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ascend

Taking your airline to new heights

A man in a dark pinstriped suit and tie is smiling and holding a small white model airplane. He is standing in front of a window with horizontal blinds. The background is slightly out of focus.

World's Happiest Airline

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CHANNELING CHINA

China has experienced significant growth in the online travel arena and is expected, by the end of next year, to represent 20 percent of the country's total travel revenues.

■ By Siew Hoon and Benjamin Mussler | *Ascend* Contributors



There's no question that the growth of the travel market has been a real bright spot for China. One highlight last year was the impressive growth of online travel via online travel agents and supplier websites.

"It is projected to grow at double digits for 2011 and 2012, and this should result in online representing 20 percent of total travel revenues by the end of 2011," said Hans Belle, vice president in the Asia/Pacific region for *Sabre Travel Network*. "This will influence adoption of online technologies and enablers such as advanced shopping/pricing platforms, Internet booking platforms, online booking tools, customer relationship management, and airline marketing and merchandising tools."

It is a segment that can only grow. China has the largest base of Internet users in the world (300 million people), of which more than 80 million have broadband capabilities.

"The robust telecom infrastructure, greater availability of online payment options (online banking, third-party payment sites, credit/debit cards) and availability of high-quality media content have helped fuel the online adoption in travel," according to a report by PhoCusWright. "Along with other e-commerce players like Taobao, sina.com, etc., travel meta-search players like Qunar and Kuxun have also experienced rapid growth."

Drive Toward Direct Web Bookings

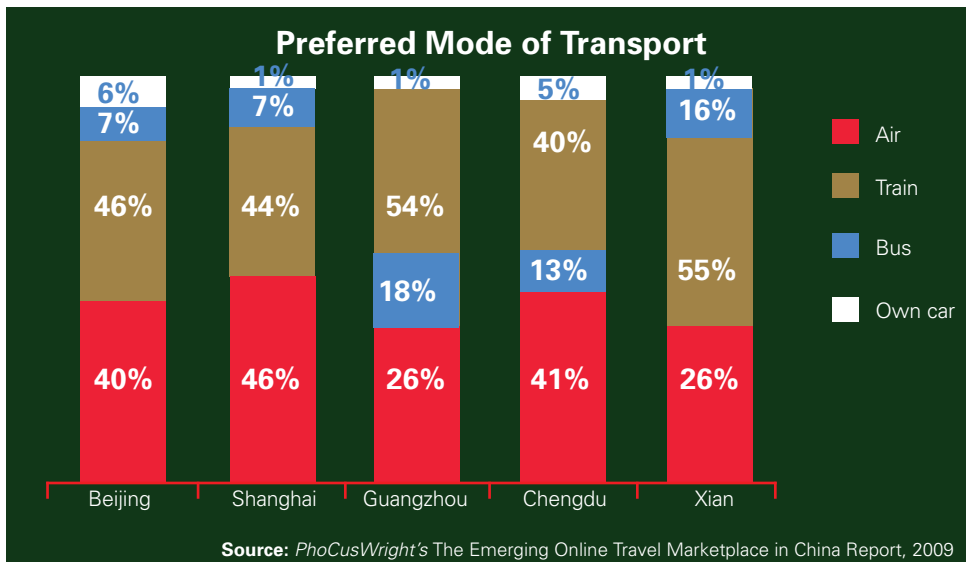
One supplier that has made great strides in driving direct online bookings has been 7 Days Inn, China's third-largest budget hotel group. Its Chief Executive Officer Alex Zheng recently outlined expansion plans — from the current 320 hotels to 1,800 during the next five years — and said that more than 60 percent of its sales comes from online reservations.

With similar ambitions, Chinese airlines have been investing in their online presence.

"Airlines in China have begun to take their online presence more seriously," said Brett Henry, vice president of marketing for Abacus International. "The growth of the supplier direct is now as fast as the online travel agents. The carriers now appear to be making the right investments in technology, processes and people to leverage and derive benefits from the online environment."

As consumers in China continue to have more travel shopping options, airlines recognize that they have to pay closer attention to the online space to compete with OTAs such as Ctrip. Ctrip caters to the Chinese market — aggregating information on hotels and flights and enabling customers to book online. Like other OTAs, Ctrip also sells packaged tours that include transportation and accommodations.

According to PhoCusWright estimates, in 2008, Ctrip sold every tenth air ticket in China, aggregating air bookings of about US\$2.5 billion. The value OTAs such as Ctrip provide to consumers can be seen in their immense growth. Ctrip airline ticket sales have skyrocketed in the past three years. In 2008, Ctrip booked more than 14 million air tickets, more than a 350 percent increase from its 2005 air bookings.



Record economic growth has stimulated China's travel industry, which is currently positioned to surpass Japan as Asia's largest travel market. In terms of passenger volume, China already has the largest aviation market, and the country is experiencing significant investments in travel, tourism and infrastructure across all sectors, including rail, road and airports.

