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Airline Business  
Models

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# Outline

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- Business Models
- What has worked and why?
- Summary

*The golden rule is: There are no golden rules*  
*G.B. Shaw*

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# Key Question

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# Changes in Passenger Airlines 1985-2009

Region	1985					2009					1985-2009
	Sched	Charter	LCC	Regional	Total	Sched	Charter	LCC	Regional	Total	% Change
North America	35	45	1	10	91	29	35	3	21	88	-3%
Europe	30	50	0	4	84	112	106	31	35	284	238%
Asia	43	1	0	0	44	106	23	28	17	174	295%
Latin America	45	3	0	1	49	56	8	8	11	83	69%
Africa	42	8	0	0	50	58	48	7	12	125	150%
Middle East	12	2	0	0	14	23	23	7	2	55	293%
<b>TOTAL</b>	<b>207</b>	<b>109</b>	<b>1</b>	<b>15</b>	<b>332</b>	<b>384</b>	<b>243</b>	<b>84</b>	<b>98</b>	<b>809</b>	<b>144%</b>
	<b>% Change</b>					<b>86%</b>	<b>123%</b>	<b>8300%</b>	<b>553%</b>	<b>144%</b>	

From **332** to **809** airlines\* in 24 years

\* Operators of Western built passenger jets

Source: Ascend Online

## A Simple Mantra

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A successful airline business model constantly matches its business and cost structure to  
CUSTOMER DEMAND

## The problems with simplicity

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- ❑ Demand continually evolves (who, where, how much, what)
- ❑ Cost continually evolves (Staff, aircraft, fuel, exchange rates, distribution etc.)
- ❑ Success is imitated - Competition vs. profit
- ❑ Technology continues to change (aircraft, distribution, information)

# Creating a competitive business model

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Reducing cost	Increasing revenue
Aircraft utilisation	Premium services
Distribution	Hubs/ networks
Staff utilisation/ cost/ geography	Targeting niche markets
Airport charges	
Aircraft technology	
Product unbundling	
Overheads	
Outsourcing	
(Hubs/ networks)	
<b>CRITICAL MASS THEN NEEDED TO PROTECT PROFITABILITY</b>	

# Chasing the best business model

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# The Aviation Industry has seen.....

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- Regulation and liberalisation*
- Robust growth of 5%pa+ average*
- Economic and other shocks - and repeated recovery*
- Consolidation and rationalisation*
- New markets and changing business models- generally unforeseen*

***An industry that both resists and accepts major change***

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**How did 'short haul low cost' gain traction?**

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# Why did 'low cost' grow?

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- ❑ Deregulation
- ❑ Convergence of previous business model on short haul with 'comfortable' competition
- ❑ New entrants used:
  - New distribution outlets (internet)
  - Higher asset utilisation (fleet, staff)
  - Lower costs- airports, aircraft, distribution
  - Ancillary revenues (add ons, specific charges, partnerships)
  - Stimulate new traffic from lower fares
  - **Simplicity!**
- ❑ Response of incumbents was inhibited by:
  - Legacy links, high costs, financial crisis, **complexity**

## Why short haul?

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- ❑ Regional deregulation (US, Europe...)
- ❑ Commodity product - with significant price elasticity
- ❑ Utilisation improvement from 8 → 12h per day per aircraft
- ❑ Artificial pricing barriers by airlines (Mismatch cost/price)
- ❑ Regional sales proposition acceptable and trusted
- ❑ Many secondary destinations with poor service + alternate airports
- ❑ Proven model (USA)

## Why NOT long haul?

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- Regulatory restrictions
- Price segmentation (3 class etc.) and business customers key
- Higher entry costs (aircraft, set up, marketing etc.)
- Connecting passengers
- Long haul aircraft utilisation
- Secondary airports of limited scope and availability for large jets
- No market for 'nowhere to nowhere' routes
- Incumbents able to price low at the margin to compete + connecting airlines
- More difficult to attract new revenues, and many of the costs the same (e.g. aircraft, fuel)



## Key strengths of network airline model

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- ❑ Network connections provide feed in to/ from hubs
- ❑ Product differentiation (Class of service) allows coverage of wide willingness to pay, and charge 'marginal fares' for the last travellers
- ❑ Established brand has value
- ❑ Alliance relationships channel traffic
- ❑ Travel agency network, corporates important
- ❑ Experience of international markets
- ❑ Critical mass.....

