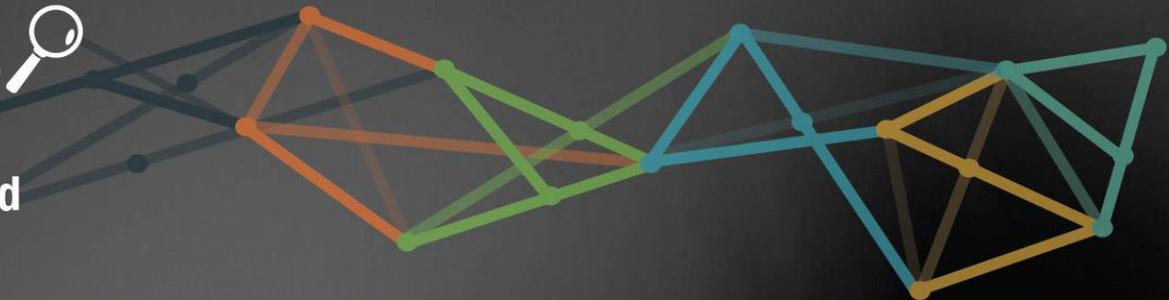


# PATA Global Insights Conference 2016

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## Coping with Growth or Gearing Up for Success?

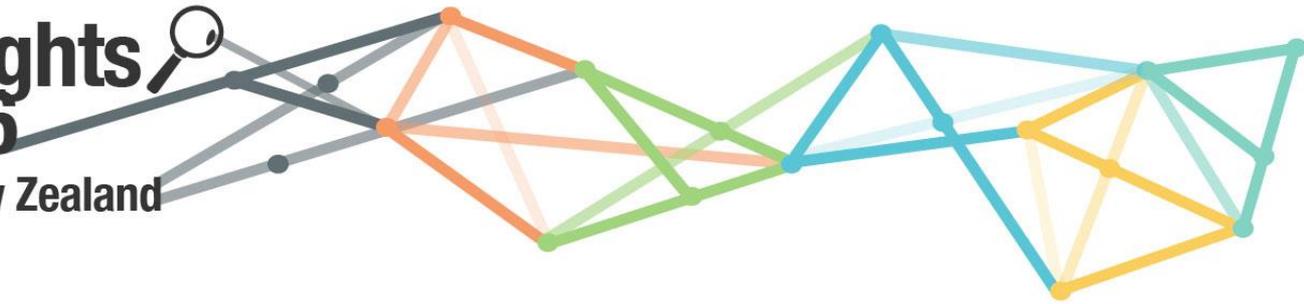
**JOHN GRANT**  
*Director, JG Aviation Consultants*



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Coping With Growth  
Gearing Up For Success



## Aviation is hugely successful....

In 2016, IATA estimate some 3.6 Billion passengers.

That's 9.9 million a day...

411,000 an hour

or 137,000 in the next 20 minutes (nearly 3 times the capacity of Eden Park)

In the next fifteen years passenger demand will double

It took over 80 years to reach 3.6 Billion....15 years to double that number

By any measurement that would appear successful...



## Impressive numbers....

In 2015 some 870 new aircraft were placed into operation

IATA forecast a US\$39.4 Billion industry profit for 2016

Hugely underpinned by the US based airlines accounting for US\$22.0 Billion

The net margin was 4% or US\$8 per passenger carried. Every passenger in Africa “loses” US\$5

Passenger load factors reached record levels in many regions

Less than 25% of the population from emerging markets travelled in 2015

By 2035, 75% of those populations will take a trip each year.

