Enhancing City Tourism Competitiveness through Improved Connectivity

Presented by:
Jared Harckham
Vice President, ICF International

4th Global Summit on City Tourism
Agenda

1. Aviation Industry Overview
   – Current trends and outlook

2. Improving Air Connectivity through Air Service Development (ASD)
   – How to market your destination to airlines
   – Best practices for creating business cases for airlines

3. Example Business Case Slides
Aviation Industry Overview
World air traffic growth has outpaced GDP growth – a trend that is forecast to continue well into the future.

World GDP Growth and Air Transport World Traffic (RPKs)
Indexed: 1970 = 100

Note: RPK (Revenue Passenger Kilometer): number of paying passengers x kilometers flown
Source: Airline Monitor, February 2015; Oxford Economics; World Economic Outlook, Airbus/Boeing/Embraer Market Outlooks, ICF 2014

ICF’s traffic forecast allows for lumpy economic growth and a weakening of the low-cost carrier cycle.
In the next 20 years, IATA forecasts a **4.0% annual average growth** in global air passenger journeys – **differing by region**

**Growth and change in passenger journeys by region**

(% and million, 2014-2034)

- **2.2 times** the number of air passenger journeys in 2034 compared with today

- **Europe**
  - 577m
  - 2.6%

- **Middle East**
  - 250m
  - 5.1%

- **North America**
  - 651m
  - 3.3%

- **Latin America**
  - 328m
  - 4.4%

- **Asia Pacific**
  - 1753m
  - 4.9%

- **Africa**
  - 190m
  - 4.9%

In order- **China, USA, India, Indonesia, Brazil** are expected to have the biggest increases in passengers numbers.

Source: IATA
Driven by capacity discipline, airline consolidation, and lower fuel costs, the industry has *successfully returned to profitability*.

*Global Airline Profitability (Net Profit)*

Source: IATA Central Forecast Dec 2014
Aviation fuel costs have dropped significantly during the past year to ~$70/bbl (43% lower than one year ago)

If sustained, low fuel prices could bring dramatic changes to the industry

Source: U.S. EIA data of 1 December 2015
ICF sees a number of potential impacts on aviation if low oil prices are sustained

**Near Term**

- Increase of disposable income → higher air travel demand

**Sustained Low Prices**

- Lower airline operating costs can flow through to increased travel demand due to lower ticket prices

**Passenger Airlines**

- Higher profits
- Older airplanes kept in service longer

**Airports**

- Higher air travel demand → increased traffic at airports → increased spending while at airports
- Increased demand for airport access by airlines
- Demand for more space to accommodate increased capacity

*Industry consensus is it’s too early to tell if the reductions will be long-term*

Source: ICF research
For aircraft manufacturers, the past two years have seen record order and delivery numbers

**Boeing and Airbus Aircraft Orders and Deliveries (2000-2014)**

- **Boeing (1 Jan, 2015)**
  - 723 Deliveries
  - 1,432 Net Orders
  - 118 Cancellations

- **Airbus (1 Jan, 2015)**
  - 629 Deliveries
  - 1,456 Net Orders
  - 340 Cancellations

- Despite significant ordering in 2005-2008, aircraft manufacturers have only recently increased production, substantially increasing the industry backlog

- Orders rebounded in 2011 and in 2012 for Airbus and Boeing respectively – particularly as new generation products like the A320neo and 737 MAX came to the market; production rates of existing aircraft are increasing prior to introduction of re-engined aircraft

Source: Airbus, Boeing, ACAS

icfi.com | Passion. Expertise. Results.
Airline strategy continues to evolve – *a new long-haul, low cost model has emerged*

**December 2013**

**December 2015**

- 26 787-9 Dreamliners on order
- 9 long-haul destinations added

Note: Aircraft includes those placed by operator and by lessors assigned to operator; Source: Innovata; CAPA
Airline strategy continues to evolve – *hybrid low cost carriers are blurring the line between full service carriers and pure low-cost carriers*

*New hybrid model: combination of cost savings methodology of pure LCCs with the services, flexibility, and routes structure of full service carriers*

<table>
<thead>
<tr>
<th>Low-cost Carriers</th>
<th>Full Service Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Network</strong></td>
<td><strong>Examples:</strong></td>
</tr>
<tr>
<td>Short haul, point-to-point</td>
<td><strong>easyJet</strong></td>
</tr>
<tr>
<td><strong>Fares</strong></td>
<td><strong>jetBlue</strong></td>
</tr>
<tr>
<td>Same fare to all customers</td>
<td><strong>Southwest</strong></td>
</tr>
<tr>
<td><strong>Partnerships</strong></td>
<td></td>
</tr>
<tr>
<td>No codesharing</td>
<td></td>
</tr>
<tr>
<td><strong>Sales/Dist.</strong></td>
<td></td>
</tr>
<tr>
<td>Direct sales only</td>
<td></td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td></td>
</tr>
<tr>
<td>Single aircraft type/ one seating class</td>
<td></td>
</tr>
</tbody>
</table>

Source: Innovata
Airline strategy continues to evolve – New global network carriers have emerged to challenge existing players

Source: Innovata
Regional network carriers have *found their niche and are flourishing* – serving secondary markets not touched by global network carriers

Source: Innovata
What is the aviation outlook beyond 2015?

