Opportunities and Challenges for the Coming Decade

What is an opportunity and challenge?
From North East Asia’s LCC view
2016.10.21.
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About Moon
- Education & Certificates
- Past
- Present

1. Opportunity!
Growth of air market demand
- Past / Forecast
- Korean air market

2. Opportunity?
Growth of air market supply
- Korean air market
- Different view on beautiful growth
- Discovery

3. Challenge
How to deal with it?
- Remaining in the market
- Conclusion
Moon

Numbers, investments and tourism

Youlrim.moon@gmail.com

**Education and Certificates**

1. Konkuk Univ., Economics
2. Financial Planner
3. Certified Securities Investment Advisor

**Past**

2. PATA, Membership Department Intern, Aviation
3. ZIP Housing, Co-Founder
   : Housing guide for foreigners in Korea

**Present**

3. Jeju Air, Commercial Planning Team
   : Alliance, Interline, Network & Business Planning
4. Share House Host, Seoul, Korea
1. Opportunity!

Growth of air market demand

Past / Forecast

Korean air market
1. Opportunity!

Past

Passenger traffic is outperforming GDP growth

Source: IHS Economics (real GDP), OAG, Airbus
### 1. Opportunity!
Forecast 2015-2035

<table>
<thead>
<tr>
<th></th>
<th>Air Traffic</th>
<th>World GDP</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth Rate 2015-2035</strong></td>
<td><strong>3.6%</strong> (IATA)</td>
<td><strong>2.8%</strong> (OECD)</td>
<td><strong>+0.8%p</strong></td>
</tr>
</tbody>
</table>
1. Opportunity!

Korean air market

### Passenger

<table>
<thead>
<tr>
<th></th>
<th>CAGR (5years)</th>
<th>Growth Rate (5years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8.5%</td>
<td>38.7%</td>
</tr>
<tr>
<td>Foreign Carriers</td>
<td>11%</td>
<td>51.7%</td>
</tr>
<tr>
<td>Korean FSC</td>
<td>2.3%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Korean LCC</td>
<td>19.8%</td>
<td>105.9%</td>
</tr>
</tbody>
</table>

### Destination

CAGR (5years) | Growth Rate (5years)
---------------|-----------------------|
3.7%          | 15.8%                 

### Revenue

<table>
<thead>
<tr>
<th></th>
<th>Monthly CAGR (25months)</th>
<th>Growth Rate (2years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.5%</td>
<td>43.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>14,512,389</td>
</tr>
<tr>
<td>2012</td>
<td>50,890,796</td>
</tr>
<tr>
<td>2013</td>
<td>55,797,093</td>
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<tr>
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2. Opportunity?

Growth of air market supply

- Korean air market
- Different view on beautiful growth
- Discovery
2. Opportunity?
Korean air market

### Supplied Seats

- **Korean LCC**
- **Korean FSC**
- **Foreign Carrier**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Korean LCC</td>
<td>114m</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
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<td></td>
<td></td>
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<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>147m</td>
</tr>
</tbody>
</table>

### CAGR (5 years) & Growth Rate (5 years)

<table>
<thead>
<tr>
<th>Category</th>
<th>CAGR (5 years)</th>
<th>Growth Rate (5 years)</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>6.6%</td>
<td>29.1%</td>
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2. Opportunity?

Different view on this beautiful growth

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### Supplied Seats

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<tr>
<th>Year</th>
<th>Korean LCC (CAGR 5years)</th>
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<td></td>
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### CAGR (5years)

- Total: 6.6%
- Korean LCC: 19.2%
- Korean FSC: 0.7%
- Foreign Carrier: 10.2%

### Growth Rate (5years)

- Total: 29.1%
- Korean LCC: 101.7%
- Korean FSC: 2.9%
- Foreign Carrier: 47.4%
2. Opportunity?

Different view on this beautiful growth

### Revenue

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2. Opportunity?

Different view on this beautiful growth

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Revenue per flight</th>
<th>Operation margin</th>
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<td>Monthly CAGR (25months)</td>
<td>Growth Rate (2years)</td>
<td>CAGR (25months)</td>
</tr>
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<td>1.5%</td>
<td>43.4%</td>
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Graphs showing revenue, revenue per flight, and operation margin trends over time.
2. Opportunity?

Discovery

Perfect Competitive Market Theory

There is no long-term excess profit due to the perfect competition

Basic information

- A larger number of buyers and sellers
- Homogeneous products
- No barriers to entry or exit
- Perfect information
- Players are price takers

Airlines

- A larger number of travelers and seats
- FSC, LCC
- Easy to supply extra seats
- OTAs & Meta Searches
- Price Volatility like stock market
2. Opportunity?

Discovery

1. Excess Profit
2. Market entry = More seats
3. More competition = Price decrease = Profit decrease
4. Minus profit
5. Market exit = Lesser competition = Price Increase = Excess profit

Basic information
- A larger number of buyers and sellers
- Homogeneous products
- No barriers to entry or exit
- Perfect information
- Players are price takers

Airlines
- A larger number of travelers and seats
- FSC, LCC
- Easy to supply extra seats
- OTAs & Meta Searches
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2. Opportunity?

Discovery

1. Excess Profit
   - Market entry = More seats

2. Opportunity
   - More competition
   - Price decrease
   - Profit decrease

3. Challenge
   - Minus profit

4. Market exit
   - Lesser competition
   - Price Increase
   - Excess profit

Opportunity

Challenge

Present  Target
3. Challenge

Remaining at the market
3. Challenge
Remainning at the market

Economic Crisis
Subprime

M&A

1. 2008.4. NORTHWEST AIRLINES
2. 2010.5. UNITED AIRLINES
3. 2011.5. SOUTHWEST AIRLINES
4. 2013.11. Continental Airlines

AirTran

American Airlines U.S AIRWAYS
3. Challenge

How to deal with it?

Remaining at the market

Conclusion
3. Challenge

Remaining at the market
3. Challenge

Remaining at the market

Cost management

- Buying cheap things
- Investment (Aircraft, IT)
- Sales channel

≠

- Cost management
- Smart investment
- Revenue maximisation
3. Challenge
Remaining at the market

- Aircraft
  - Q400 → B737-800

- IT system
  - PSS system

- Sales channel
  - Direct vs Indirect

Revenue loss
Double cost
- Development
- Revision

Revenue loss
Market share loss
3. Challenge

Remaining at the market

- Short term Cost Management
- Long term Cost Management
- Preparing Challenge Era

≠ Key To survive the market
3. Challenge

Conclusion

1. Opportunity! Growth of the market demand
2. Opportunity? Growth of the market supply
3. Challenge Cost Management Smart Investment
Thank you

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