



VIENNA	09:00	40-41-3
MILANO	09:05	4-4-6
BELGRADE	09:10	4-11-1
ATHENS	09:15	28-23
LARNACA	09:20	4-13
VENICE	09:35	43-4
SOFIA	09:40	4-
BUDAPEST	09:45	31-
GENEVA	09:50	38
NTCE	10:00	75

Enhancing City Tourism Competitiveness through Improved Connectivity

Presented by:

Jared Harckham

Vice President, ICF International



**4th Global Summit
on City Tourism**

Marrakesh, Dec. 14-15, 2015



VIENNA	09:00	40-41
MILANO	09:05	4-6
BELGRADE	09:10	11-1
ATHENS	09:15	28-29
LARNACA	09:20	13
VENICE	09:35	43-4
SOFIA	09:40	4
BUDAPEST	09:45	31
GENEVA	09:50	38
NTCE	10:00	78

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

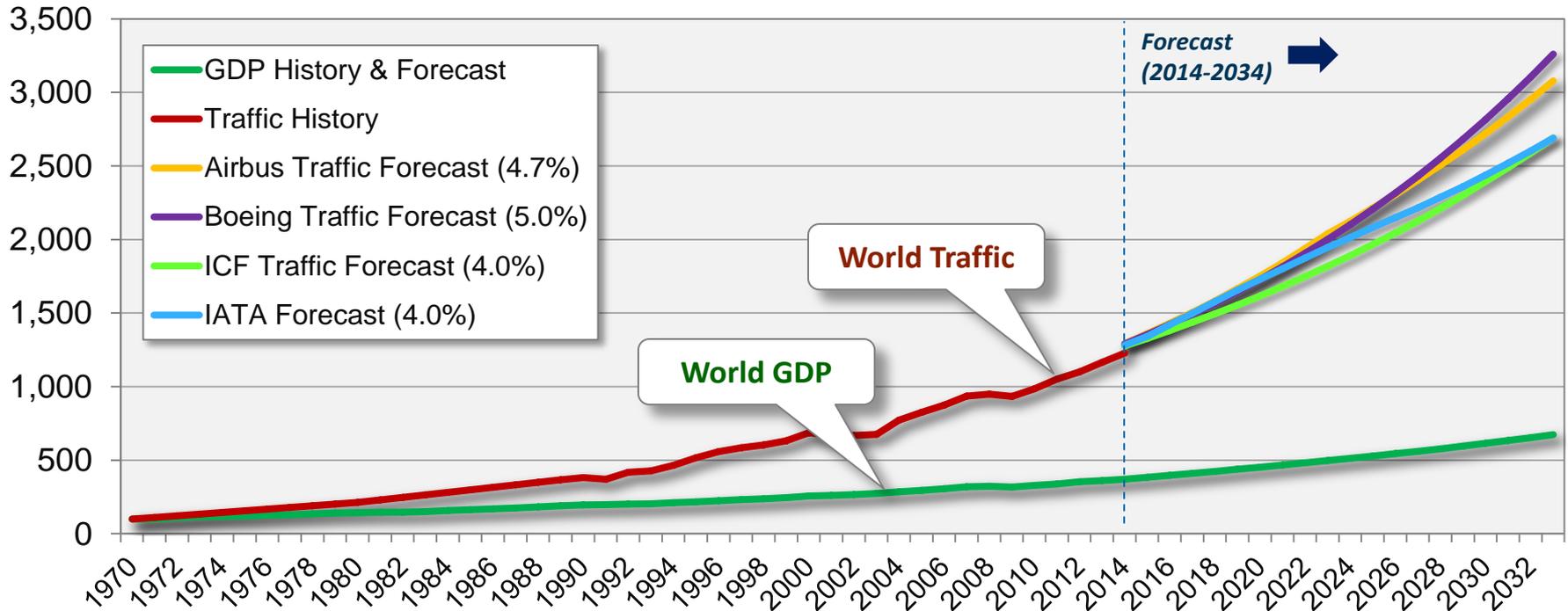
3. Example Business Case Slides



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

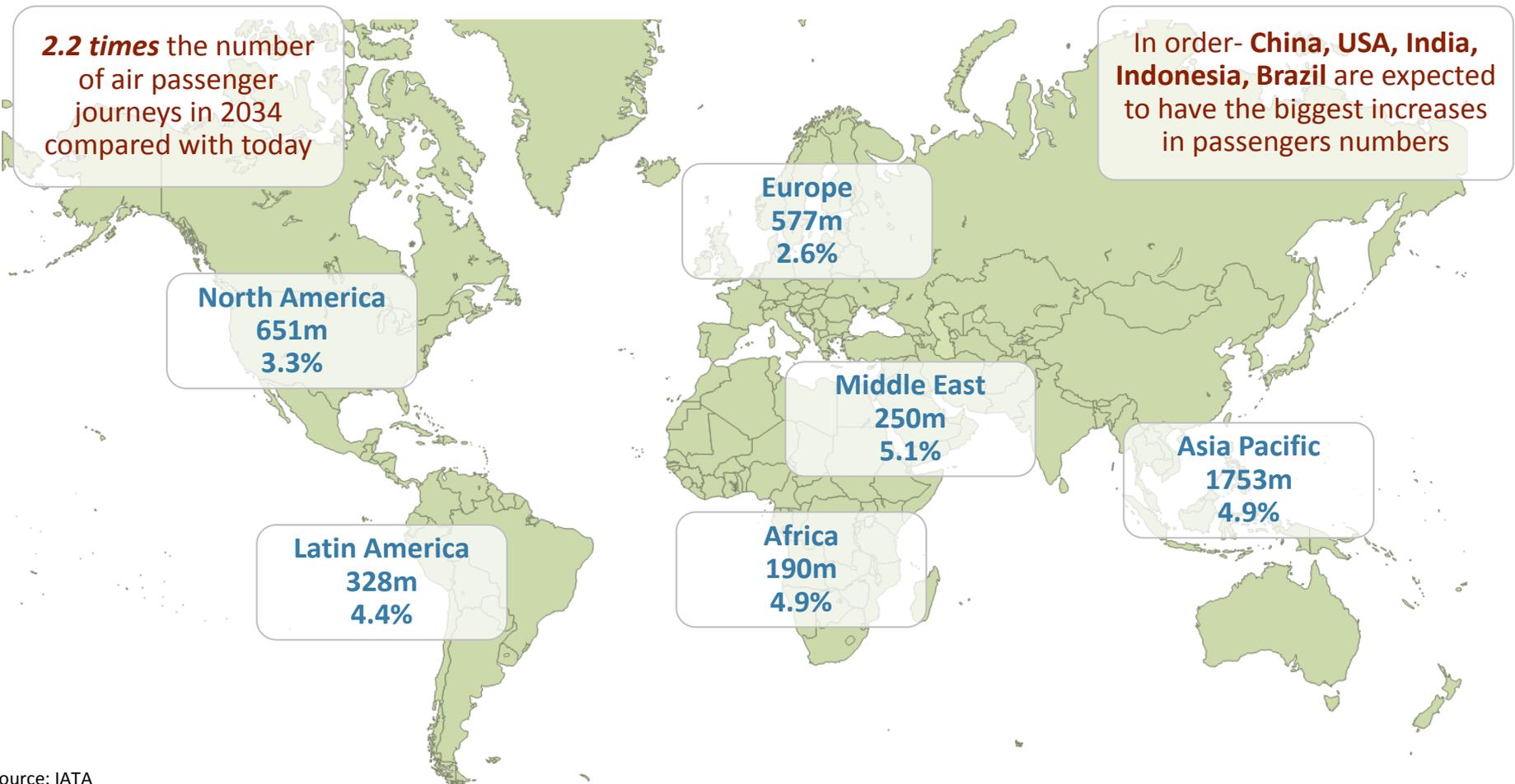


ICF's traffic forecast allows for lumpy economic growth and a weakening of the low-cost carrier cycle

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

In the next 20 years, IATA forecasts a **4.0% annual average growth** in global air passenger journeys – *differing by region*