- The air transport industry enjoys solid growth drivers, including:
  - Population growth
  - Increasing air service liberalization
  - Economic dynamism of emerging countries

- Global economic expansion is expected to, which in turn will drive air travel demand, though performance will vary by region:
  - North America is leasing the economic global acceleration
  - Eurozone is finally gaining momentum
  - Despite concerns of economic slowdown in China, Asia remains a high growth region
  - Latin American economies dependent on natural resources have slumped recently, though the long-term trend is positive

- Low cost carrier (LCCs) expansion is another aspect of the markets structure that will evolve. Low cost carriers are poised to take advantage of the growing middle classes in emerging markets that are flying for the first time

Source: Airbus
Connecting your Destination through Air Service Development
What is Air Service Development (ASD) and what are its primary objectives?

Proactive strategy to influence airlines’ decision-making process and increase air service by communicating the strengths of your destination – while talking to airlines in their own “language”

**OBJECTIVES:**

- **Create** new first-time flights
  - New markets; New airlines

- **Maintain** existing flights
  - Monitor current performance
  - Stay in contact with the airlines

- **Promote** growth
  - More frequencies; Larger aircraft; Better schedule

**WHO:**

- **ASD programs can be run by:**
  - An airport, a destination, a region or at the national level
  - Should include multiple stakeholders so the destination talks with one-voice

- **For all types of destinations:**
  - Leisure, religious, cultural, etc.
What does an *ASD program* consist of?

- **Ongoing Communication with Airlines and Operators** – *Not just one time!*
- **Talk to airlines in their own language** – *with their own metrics and methodologies*
- **A well-coordinated effort that combines:**
  - Information about the destinations (news ahead of time)
  - Quantitative business case with a specific proposal and forecast
  - Team of stakeholders: *one entity the airline can speak with about service*
  - Incentive program and support for the airline
Air Service Development strategy involves a *diagnostic* of the market, establishing a *strategy* and creating an *implementation* plan.

### Air Service Development Strategy

1. **Diagnostic**
   - Benchmarking
   - Historical Evaluation
   - Airline Strategy

2. **Define Strategy**
   - Identify Opportunities
   - Estimate Demand
   - Prioritize

3. **Implement**
   - Define Communication Plan
   - Conferences and Meetings
   - Support Channels

### Business Cases

- Introduction to the Market
- Demand Statistics
- Proposed Itinerary
- Traffic/Revenue Projections
- Incentives and Support

*The Business Cases are the key tool for executing your Air Service Development Strategy*
What chance does an airport/destination marketer have in influencing the decision-making process of an airline?

**The Goals of the airline...**

- Minimize risks associated with opening a new route
- Make the best use of limited resources
  - Aircraft and staff
  - Planning analysts (important: airlines cannot assess all opportunities)
- Identify and analyze hundreds of new route opportunities
  - Participation in route development conferences demonstrates that airlines seek help in this process

**...are opportunities for the airport and destination**

- Reduce or share the risk
  - Reduce airport costs
  - Marketing assistance
  - Economic incentives for the route
- Demonstrate a commitment to the client’s needs
  - Efficient operations
  - Modern and well-maintained infrastructure
- Identify opportunities through a logical, quantitative, and convincing *Business Case*
## Elements of an effective Business Case

### Information Promoting your Market
- Economic, demographic, tourism, etc. trends
- Developments that will generate new traffic

### Summary of Existing Service and Demand
- Existing service
- Historical traffic growth
- Market size

### Fit with the Airline’s Strategy
- Comparison with other similar markets operated by the airline

### Route Forecast
- Schedule / Aircraft
- Passengers (local and connecting)
- Revenue
- Impact on other routes (if applicable)

### Support for the New Route
- Incentives
- Marketing assistance
- External support channels

### Airport Information
- Runway and terminal specifications
- Rates and charges
Risk sharing and commitment are sought by many airlines, by way of financial incentives

- **Financial incentives from the airport can take many forms:**
  - Discounts on traditional airport fees
  - Creative solutions (e.g. rebates, fuel savings)
  - Pre-purchase of airline tickets by local businesses for future use
  - Revenue and profitability guarantees
  - Funds for advertising and promotion

- **Other Stakeholders**
  - Discounts on hotel, transportation and meals for airline crew overnights
  - Preferential rates for airline vacation programs at hotels and tourist attractions

- **Examples of airport discounts**
  - Landing Fees
  - Security screening
  - Jet-bridge
  - Parking
  - Rental of check-in counters and office space
Why does your airport/destination need an Air Service Development Program?

