The Seven New Realities of Air Service Planning

Recognizing & Optimizing The Future For U.S. Airports

Prepared by

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Welcome!

At Boyd Group International, our focus is on constant research and forecasting.

Aviation is constantly evolving, rendering past air service access planning obsolete and revealing new paths and new opportunities. In this document, we outline seven key New Realities which need to be addressed if all regions of the nation are to be connected to the global economy.

As our clients know well, BGI does not hesitate to question ambient thinking and political correctness. We understand that forward thinking demands breaking from the pack and exploring new concepts and ideas.

We see very vibrant opportunities for enhancing air service access for small and mid-size communities. But this will take the bold decisions to accept and build on the massive changes that are in store in regard to the national and global economies in the coming decade. Trying to recreate the past won't work. But optimizing the exciting shifts in air transportation of the future will deliver economic growth for communities bold enough to understand that yesterday's air transportation system is as obsolete as riverboats and steam locomotives.

We would point out that this is the type of approach and format we deliver at the annual **International Aviation Forecast Summit**. Being held August 25-27 this year in Las Vegas, attendees hear and interact with the thought-leaders in aviation, and receive actual forecasts of the key areas that affect all areas of the industry.

What is in this document is just a taste of the type of insight that the Summit provides, right from the industry CEOs and senior executives who are shaping the future. There is a summary introduction at the back of this document, introducing the leaders who will be at this year's event.

And we note that in each of the New Realities outlined herein, the Boyd Group International Team is ready to assist. Whether it's a need for reliable data and forecasts, or crafting futurist air service approaches, developing strategic plans, even assistance with internationalization programs, we are ready. This includes our tailored Community Team Building™ programs, where we deliver on-site presentations designed to bring your community on-board regarding air service. Open dates in September and October are now being booked.

As always, we look forward to hearing from you, and we appreciate your interest. If you have any questions, please contact us.

New Reality: Need For A Degree In Airline Business 401

You're working hard... leaving no stone unturned to develop more air service.

And you can assume every other U.S. airport is doing just that, too. Lots of competition.

The good news is, a lot of that competition is shooting in the dark. Take a look.

Do a news search on "airport air service development." You'll find a lot of articles about how this community or that is focused on "getting flights to Denver..." or, "a route to New York, or Chicago" ... or "flights to Boise..." or "luring low fare service..."

What's not there in most cases? What key bit of important information is missing? What illuminates how they are way behind the air service planning curve?

Simple, they're after "routes" without bothering to take the effort to understand the realities of the airline system... at several levels.

First, in today's consolidated industry, any such market recruitment objectives already have clear, specific and limited airline options. (And sometimes, none.) No studies to search for the right airline are needed, although some airports get convinced a 60-page War-And-Peace data wallow will sometimes change reality.

The second is that the goal of any air service program must be increasing access, and not just finding flights to one destination.

The third is that at most small and mid-size communities, there isn't sufficient local O&D to alone support flights to almost any non-leisure destination, whether it's Denver, Boise or Tulsa. (A point not well recognized, but true.)

So, the goal must absolutely be, for example, service to an airline's *Denver hub*. In this instance, for smaller airports, that quickly runs the table to just two options. United or Frontier – and each has a very different operational model. No mysteries. No need for another "true market study." No need to mislead the public with jive about "having talks with several airlines." For small non-hubsite airports, American or JetBlue or Delta aren't in the play for Denver access.

This is what sets successful air service expansion programs ahead of the competition: *an on-going knowledge of airline industry trends and dynamics.* The structure of their route systems. Their current and future fleet plans. The potential access gained – or not gained – through their hubsites.

So, when the question is asked, "Why isn't Southwest here?" or "When do we get nonstops to Tucson?'" it's important that the local airport know precisely the answers.

That knowledge will also help your air service access planning from getting sidetracked.

Today, the determinant of air service growth success is how closely your airport meets the strategies of the target airline – current and future. That requires expertise in airline trends

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and strategies. This will cull out DOA presentations to carriers that are no more likely to serve your airport than NASA coming in to do a Moon launch.

Bottom line: There's no magic here. *Air service development starts with recognizing the realities and the structure of the airline industry*. Expertise in factors such as fleets, the alliances, the market planning strategies at target carriers – better than the competition - is the key to focused air service planning.

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New Reality: Internationalization

Here's a new facility requirement for the future: Every airport served via major airline brand flights should have basic welcome signage in at least three international languages – Japanese, German and Chinese.

That's because these are the international sectors invading U.S. business investment, across the nation, at points large and small.

