of our capacity will be in the Caribbean and Latin America. Our balanced mix of leisure-driven markets such as Punta Cana, and the VFR market, such as Santa Domingo, has helped us better manage the seasonality of our business and improve overall revenue performance. Another key element has been to enhance our product offering for business travellers."

Cruz, Vueling: "Being a Spanish airline, tourism and different varieties of leisure travel will continue to be a central part of our business. However, if you look at our route-map, our product offer, our frequencies and the fact that we fly from tier 1 airports, business travellers are a segment for which we will keep on building a better and better product. We know it makes sense for many businesspeople and it certainly makes sense for us."

What innovations will you be implementing?

Taskila, airBaltic: "Our success lies in a robust strategy, focused management and a culture of innovation. Not only innovative practices, but also a fresh approach towards turning cost-items into revenue-items. Selling the airline's punctuality is a good example.

"AirBaltic introduced Delayed Arrival Warranty early last year and started charging €19 per trip. Not only is it a revenue item, but it also helps keep passengers informed about our punctuality at their expense, if the plane lands on time, and [they are] happy about double the ticket money back in the case of a late arrival. We expect to follow the same track of constant innovation and improvement in 2011."

Barnes, JetBlue: "The biggest innovation we've announced is our partnership with ViaSat for onboard wi-fi. Total ancillary revenue in the third quarter was about $18 per passenger, a 3% year-on-year increase. We are pleased to continue to see strong demand in our Even More Legroom (EML) product, which is on track to generate $85 million in additional revenues this year. In the coming months we plan to further enhance this [and other] products."

Cruz, Vueling: "Innovation has always been a part of our business process. Sometimes it was relatively major features like being on a GDS like Amadeus when no one else in the LCC business was doing it; other times it's been a succession of new ancillaries. Right now we have a list of no less than 100 initiatives that we're researching, planning or implementing. Some will have to do with geographic expansion (we will open our first base abroad in 2011), others with pushing the envelope of the traditional LCC model (we will become a feeder airline for Iberia's longhaul flights from Barcelona to Miami and São Paulo in 2011), others with cost and others with new products for business travellers or family groups."

What single technological change will impact the industry most?

Taskila, airBaltic: "The commercialisation by airlines of social media. The airlines are now learning to find their place in social media, but it is even more important to identify and

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Alex Cruz, Vueling

harness their commercial potential. Among airlines, airBaltic has led the way and is among the top 10 carriers globally."

Cruz, Vueling: "Well, we pioneered mobile phone check-in in Spain as a way to improve passenger experience before they got to our aircraft. We definitely think there's still a lot of room for meaningful innovation in the convergence of mobile technology and the social web."

How can airlines in mature markets find growth?

Taskila, airBaltic: "There is little room in mature markets, so the growth mainly comes due to market share shifts, where airlines with a low unit cost are at an advantage. So the main focus will remain on lowering costs. We have managed to lower our unit cost again in 2010 by increasing production, but maintaining stable overheads."

Spokesperson, JetBlue: "We believe our biggest source for growth is our value proposition: fair fares, coupled with an outstanding product, complete with more legroom than any other domestic airline in coach, leather seats, free snacks and drinks, free entertainment in our personal seatback TVs with more than 36 channels of DIRECTV programming and 100 channels of XM Satellite Radio."

Cruz, Vueling: "By having the absolutely lowest operating costs of the competitor base. But that is not enough any longer, we must be able to do it by being flexible, adaptive and innovative. When you look at a market from 30,000ft, it may look like a mature whole, but closer down at 3,000ft, one realises there are niches, some quite big. The trick is to identify them, to create products that respond to the needs in those niches and to have a consistently low cost structure to operate in a profitable way."

How do you think the regional/low-cost airline market will change over the next year?

Taskila, airBaltic: "We expect to see more consolidation in the market and potentially also some capacity reductions in the soft markets of Europe."

Barger, JetBlue: "There could be M&A activity in our industry."

Cruz, Vueling: "The age of shorthaul fundamentalism is over. We will now begin to see a slow transition away from no-frills-at-all, to some frills; it's simple: they produce higher yields and now, the cost advantage gap is getting smaller. Vueling is best positioned by being able to compete against the low-cost operator because of its own low cost structure, and with the traditional operator because of its high product value positioning."

What are the main challenges in your market, and what is your strategy for overcoming them?