## Some weaknesses?

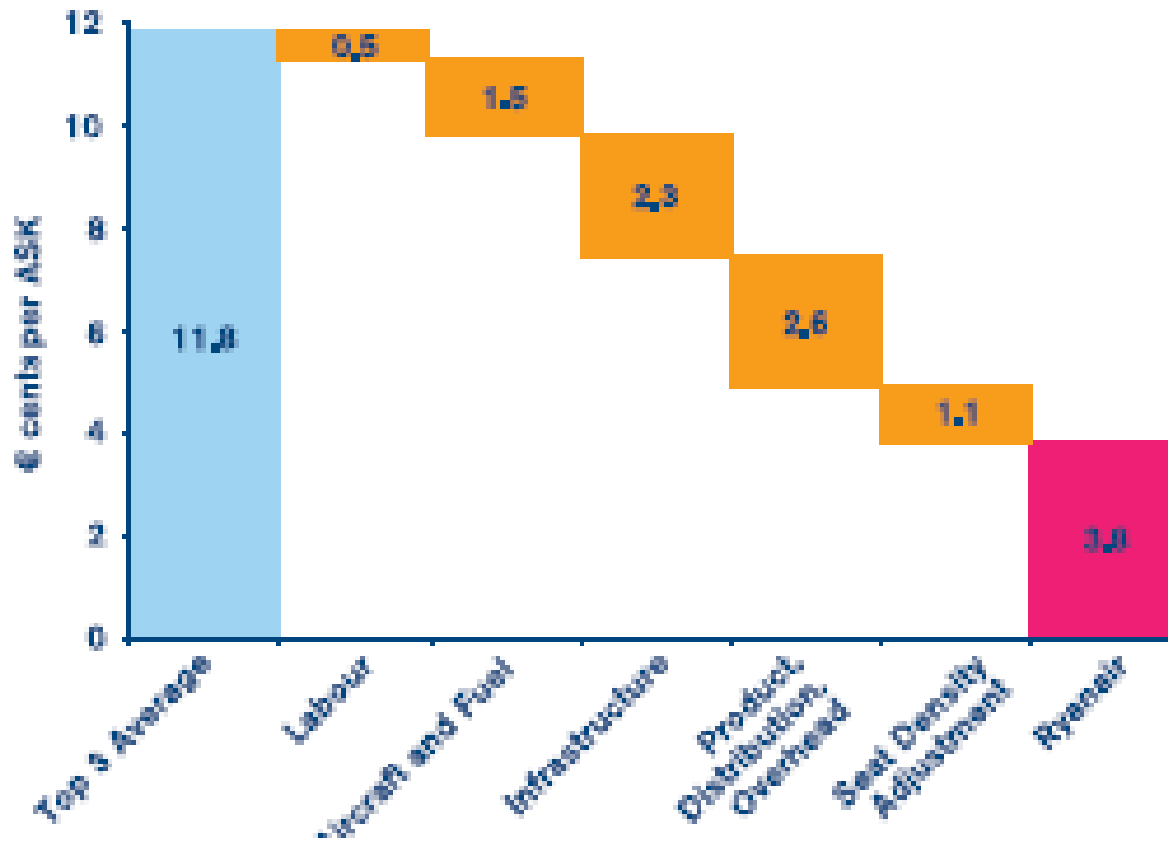
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- ❑ Class fare differentials have grown to unrealistic levels (6-10X for premium vs. economy on long haul)
- ❑ Large players too big and inflexible to react swiftly (e.g. fleet refurbishment takes years)
- ❑ Dependence on hub markets
- ❑ Inflexible cost structure
- ❑ Erosion of short haul frequency
- ❑ The network 'guarantees' have a high cost
- ❑ High growth markets create many new niches
- ❑ 'Personal service' often just cosmetic, and unable to deal with detailed issues