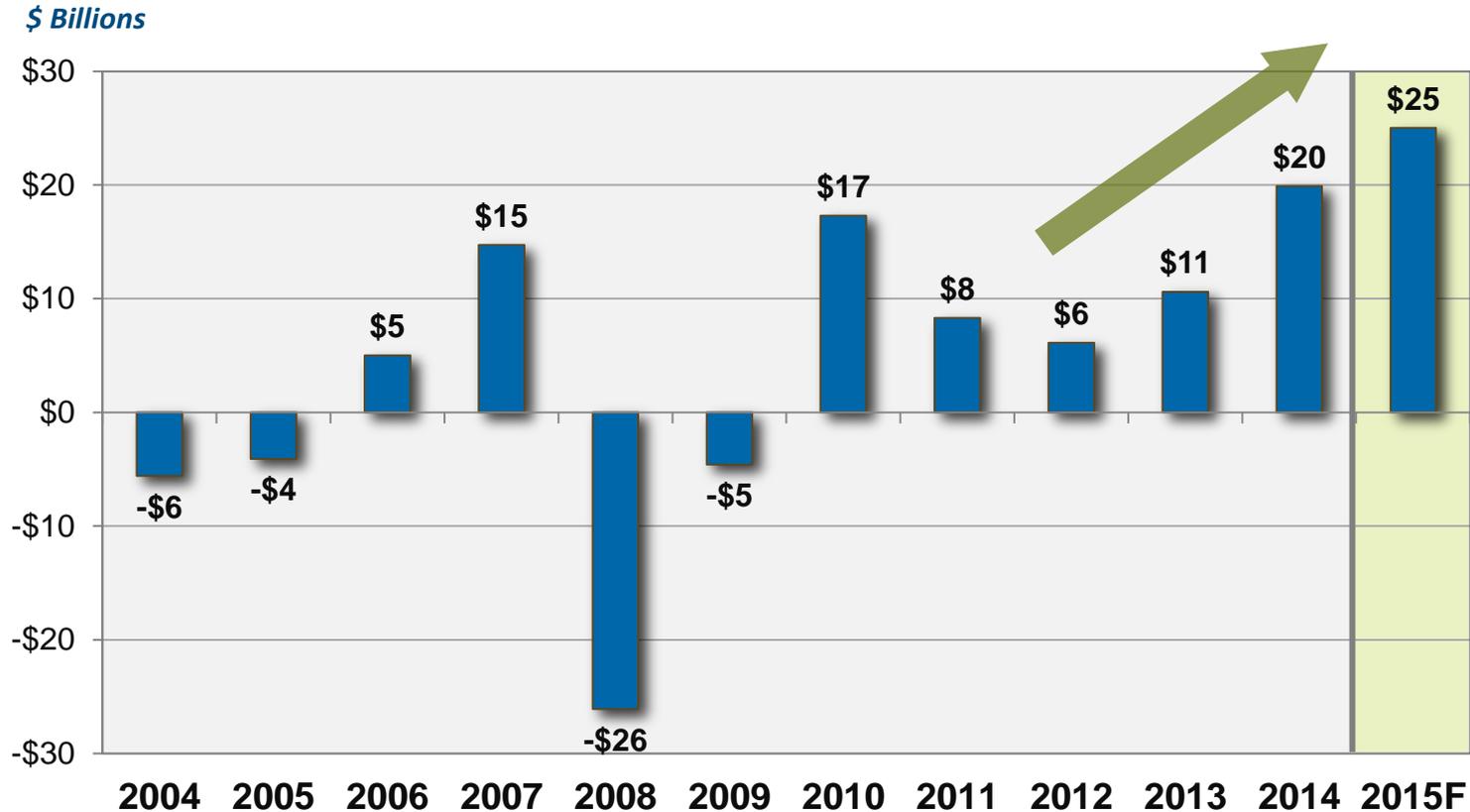
*Growth and change in passenger journeys by region
(% and million, 2014-2034)*



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)

U.S. Gulf Coast Jet Fuel Price per Gallon (US\$)



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

Sustained Low Prices

Air Travel Demand



Increase of disposable income
→ higher air travel demand

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

Capacity increases at a slightly greater rate
More new entrants/start-up carriers (especially in emerging markets)