Taskila, airBaltic: "For carriers operating in Europe, they have to take into account the austerity measures by a number of governments and the effects on local economies. It most probably means softening markets for airlines, where customers will again focus on lower fares. So we will continue focusing on lower unit costs, and adding ancillary revenue streams."

Barger, JetBlue: "The company growth strategy has proven to be the right path forward and we won't be distracted from our goals. M&A activity doesn't change our plans to grow organically and to focus on growing [Boston] and the Caribbean. We could easily double our size overnight, but at what cost to our balance sheet, our culture and brand? We've worked too hard for those assets."

Cruz, Vueling: "With few exceptions, we operate in markets where extreme competitive intensity is not going away. Therefore our continuing strategy is to have a very low cost base but always adding new products which will drive a fare premium and will allow us to continue increasing our business passenger share in all European markets."

Analysts

What are your expectations for growth in the low-cost/ regional market next year?

Jay Sorensen, president, IdeaWorks: "I believe conditions will continue to look good for those airlines. Low-cost carriers (LCCs) have hit the market with a product and price that is oh-so-appealing during a recession. Regional carriers will continue to benefit from the pull back by major carriers from smaller markets. This seems to be especially true in Europe where LCCs and regional airlines are chomping on the market shares of network carriers."

Jon Austin, J Austin & Associates: "I believe there will be available seat mile growth of 3 to 5% year-on-year."

How do you think the regional/ low-cost airline market will change over the next year?

Sorensen, IdeaWorks: "I think LCCs will venture into more longhaul markets. Regional carriers will likely do more bonding with network airlines – the Flybe/Air France relationship is fascinating. A bit further into the future, we might see LCCs and regionals doing business together. LCCs are becoming a bit less pure on the issue of codeshares and connecting, and are more eager to seek revenue opportunities, even at the risk of higher operating costs."

Austin, J Austin & Associates: "There will be a shakeout, and further consolidation of operators."

What do you think the main challenges for air carriers will be?

Sorensen, IdeaWorks: "Network carriers will continue to be bruised by LCCs. The giant hubs of the Middle East must be fed and network carriers in Europe and Asia will be pulled into a price battle for traffic, unless air traffic grows quickly to keep everyone happy – but I doubt that. Above all of this hovers the threat of runaway oil prices should something go amiss in the Middle East."

Austin, J Austin & Associates: "The main challenge will be managing the cost-saving demands of their mainline partners."

What will be the most profitable part of the market, in terms of both revenue streams and geography?

Sorensen, IdeaWorks: "Transpacific markets will do very well with business traffic and yields roaring back. Transatlantic routes will also do well with overall traffic and yields returning to prior levels, and capacity will be added. US carriers will enjoy strong profits this year. I think major LCCs in Europe will also enjoy strong profits."

Austin, J Austin & Associates: "It will be add-on sales to passengers to improve travel experience."

What single technological change will impact the industry most?

Sorensen, IdeaWorks: "The ability for carriers, as enabled by vendors such as Amadeus, to sell services on an *à la carte* basis via GDS. There is a hesitation with many airlines to fully embrace ancillary revenue methods because of a disconnect with corporate travellers. Once this wall is breached, *à la carte* fees will become far more pervasive for economy travellers worldwide."

Austin, J Austin & Associates: "Free flight GPS will impact the industry."

How can airlines in mature markets find growth?

Sorensen, IdeaWorks: "This is similar to the search for the Holy Grail of Monty Python lore. Is it possible? I just spotted a legacy airline pricing seats at €400 against a non-stop LCC competitor operating a flight 30 minutes earlier for €150. This situation simply can't continue. Network airlines are trying to 'retreat' into longhaul markets and specialise in offering comfort and perks to high-fare business travellers. This will provide refuge from the LCC storms encountered in shorter haul markets, for a while at least." ▶

The airline industry needs to become more customer focused, according to analysts *photo: Munich Airport*

Munich Airport is expecting to handle 35 million passengers by the end of the year, growth of 6%
photo: Munich Airport

Austin, J Austin & Associates: "Acquisitions are the way to find growth."

How do airlines need to change?

Sorensen, IdeaWorks: "Become more customer responsive. Truly. Consider this scenario. You are unhappy with a hotel stay. Upon check-out you insist on talking to the hotel's manager. Chances are you will meet the second in command and very likely the general manager of the hotel. Next, consider your options when you are unhappy with a flight. The person onboard doesn't have enough authority to make a difference. And good luck finding a manager at the airport – there are systems in place to 'prevent' you from reaching this person. That's a revealing difference and a lesson in true hospitality and responsiveness."