Abacus' Henry sees this growth as a win for the consumer.

"We can expect to see Chinese carriers competing more aggressively with the OTAs in that space," he said. "Metasearch will also dramatically increase, which will mean better service and options for both consumers and suppliers."

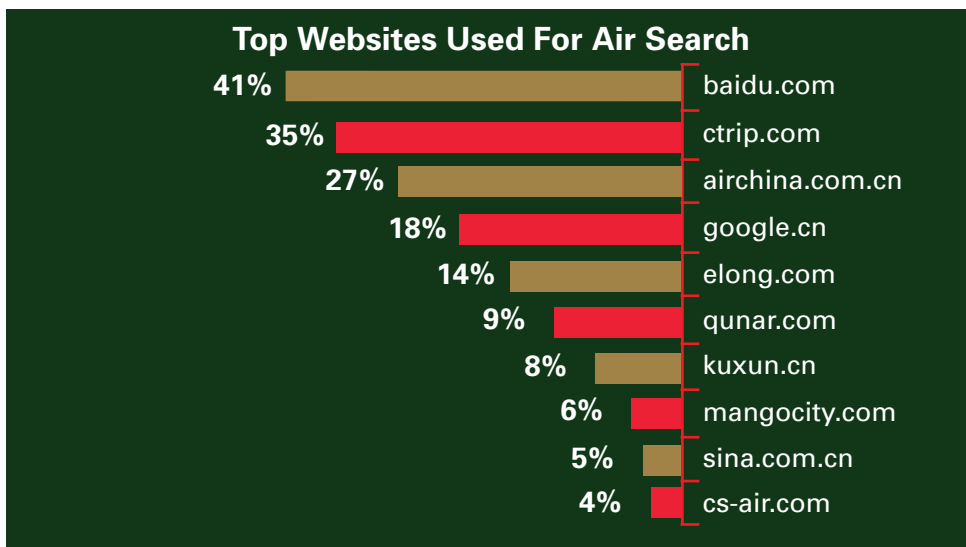
And airlines in China are not waiting to make changes. For example, Air China and China Southern have introduced Web-exclusive fares to drive direct bookings from their websites. Time will tell if exclusive Web fares will work in the Chinese market. In the short term, they represent a great way to drive customers to a site. But building loyalty based solely on price may represent only a short-term advantage — if low prices go away, airlines will have to capture

the heart of the Web shopper in some other fashion to sustain long-term site loyalty. In any case, actions such as these represent the growth of "choice" for Chinese consumers.

Additional actions have included the expansion of travel offerings by airlines on their websites. Air China, for instance, has signed a partnership with Expedia Affiliate Network, which will see the Expedia hotel product offering available for booking through Air China points of sale across 27 markets globally.

TravelSky And China

The greatest of intentions can only be realized if supported by the right foundations, and the biggest question that begs asking is, "How does



Two years ago, Ctrip sold every tenth air ticket in China, collecting about US\$2.5 billion in air bookings. Today, the online travel agency possesses a 35 percent share of the top websites used for air travel searches in China.

the state-owned GDS, TravelSky, fit into this whole scenario?"

On its website, it declares its aim to be "a world-class company with international competitiveness."

For this to happen, many argue that some sort of deregulation must occur in the Chinese travel marketplace.

"This will impact both airline distribution and technology in the travel space," said Henry. "Deregulation will certainly open up the travel industry in China to a high degree of change and push the industry to move at an even faster pace than before."

The decision to deregulate "is not up to TravelSky to decide," said a TravelSky source. "Our purpose is to compete in all situations, whether the market is open or not. We have to ensure our technology is friendly and easy to use, we help travel agents upgrade from green screen, and we offer e-commerce support to our partners to support their Web business."

One area it is focusing on is the corporate travel market, and it recently signed a partnership with Carlson Wagonlit, in addition to an earlier agreement with American Express.

"In China, corporate travel is only beginning," according to TravelSky. "It's like Europe or the United States 20 years ago. More and more companies are catching on to the idea of corporate travel management practices, and TMCs are looking for solutions to suit their customers. They want to develop local booking tools with the support of TravelSky as they know they have to adapt to cultural and customer preferences."

Going Global

But as the players in the Chinese travel space continue to look for ways to expand, entering the international e-commerce segment is where they will face the most challenges.

"For Chinese airlines to succeed in the international online space, they have to compete with global carriers, and they have to work on things such as branding, user experience and customer service," said a Chinese airline source.

Likewise, TravelSky remains on the lookout for the right strategic partnership with a global GDS.

"We hope to cooperate with other GDSs to forge win-win relationships to help our customers expand their business globally. But we won't just wait for it to happen — we will also do our best to expand our business globally. We will develop our own plan."

And if the recent history of the growth of the Chinese travel market is any indication — Chinese carriers, OTAs and TravelSky will put their global growth plans into action sooner rather than later. ■

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