Airports



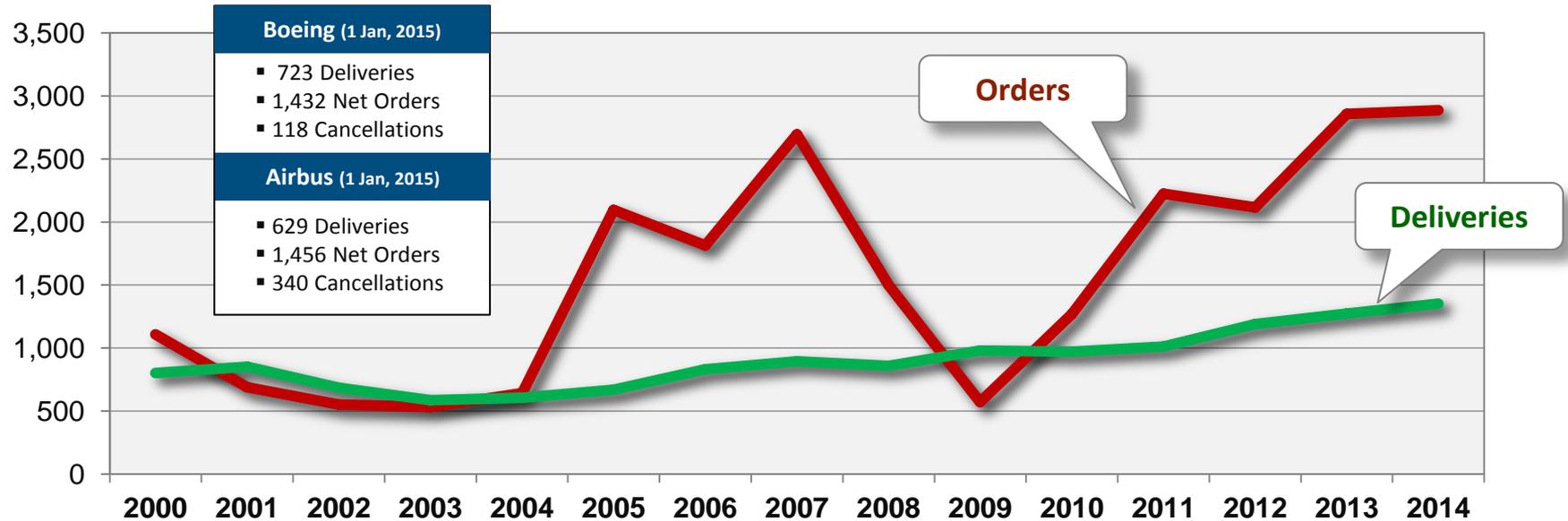
Higher air travel demand
→ increased traffic at airports
→ increased spending while at airports

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

For aircraft manufacturers, the past two years have seen *record order and delivery numbers*

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



- 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

Airline strategy continues to evolve – *a new long-haul, low cost model has emerged*