And Asia/Pacific will be the leading aviation region in the world by 2035

30% share of RPK's

5.7% growth per annum for the next 20 years

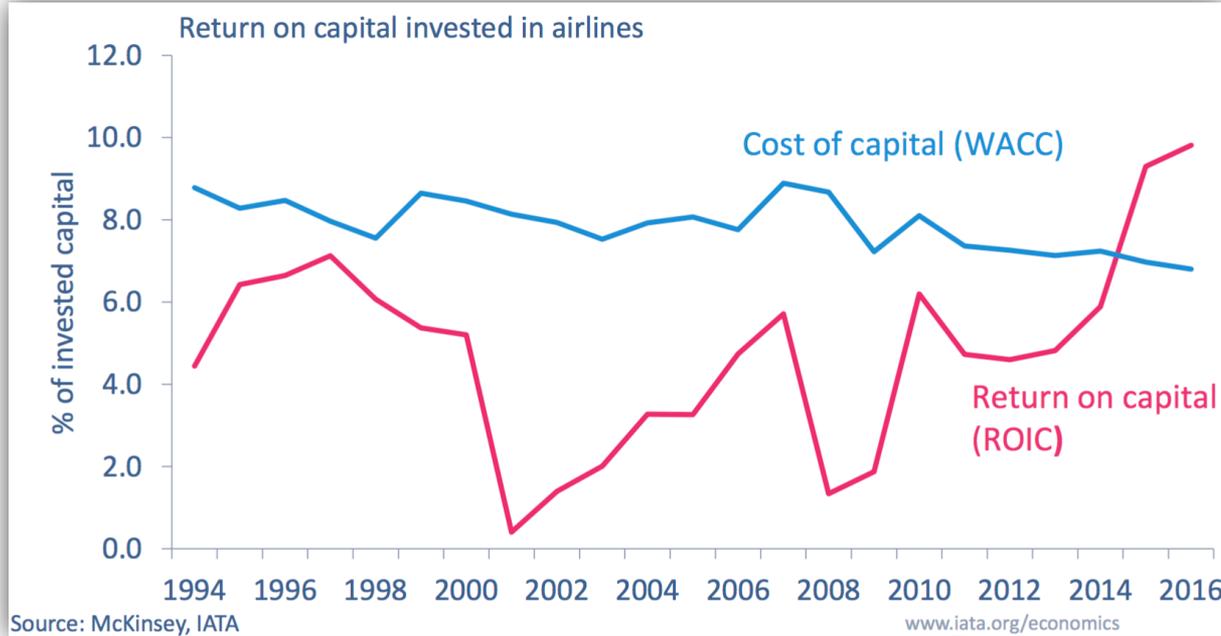
Impressive numbers....

**BUT ARE THEY REALLY THAT IMPRESSIVE**



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# Impressive Numbers....



Only in 2 of the last 24 years has the airline industry covered the cost of capital.

Aviation defies normal business principles and yet supports 63 million jobs on a global basis.

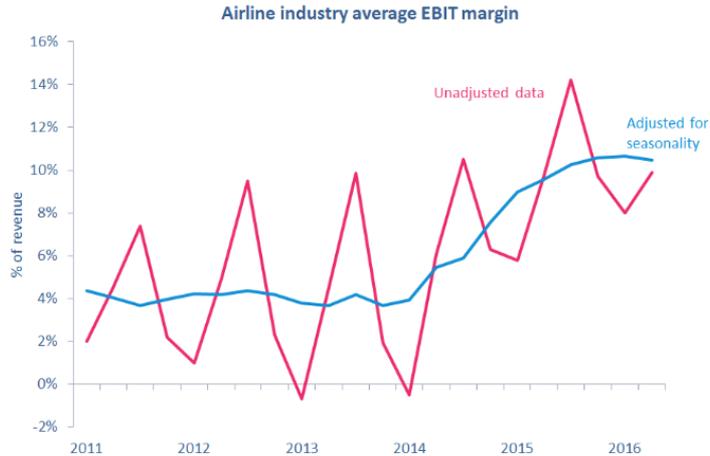
Contributes around 3.4% to global GDP.

And pioneers technological development faster than many other sectors.

# And A Turning Tide....

September 16, 2016

## Airline industry profitability cycle showing signs of peaking



Source: IATA using data from airline public releases and The Airline Analyst

Airline profits remain highly seasonal

Northern Hemisphere drives profitability

Costs remain fixed

Softening economic conditions

Oil trending slightly higher

Revenues under pressure

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# The Aviation Paradox

## The Great Bits

- Continual growth forever.....
- Drives global GDP
- Builds international relations
- Employs millions of people (direct and secondary impact)
- Technologically inspiring
- Addictive



## The Ugly Bits

- It has been unprofitable over time
- Frequently encourages failure
- Is trapped by regulation
- Recent growth has been loss making

# The Defining Decade

The next ten years will bring rapid change to the airline industry and the global market.

It will bring a series of major challenges that will need tackling very quickly.

It has taken 100 years to get here.....in ten years we will be twice as far forward.

So how can we gear up for success in the next decade?



# Get Ready For Airline Consolidation?

There are just under 800 scheduled airlines filing services for sale.

There are 193 countries recognised by the United Nations – so about 5 per country

There are 18 scheduled airlines in the United Kingdom alone

And some 60 in the United States!