Today, over 30% of all enplanements in the U.S. are the direct or indirect result of international travel. Airports that recognize this and welcome such traffic put their communities ahead of those that are numb to the global economy.

Now there's another part of the equation – foreign carriers invading the interior of the nation.

As predicted at the 2008 International Aviation Forecast Summit, airports such as Indianapolis, New Orleans, Memphis and others were prime spokes for the British Airways hub at Heathrow, the Air France/SkyTeam hub at CDG and the Lufthansa operations at MUC and FRA. And, since that time, the trend has begun.

Coming on line, there is a second tier of U.S. airports that are in the planning sights of these and other foreign carriers.

With the economics of new, narrow-body airliners such as the Airbus A-321XLR, just about any airport east of the Mississippi with more than 3 million passengers and a strong regional interstate highway feed system is a target for consideration of trans-Atlantic service to feed UK and EU hubs.

This will engender more global investment in entire regions of the United States. That means that airports must show that they recognize and respect international visitors. Simple signage and basic promotional materials are inexpensive ways of doing this.

One important point. In any translations beyond just "welcome," never, *ever* use machine-translations such as Google! If you have such on your website, remove them ASAP. They are insultingly clumsy and impart a very sloppy image of your airport. Get professionals to create your message in the target languages, and skip the others.

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New Reality: Leakage Is A Consumer Factor, Not A Geographical Issue

Keeping the local business at the local airport is an important objective. It's tough when large percentages of the local population insist on using another gateway.

But the main reason for "leakage" is the perception of service being better at that

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alternative – and typically much larger – distant airport. Unfortunately, for some sectors of the consumer parade, the perceptions are reality. That airport 60 or 90 minutes away actually does offer some service that the local airport simply cannot support. Consumer decisions are based on service-quality attendant to their specific travel need, for each specific travel occasion.

The traditional methodology of drawing a catchment perimeter around the airport's region is actually meaningless... because consumers opt for air travel options that meet their needs, and that often has little to do with proximity to the local airport.

Today, the objective must shift to concentrating on retaining specific consumer stratas. That's defined by the sectors of the flying public to which the local airport meets their air travel needs as effectively or better than an alternative airport option.

The situation is different airport to airport, but one thing is an unshakable fact: there are some travel demand sectors that the local airport cannot satisfy completely.

The tough challenge is to determine what travel sectors the local airport can capture, and which would best be quit-claimed to the larger airport that's 90 miles away.

Truth be known, sometimes a 75-minute drive to that "other" airport to get a nonstop flight to a point the local airport cannot support, or to access a much wider set of frequency options that a larger population base engenders, are situations that no amount of heat-map infested and ARC-data rich "leakage studies" will change.

And even that gets cloudy, airport to airport. If it's a 75-minute drive to the alternative airport, one that has strong international nonstops, the local traffic seeking to get to Paris is tough to retain. But if the hubbing carrier at that distant airport has 6-7 connecting flights from your airport, then that's fully retainable traffic.

The point is this: to accurately address "leakage" the first step is to do complete triage on which travel sectors the local airport can fully compete for, and those which actually aren't in your *consumer-service defined* catchment potential.

This means, ditch the obsolete catchment area maps, and research air service sector capture data. Insisting that local consumers look first at the local airport is always the right strategy. But it's also important to recognize that in some cases the local options are not consumer-competitive, and in many cases, the community can't support such local air service options.

This is a critical part of an effective and targeted air service access program.

One illuminating point: traditional leakage studies might (with some questionable accuracy) give an idea regarding *where* locally-generated passengers are buying tickets. But that data leaves you in the dark as to *why* they use alternative airports.

So, replace geographic catchment area maps with consumer-segment capture projections. Define the consumer and destinational options where the airport is on a level playing field with alternative consumer options, and then build your plan accordingly.

New Reality: Know Industry Data...And Don't Bend To Media Reports

Any small or mid-size airport that doesn't get complaints about local airfares is likely located on an uninhabited desert island.

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It is natural for consumers to get confused regarding airline pricing. Actually, airlines might be accused of being confused about it, too.

So, it's the tough job of airport directors to be able to address these issues, and keep the public informed on the realities of ticket prices.

But usually a couple times a year, airports are barraged with media calls, referring to various "reports" and "studies" that come out from time to time, comparing air fares at your airport with others, and – usually included – comparing them to the "national average."

Easy to respond to this.

Those reports are garbage, usually published by entities that couldn't tell an airline fare from an ATM receipt.