December 2013



December 2015

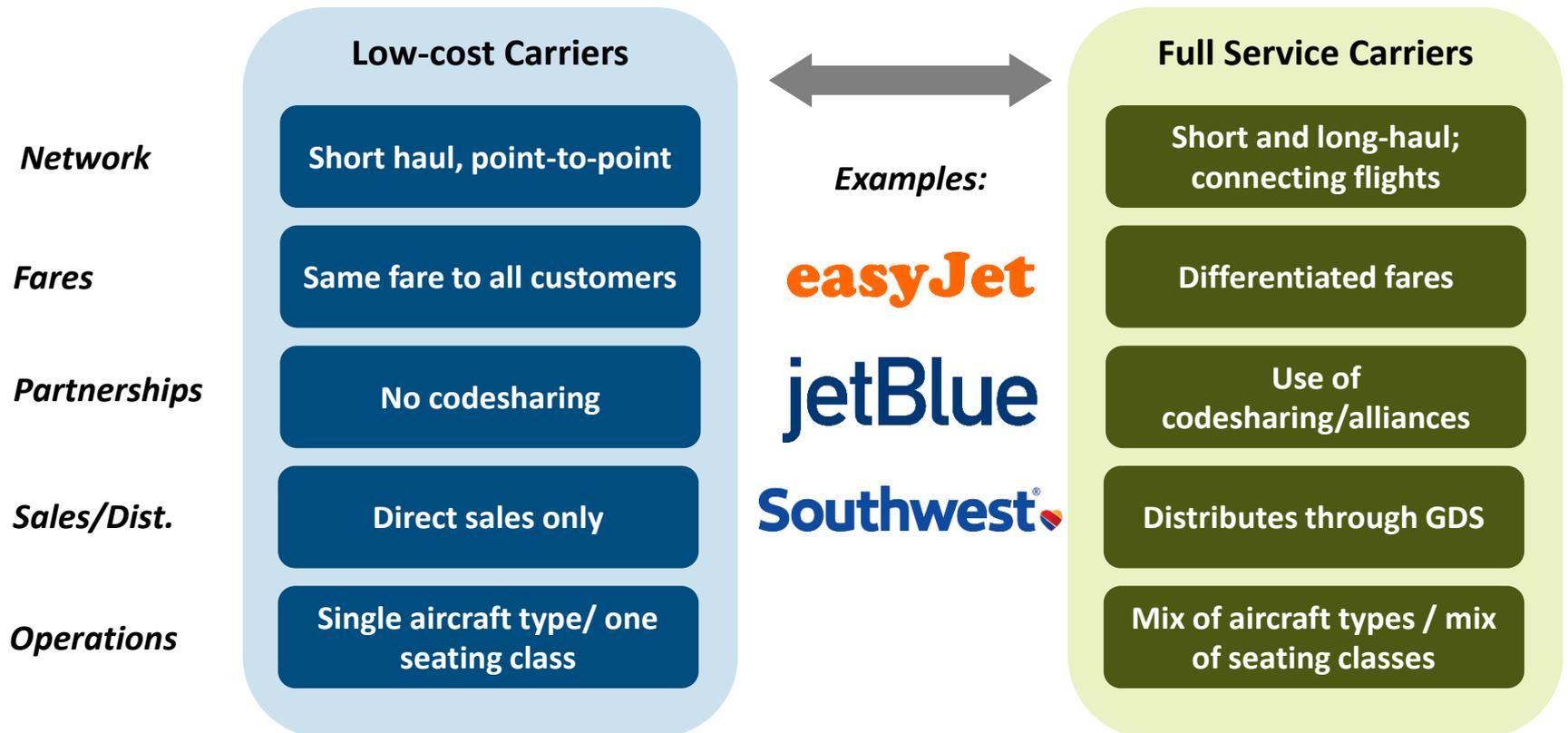


- *26 787-9 Dreamliners on order*
- *9 long-haul destinations added*

Note: Aircraft includes those place 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



Source: Innovata

Airline strategy continues to evolve – *New global network carriers have emerged to challenge existing players*



December 2008



December 2015



+39 Destinations



Lufthansa



-8 Destinations

Source: Innovata

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



الخطوط الملكية المغربية
royal air maroc



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 leading 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

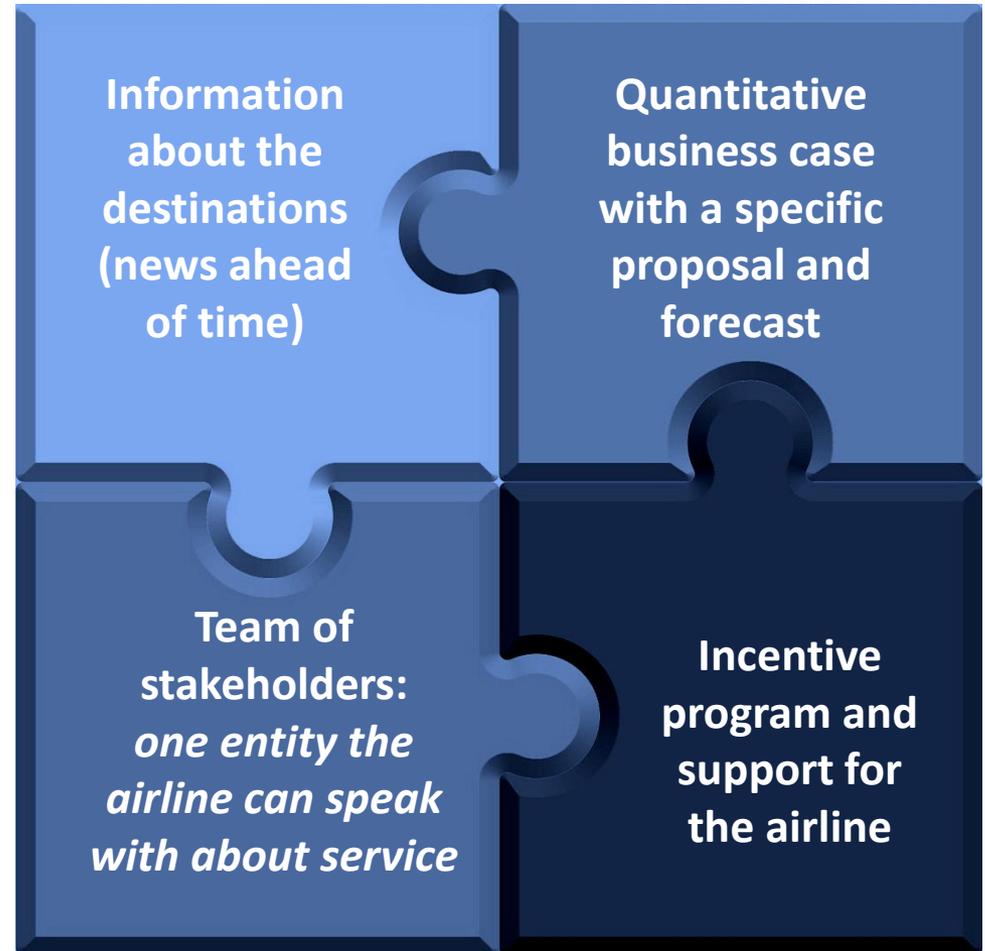
WHO:

- **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.

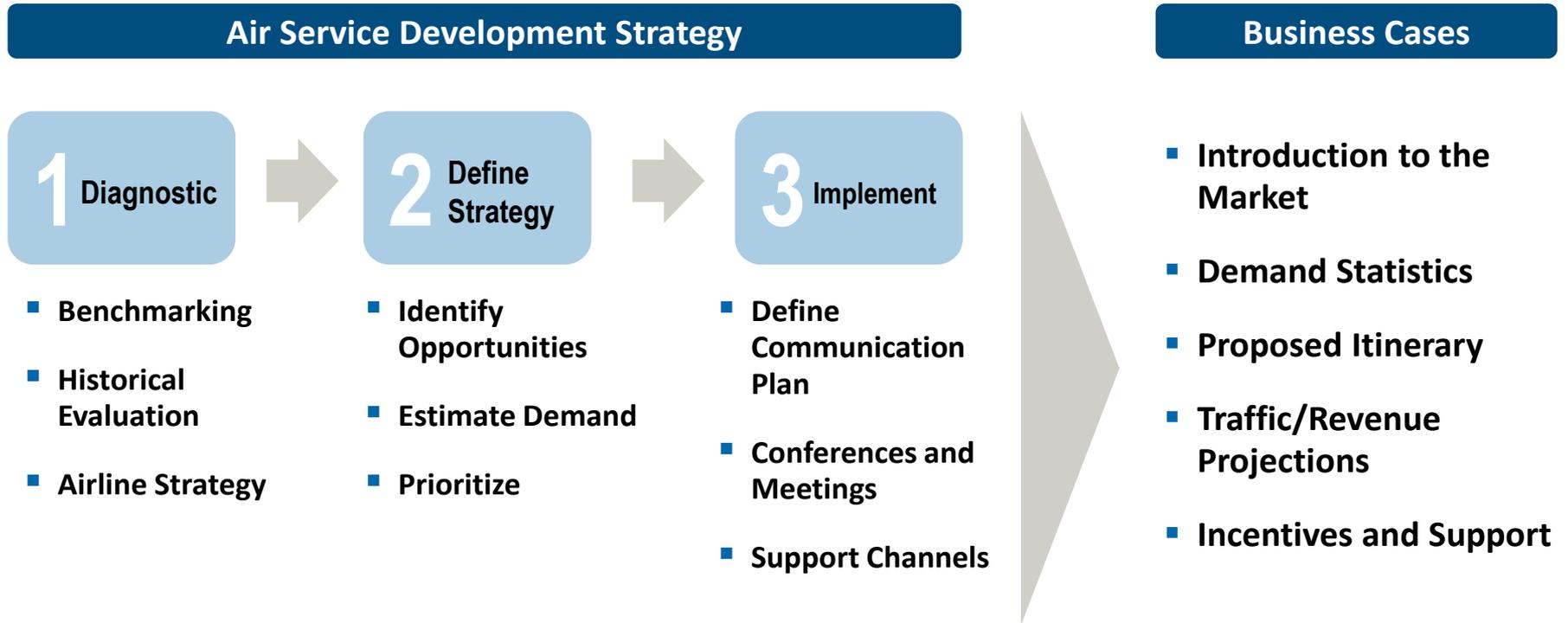
What does an *ASD program* consist of?