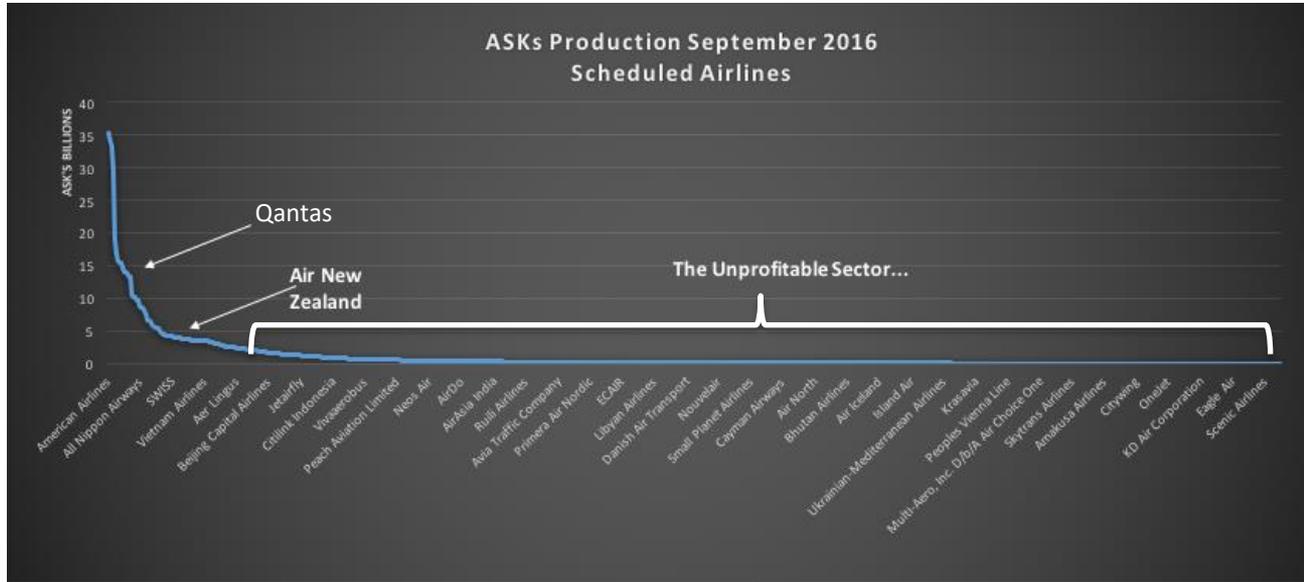
It is no coincidence that the most profitable aviation region has seen considerable consolidation

That IAG, Europe's most successful legacy carrier represents a consolidated business.

We should expect to see further consolidation in the next decade.....the foundations are already being laid



# Current Airline Numbers Look Excessive....



## Reduced Regulatory Barriers

”Open Skies” are here to stay the genie is out of the bottle.

Hiding behind old rules is pure protectionism and does not benefit the consumer

Foreign investment in local airlines should be allowed.

In nearly every other industry this would be normal.

Commercial aviation has limited strategic defensive relevance in today’s world.

Archaic “protectionist” rules need to be removed

Air Service Agreements with limited frequency serve no purpose

Minimum periods of domestic service before international routes approved compromises profitability & jobs



## Aviation Megacities Will Dominate Global Aviation....

There are some 55 airports around the world defined as “Aviation Mega-Cities”

90% of long-haul services O&D from these cities

One Million passengers a day depart from these cities

Three quarters of the worlds “Mega-cities” are now constrained from an aviation perspective

London, Chicago, New York, Hong Kong, Beijing and others are all full.