The first thing to do is to blow the credibility of these supposed exposés into the land fill, where they belong.

Air transportation is not like a Big Mac, or a gallon of gasoline, which are products consistent in substance everywhere. That's not the case with consumer-driven air travel.

Air service provided at Omaha is different from that at Newark, which has little resemblance to air service at Las Vegas or Spokane. The consumer segments are different. The destinational distributions are different. The local economies that drive demand are different.

Therefore, comparing ticket prices between various airports is a great way to assure the public is as misinformed as possible. Yet supposedly knowledgeable folks even in aviation spout them off like dogma.

(Yes, we recognize that in SCASD applications, even the DOT asks for "fare comparisons" and analyses of whether your airport has "higher than average" fare levels. Not surprising... the DOT has a long way to go before they start to approach the 21st century. That's covered next.

But in the meantime, feed them some numbers.)

Oh, and by the way, about those quarterly "fare reports" issued by the BTS. Some media folks latch onto these numbers as if Moses FedExed them in direct from Mount Sinai. They aren't really about fares.

They are reporting *ticket spend* per passenger, which is different airport to airport. That lumps in one-ways, round trips, multi-stop journeys, all divided by the number of passengers.

The travel patterns, and hence what is spent on air travel, differs from city to city. For one data point, the average passenger trip from IAD is just under 1,500 miles. At STL, it's around 950.

All airports are different air service structures and they are not comparable on average ticket cost or average consumer spend.

So, the free-for-all jumping on the local airport in regard to fares can and should be responded to based on facts and the validity of the source.

Which usually is next to none.

New Reality: DOT Data & Statistics Are Increasingly Out of Reality

A lot of DOT's reporting methodologies are still founded on this airline system. One that no longer exists.

In air service planning, you need accurate planning data.

But getting reliable aviation and air traffic data today is a challenge. In a lot of aspects, you're on your own to define your true air service potential.

You already have reports based on raw DOT/BTS data? Great. They're just a starting

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point – and in many aspects regarding accuracy and usefulness, they're like using two cans and a string instead of a cell phone to call across town. We'll get to that below.

Here's another 21st-century fact: The reported BTS market O&D at your airport is likely to materially understate the true potential traffic demand. In just about every city-pair.

U.S. DOT/BTS data are a source that's riddled with misleading and inaccurate information – because the genesis of the data collection is based on the 1970s airline industry, which, as the rest of us have noticed, has completely disappeared.

They don't even recognize the structure of the airline industry. The BTS still reports data based on the belief that there are separate "major" and "regional" airline systems, when today, the latter is mostly a collection of companies that lease aircraft and crews to major airline brands, and have no route systems of their own. They are not stand-alone airline systems.

The outdated DOT methodology also still assumes that airlines provide capacity at airports respondent to economic-determined market requirements, and therefore the reported O&D is what the market will generate.

That is today completely bogus.

The O&D numbers are just a sampled-estimate based on the capacity that airlines subjectively choose to apply in a given market. The PDEW numbers are the result of that, and should never be construed as the natural market demand between two points. Particularly at small and mid-size airports, it's likely higher.

Remember, O&D tables are generated from a 10% sample, not all tickets. That's because back then, computer technology couldn't handle a 100% audit. In 1997, more than two decades ago, the GAO reported this to be a major flaw, particularly in skewing results for small and low-density markets.

Boyd Group International's Airports:USA® system can easily handle a 100% sample, and we fully support the GAO conclusions. But other sources are opposed to any such change because their systems can't digest the data.

Due to the flaws in the 10% sample, the raw O&D numbers cannot be taken as-is, where-is. They must be reconciled against other sources, such as T-100, and even airport-reported totals. That requires some fairly sophisticated after-market analytical processing of the raw BTS numbers.

This is the reason that airports should avoid like the plague any after-market "quarterly" reports where the O&D tables all end in zeros.

That means they were sloppily generated directly from the BTS sample, which any high school kid can do, and the data can be materially – by double-digit percentages – inaccurate.

Going forward, it's again imperative that airports be fully versed in all local data, and relate them to their knowledge of the strategy and fleet trends of incumbent and targeted airlines.

New Reality: ULCCs Are In The Cards For Rural America

Historically, it was organic traffic demand that supported local air service.

That's not the case, necessarily, any longer. There's a new, parallel airline system and

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operational model: the Ultra Low-Cost Carrier, or "ULCC."

Their model is not to go after organic air service demand, but to generate net new traffic based on offering a new discretionary spend product – very low fares to key destinations.