- **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:**



Air Service Development strategy involves a *diagnostic* of the market, establishing a *strategy* and creating an *implementation plan*



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

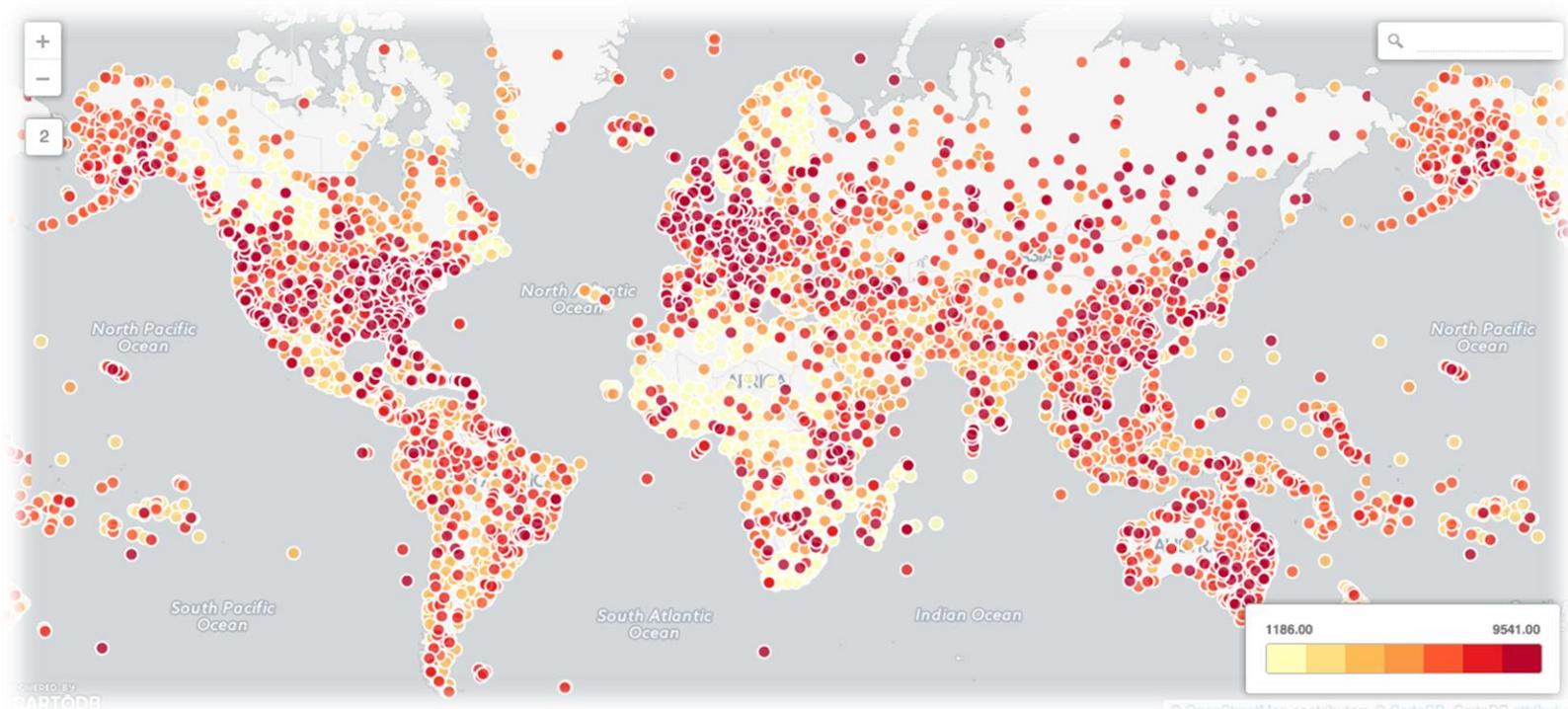
■ Examples of airport discounts

- 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



South America's
Leading Airport

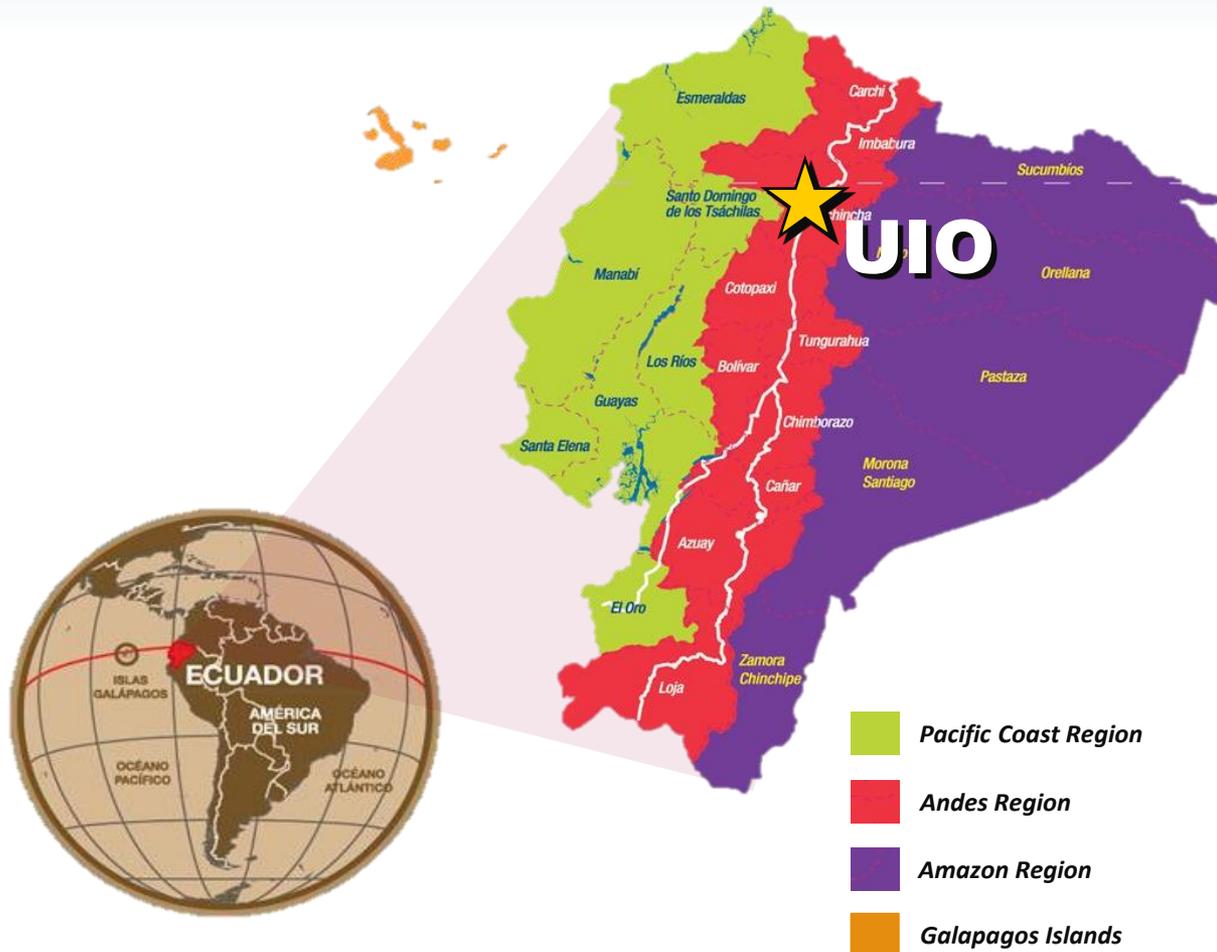
Prepared for:

jetBlue

September 2015



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



Ecuador:

- 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

-  *Pacific Coast Region*
-  *Andes Region*
-  *Amazon Region*
-  *Galapagos Islands*



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



Note: Local time

- 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

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

MCO → UIO jetBlue

[Daily flight]

Tráfico local		2016 Pax Weekly Each Way: 289	Local Market Stimulation: 190%	Weekly Pax with stimulation: 837
		QSI Share: 71%		Local traffic share of total onboard: 80%
Vuelo		Average Fare*: US \$255		Aircraft: A320

*Average fare for all onboard passengers

Connections in MCO

Market	Weekly Pax*	% of onboard
New York	129	17%
Boston	7	1%
Washington	6	1%
Hartford	1	<1%
Austin	1	<1%
6 Others	2	<1%
Total Connecting	146	20%

*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

Fort Lauderdale	Sao Paulo
Mexico City	New York
Madrid (nonstop)	Dallas*



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%





Thank You!



Aviation Industry Overview



VIENNA	09:00	40-41-3
MILANO	09:05	4-4-6
BELGRADE	09:10	4-11-1
ATHENS	09:15	28-23
LARNACA	09:20	4-23-
VENICE	09:35	43-4
SOFIA	09:40	4-
BUDAPEST	09:45	31-
GENEVA	09:50	38
NTCE	10:00	75