Austin, J Austin & Associates: "Airlines need to become more customer-centric."

Airports

What are your expectations for growth next year?

David Gering, commercial director, aviation, PR and communication, Charleroi Airport: "The previous growth rates of more than 30% at Brussels South Charleroi Airport will decrease in 2011 due to airport capacity restrictions. During the last 18 months we have modified passenger flows, added car parking spaces, security lanes and extended aircraft parking space, which will enable us to end 2010 with 5 million passengers. In 2011, depending on the ability of airlines to adapt to our off-peak periods, we could realise an additional growth rate of 15 to 20%."

Ingo Anspach, spokesperson, Munich Airport: "For 2010 we are expecting more than 6% passenger growth, which is about 35 million passengers by the year end. This means slightly more than 2008 record levels, although we suffered severe setbacks in 2010. For 2011 we expect the current positive trend to continue at a similar rate."

Léon Verhallen, head of aviation marketing, Brussels Airport Company: "We saw a strong recovery after the ash cloud in 2010, and some route rationalisations after the entry of Brussels Airlines into the Star Alliance. We forecast transfer traffic to grow in 2011."

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>
> Ingo Anspach, Munich Airport

Spokesperson, Aéroports de Lyon: "For 2010, 2.2 to 2.5% compared with 2009. For 2011, 4 to 5% compared with 2010. We are building a new terminal 3 to simplify services, and to allow us to double the capacity of the current terminal dedicated to low-cost carriers to 3 million passengers from the end of 2011."

How do you plan to attract more regional/low-cost carriers?

Gering, Charleroi: "It is important to us to stimulate a continuous and successful development of our incumbent airlines. Potential clients have to experience the easy access and our efficient and pleasant infrastructure for themselves in order to understand the potential. They all know about our low rates but we still suffer a bit from the image that was linked to the old terminal. Those times are long gone so we organise quite an important number of visits and airport tours."

Anspach, Munich: "We have no special dedicated incentive scheme for regionals/low costs. In recent years we have been successful in attracting new customers like Aer Lingus, bmibaby, airBaltic, Blue1, Vueling, Norwegian and Air Valle to name a few. As our approach to potential customers has paid off so far, we don't see a need for major changes."

Verhallen, Brussels: "We are working on a more attractive incentive programme for new European destinations, starting from April 2011. Brussels remains a strong market."

Spokesperson, Aéroports de Lyon: "We are reminding them of the attractions of the region, which is the second most important economic region after Paris. Lyon-Saint Exupéry is one of the closest international airports to the ski resorts of the French Alps, and the customer catchment area is 16 million passengers. Finally, the quality of the services is a constant priority. At the moment, low-cost traffic accounts for only 18% of our traffic, but should reach 30% before 2012."

What single technological change will impact the industry most?

Gering, Charleroi: "Among many changes we have seen already such as the online check-in systems and the automated luggage check-in, the technological change that will have the biggest impact is probably the navigation system GPS. This will hugely simplify things for airlines and airports."

Anspach, Munich: "In our view, next-generation aircraft models with significant cost advantages will probably have the highest impact on the profitability of our customers, enabling cheaper fares and attracting more people to fly. Engines with lower emission rates will contribute to environmental and climate protection and also help to increase the acceptance of the airline industry among the public."

Spokesperson, Aéroports de Lyon: "The development of mobile services has been a real change for our customers."

What is your greatest challenge?

Gering, Charleroi: "Combining controlled growth with reducing our carbon footprint and developing airlines, routes and passenger services."

Anspach, Munich: "Our greatest challenge is the planning and building of a third runway. At the moment we are in the process of government approval. If everything turns out in our favour, the new independent runway can become operational in 2014."

Verhallen, Brussels: "We remain very worried about the high level of subsidies made available for some regional airports, distorting the competitive situation around larger cities. We are also worried about the growth of new government taxes around Europe, being used by governments to cover financial deficits instead of investing in aviation development."

Munich has attracted many new LCC customers in recent years *photo: Munich Airport*

Spokesperson, Aéroports de Lyon: "Our objective is to meet traffic growth by increasing the capacity of our terminals by more than 50% before 2020. It is particularly urgent in the low-cost segment, which grew 3% in 2006 and 18% in 2009." ■