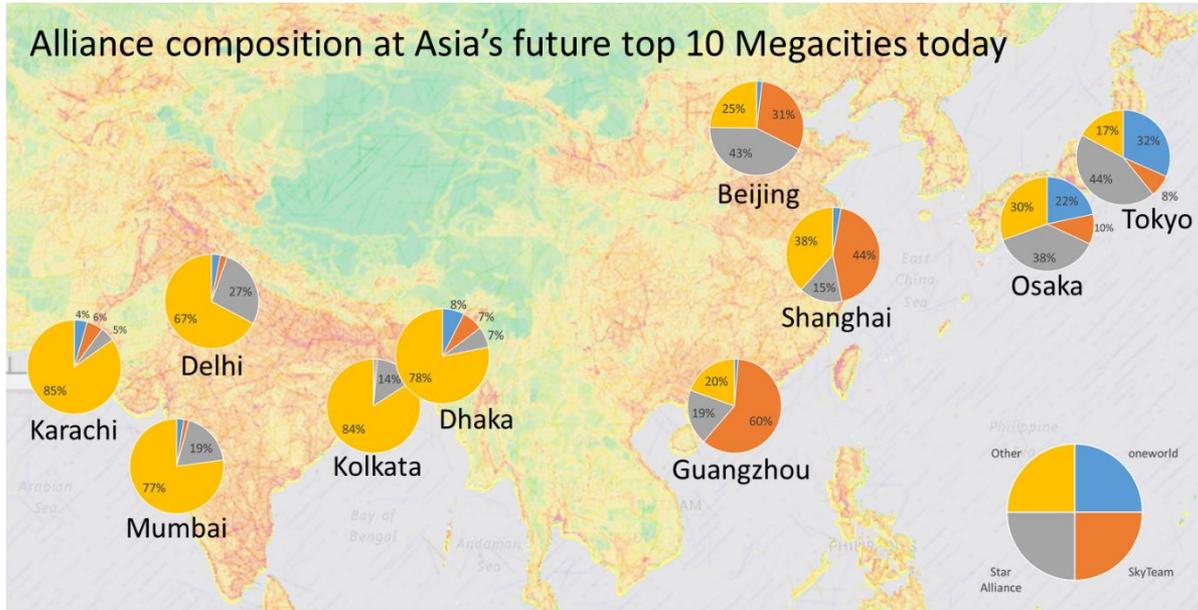
By 2035 there will be some 93 “Aviation Mega-Cities”

2.5 million passengers a day across these cities

95% of long-haul traffic will be to/from or via these 93 cities by 2035.....or will it???



# Airline Alliances Currently Dominate Capacity At Those Airports....



## Expected Top MegaCities In Asia Pacific in 2030....



By expected population, the top 10 Megacities will be

1. Tokyo
2. Delhi
3. Shanghai
4. Mumbai
5. Beijing
6. Dhaka
7. Karachi
8. Osaka
9. Kolkata
10. Guangzhou

Source: UN

# The New MegaCity Airports

There will be some 40 new Megacity Airports by 2035.

Seven of these will be in the Asia/Pacific Region

By 2020 – Perth

By 2025 – Brisbane, Dhaka

By 2030 – Ho Chi Minh City, Mauritius, Phuket

By 2035 – Chennai

But these airports and markets are going to be different to today's Megacities....



# Aircraft Technology Will Change Airport Networks

The B787 & A350 are serious industry changers.

There are some 700 B787's yet to be delivered

There are some 774 A350's yet to be delivered

And many are coming to the Asia/pacific region.

**BUT**, the real game changer will be the A320Neo and the B737Max

Single aisle, 200 seat, 4,000Nm range

Singapore – Sydney just falls in range

Auckland doesn't!

Medium to Long-haul low cost likely to be the major growth sector in the next decade in the region.



# Next Generation Airports For Next Generation Airlines

Emergent Megacities will be very different in structure to what we see today.

Long-haul services will be primarily driven by single aisle long-range aircraft

Low cost airlines and alliances will dominate these airports

Passenger will self connect rather than interline

Products will be simplified for both the airline and passenger



# Emergent Markets = Emergent Travel Patterns= Emergent Distribution

New travellers will have no pre-conditioned expectations.

Self connecting travel will become an increasingly popular way to travel

Stopover opportunities will develop for key low cost markets and destinations

New informal airlines alliances will develop amongst low cost carriers

U-Fly Alliance and Value Alliance are early starters.

Legacy connecting to Low Cost will be no different to any other connection.



## So How Do You Gear Up For Success.....

**F**ocus on emergent market sectors and technology, that's where the opportunity lies

Medium/long haul low cost is a sweet spot for the next decade

**A**nticipate change and be prepared

Could we have predicted 5 years ago that the A380 would be yesterday's aircraft for many

**S**econdary markets and airports will grow rapidly in the next five years.

Megacities will be constrained creating opportunity elsewhere

**T**echnology will continue to both create opportunities and "disrupt" aviation

Many airports spent US\$ Millions on upgrades for the A380 and have seen marginal benefit.

**E**mploy really smart, service driven, passionate people

Such people are crucial to the success of any business

**R**elevance to the market will be crucial

Too many market leaders become complacent; maintaining relevance is crucial



## Failing that.....



## Get Yourself A Decent Consultant

Its always good to have someone else to blame!

Just sometimes, your challenges were someone else's experiences

An external global perspective can be handy

Generally it's a lot cheaper than failing

And if that doesn't work.....then.....



Hit This **VERY** Hard....



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