They are chasing after mostly consumers who would not have made such trips, except for the existence of the fare.

To be sure, there are essentially only four in operation – Allegiant, Frontier, Spirit and Sun Country. But their model is one that can work well at small airports that can demonstrate a number of key attributes: Strong ground logistics from a wide region that accesses a strong population base, robust regional discretionary spend and – key to this – cheap or no airport costs.

The ULCC model is not one that will develop access to and from the rest of the globe. Executives from Toyota won't be flying in on these carriers to do a factory site-search.

There's always the question of how far this model can expand, but we're a long way from the bottom the revenue-generation vat.

Point: ULCCs are after discretionary dollars, regardless of where they're generated.

A lot of rural airports will fit that template.

Just about any Part 139 airport with sufficient facilities and strong regional ground access can be in the cards.

Excellence In Air Service Planning

Boyd Group International has assisted airports of all sizes in crafting new-vision air service access programs. One reason is that we have better data, better forecasts, and better understanding of airline trends. If you're looking for straight professional results, give us a call.

New Reality: New Fleets: New Economics. Results: Positive for Regional Air Service

Cessna. deHavilland Canada. Piper. Beech. Fairchild. BAe. Casa. Dornier. Avro. Shorts. And most recently, Bombardier.

They all sold small airliners. In the mid-1980s, the skies were blackened with their airplanes. Now, they're out of that business, and the airplanes they produced are mostly parked... or transformed into the contents of a Budweiser display.

Now comes the fear that as 50-seat and 70-seat CRJs get long in tooth and pulled from major airline fleets, there will be more wrenching changes at small airports.

Not to worry. The airports affected by retirement of small airliners have already taken the hit. The 50- and 70-seat markets operated under AA/UA/DL/AS brands will mostly shift into larger units. And remember, they are not solely operated in "small" markets. They are scheduled where and when the major carrier needs less capacity.

What's vulnerable today are mostly the several EAS routes operated with 50-seaters, and, facts be stated, in most cases they aren't carrying much more than can fit into a couple of VW micro-vans.

Here's some heresy: going forward, small and mid-size airports that are currently supporting viable major-coded air service have zero to be concerned about with retirement of 50-seat jets. Larger airliners will be a benefit.

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There Are New Realities Across Aviation... The IAFS™ Delivers Them

These New Realities are just examples. Join your colleagues at the ***Boyd Group International Aviation Forecast Summit*** in Las Vegas, August 25-27, to interact with the CEOs and executives shaping the future. It's the one event that delivers data, perspectives and forecasts that give you the competitive edge.

Forecasts That Deliver The Future. New Fleets, New Airport Market Opportunities, Traffic Trends, to one-on-one incisive and non-scripted discussions with CEOs and executives from airlines and suppliers, the IAFS™ is the one event that steps beyond ambient thinking.

Perspectives From Leaders – No Pre-Defined Panel Discussions. And what's more, each of them will be delivering their own unscripted views of the future of our industry. Plus, plenty of Q&A, and social events for one-on-one networking. These are some of the thought-leaders presenting:

- **Allegiant Air,** Maury Gallagher, Chairman & CEO
- **Frontier Airlines,** Barry Biffle, President & CEO
- **Hawaiian Airlines,** Peter Ingram, President & CEO
- **Spirit Airlines**, Ted Christie, CEO
- **Sun Country Airlines**, Jude Bricker, CEO
- **SkyWest Airlines,** Chip Childs, CEO
- **Volaris,** Enrique Beltranena, CEO
- **Southwest Airlines**, Andrew Watterson, EVP & Chief Revenue Officer
- **United Airlines**, Linda Jojo, EVP Technology & Chief Digital Officer
- **Delta Air Lines**, Tim Mapes, SVP & Chief Marketing and Communications Officer
- **American Airlines,** Kerry Philipovitch, SVP Customer Experience
- **Air China,** Dr. Zhihang Chi, VP & GM N. Am.
- **Aer Lingus,** Bill Byrne, VP Global Sales
- **Korean Air**, John Jackson, Vice President
- **Aeromar,** Fabricio Cojuc, Executive Director, Network Strategy & Alliances
- **Boom Supersonic**, Blake Scholl, CEO
- **Airbus Americas,** Chris Jones, SVP Customers
- **Boeing**, Jim Freitas, Managing Director
- **Embraer,** Victor Viera, Head of Market Strategy
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- **Pratt & Whitney,** Ashwin Jadhav, Sr Manager Strategic Planning
- **Bye Aerospace,** George Bye, CEO
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