# Where does the cost advantage lie?

In Europe for short haul services

1: The Cost Gap with Ryanair, 2004







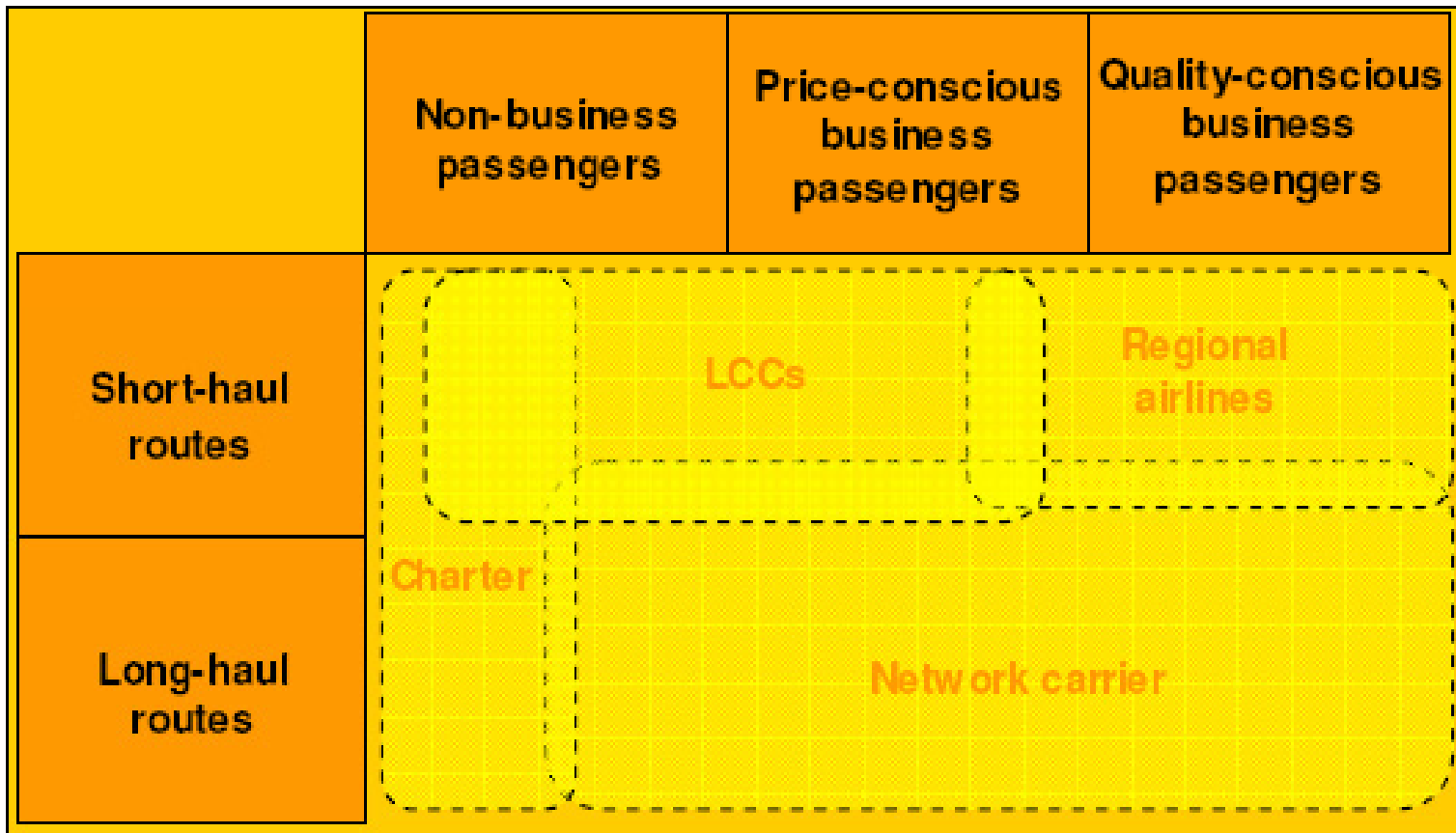
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**The future?**

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# Trends in Airline Business Models



Source: Mercer Management Consultants 2003

The low cost phenomenon, Vienna, 08.02.2004



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**Opportunities**

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## In Summary

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*'The reasonable man accepts the world as he finds it.  
The unreasonable man tries to change the world to his  
point of view.*

*Therefore all progress depends on the unreasonable  
man'*

G.B.Shaw : Man and Superman

*'If the chariot ahead has overturned, let the chariot behind beware'*  
Jia-Yi , Han Dynasty



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