Your destination is competing with thousands of other destinations for air service – airlines have limited fleets and resources!

Airports Around the World – Traffic Density
Sample Business Case
Quito, Ecuador: Quiport
New Route Opportunities at Quito (UIO)

Orlando – Quito
Route Proposal

Prepared for: jetBlue

September 2015
Quito is the main international gateway to Ecuador, a country located in Northwest South America that neighbors Colombia and Peru.

- Population of 16.2 million people
  - Quito’s metro area’s population is 2.7 million

- GDP growth of 5% annually from 2010 to 2014

- Regained US FAA Category 1 status for compliance with ICAO standards
Ecuador’s world-renowned tourist attractions include Quito and a wide variety of natural wonders

- Quito was voted one of the top 25 South American destinations by TripAdvisor Travelers’ Choice 2015
- Quito won **Best Destination in South America** from the World Travel Awards in 2014
- Ecuador is one of CNN International’s 11 **Best Places to Visit in 2014**
- Quito is Ecuador’s tourism distribution hub: tourists generating 75% of Ecuador’s foreign tourism receipts arrive/depart Quito¹.
- Historic Quito is inscribed on the UNESCO Heritage List for “the best-preserved, least altered historic center in Latin America”
Additional 765 million USD are being invested in 23 new projects around the country.

5,400 new rooms and 2,200 new jobs
JetBlue - Proposed schedule at MCO offers convenient connections to services within the United States

Proposed Schedule for B6 MCO-UIO

New York, Boston, Washington and 6 others

Connections via ORL
MCT: 80 min.

A320 | Aircraft | A320
-----|----------|-----
1234567 | Frequency | 1234567

City

22:00 Depart Orlando Arrive 08:00

01:30 Arrive Quito Depart 02:30

Flight Distance: 1,963 mi.
Avg. Flight Time: 4:30

The proposed schedule operates daily with A320s

- Proposed Arrivals and Departures at MCO allow passengers to connect to domestic services

To forecast traffic, ICF has assumed a average market size stimulation of only 190% as a result of the new nonstop service

- MCO-UIO grows from 289 PWEW in 2016 to 837 PWEW
- There is currently no LCC nonstop service on the route

Note: Local time
The proposed JetBlue MCO-UIO flights could achieve an annual average load factor of 82% with daily roundtrip service.

### MCO → UIO

[Daily flight]

<table>
<thead>
<tr>
<th>Tráfico local</th>
<th>2016 Pax Weekly Each Way:</th>
<th>289</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSI Share:</td>
<td>71%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local Market Stimulation:</th>
<th>190%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Weekly Pax with stimulation:</th>
<th>837</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Average Fare*:</th>
<th>US $255</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Load Factor</th>
<th>82%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Aircraft:</th>
<th>A320</th>
</tr>
</thead>
</table>

### Connections in MCO

<table>
<thead>
<tr>
<th>Market</th>
<th>Weekly Pax*</th>
<th>% of onboard</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>129</td>
<td>17%</td>
</tr>
<tr>
<td>Boston</td>
<td>7</td>
<td>1%</td>
</tr>
<tr>
<td>Washington</td>
<td>6</td>
<td>1%</td>
</tr>
<tr>
<td>Hartford</td>
<td>1</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Austin</td>
<td>1</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>6 Others</td>
<td>2</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Total Connecting</td>
<td>146</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Average fare for all onboard passengers

*Passengers Each Way

---

**Notes:**

/1 Quiport and ICF further adjust PaxIS Plus data to insure accuracy on market sizes
/2 Based on IATA PaxIS Traffic for the period YE May 2015 and average GDP forecast by IMF by country pair
/3 Available Air fare data sources (PaxIS) do not include YQ's, taxes and commissions
On February 20th 2013, Quito opened a new, state-of-the-art international airport that replaced the old airport.

**New Routes since opening**

<table>
<thead>
<tr>
<th>Fort Lauderdale</th>
<th>Sao Paulo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico City</td>
<td>New York</td>
</tr>
<tr>
<td>Madrid (nonstop)</td>
<td>Dallas*</td>
</tr>
</tbody>
</table>

**Quito Airport Updates**

- New highway connection into Quito cutting drive times from 75-90 minutes to 35-45 minutes

- New International Routes / Airlines:
  - American Airlines (Dec 2015) to Dallas
  - JetBlue (Feb 2016) to Fort Lauderdale

- Terminal Expansion:
  - Phase 2A of expansion completed
  - 85,000 sq. ft. of new space
    - 870 additional seats
    - Two new boarding bridges and 10 gates
    - Waiting lounge capacity increased by 30%

* Begins December 2015
Aviation Industry Overview