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A Conversation With...

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director general and CEO
International Air Transport Association

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Turning Profit

Even in times of high-fuel costs, airlines in Asia/Pacific are showing remarkable strength, growing numbers of passengers, amount of freight and overall revenues.

■ By Andrew Powell and Melvin Tan | *Ascend* Contributors

Propelled by sustained strong passenger growth, the Asian aviation market continues to remain robust despite challenges of high fuel prices, higher interest rates and geo-political risks. The Association of Asia Pacific Airlines stated that the traffic its member airlines carried in the first half of the year grew 5.1 percent year over year, resulting in passenger load factor rising 3.6 percent to 74.6 percent.

However, what is often taken for granted is the fact that the Asia/Pacific aviation landscape is perhaps less homogenous than in Europe and North America.

A great diversity in economic growth and income, coupled with geographical and political boundaries heavily influenced by water boundaries, create pockets of niche aviation markets. For example, Indonesia, the most populous Southeast Asian country, is an archipelago of 17,508 islands straddling the equator. This creates unique challenges for carriers serving that market when compared to those that serve a country with a large land mass such as India.

Profitability is King

As is the case in all regions, high fuel prices and strong competition means that Asian carriers have the same focus on profitability. Interestingly perhaps, in the developing regions of Asia, growth in revenue is generally not the challenge — the challenge is to ensure that costs are not growing faster than revenue.

It is clear that this focus on profitability is translated into information technology-oriented projects. Asian airlines continue to spend money on information technology, but the trend points to projects that have the strongest return on investment with the shortest payback periods and the lowest risk profiles.

For example, recently announced network planning and hub optimization projects at Thai Airways, Air China and Japan Airlines are getting approved because they strike at the

heart of the airline business. If airlines get the network, schedules and fleet assignment right, they create tangible business benefits in terms of operating profit.

Revenue management is another area that continues to grab boardroom members' attention due to the opportunity for quick return on investment. Optimizing an airline's revenue management processes is no longer in the exclusive domain of the more advanced and leading carriers in Asia. By delivering the *Sabre® AirMax® Revenue Manager* via *Sabre® eMergo®* Web access, an applications service provider delivery model, and adding capability to manage low fares, *Revenue Manager* is becoming an essential part of the application portfolio of start-up, regional, new-world and flag carriers alike. During the past 18 months, the *Sabre Airline Solutions®* business has provided *Revenue Manager* to carriers as diverse as Skywest Airlines, Virgin Blue, JAL and Kingfisher Airlines.

Higher fuel costs are also driving greater refinement of processes that impact this specific expense. *Sabre Airline Solutions* is

taking a total approach to fuel cost management. Tight procurement processes, modern weight and balance systems, and flight planning techniques can all reduce fuel costs.

Other innovative strategies are being deployed to manage costs and optimize shareholder return. In Australia, for example, Qantas Airways is replacing or enhancing its full-service offering to many markets with its low-cost subsidiary, Jetstar Airways. It can be quicker and easier to transfer activity into a new carrier than change an existing carrier. Airlines that can drive the right changes the fastest are winning in Asia.

Cargo also plays a key role in airline profitability in the region. Although most Asian countries are connected by land, the continental road and rail freight options are limited. Dragonair Cargo, a subsidiary of Hong Kong-based carrier Dragonair, is a good example of the strength of the air cargo market in Asia. The airline currently operates six freighters, and it will add another five dedicated Boeing 747 freighters by the end of 2008.



Japan Airlines is one of several carriers, including Kingfisher Airlines, Skywest Airlines and Virgin Blue, that use *Revenue Manager* to help optimize their revenue management processes. Airlines, including start-ups, regionals, new-world and flag carriers alike are increasingly using decision-support technology as an integral part of their revenue management practices.

Photo by Tim de Groot/AirTeamImages.com



There is a greater awareness that this particular area has been underserved from an IT solutions perspective. Having developed an end-to-end suite of applications for cargo carriers, *Sabre Airline Solutions* expects significant activity in the coming years because carriers want cargo reservations, revenue accounting and revenue management solutions from a single vendor.

Asian carriers reported an aggregate airline industry net profit of US\$2.1 billion in 2005, according to the International Air Transport Association. As such, Asia continues to be the most profitable airline region, and that trend is forecast to continue for at least the next two years.

Competing Asian Regional Hubs

Since trading first began in Southeast Asia, Singapore has built a foundation on the

to consolidate in a single terminal will result in Star Alliance passengers not having to transfer terminals while connecting on their flights, making travel on Star Alliance carriers more attractive.

More and more, Asian carriers are drawing on the advanced hub and network decision-making techniques that were forged in the United States and Europe. Airlines are developing more defined banks in their core hubs and are relying on advanced applications such as the *Sabre® AirFlite™ Schedule Manager* to analyze passenger connections. Airports and tourism authorities are increasingly relying on online reporting tools from *Sabre Airline Solutions* for detailed analysis of market behavior. The competition between hubs in Asia is intensifying and quickly becoming more sophisticated.

in Asia, such as Malaysia, Philippines, Thailand, China and India also have a low unit cost of labor; therefore, the competitive advantage of LCC-style labor agreements and work practices becomes less significant.

Furthermore, it can be difficult and time consuming for a new carrier to gain access to tightly controlled intra-Asia international routes such as Singapore/Kuala Lumpur, Malaysia, while the larger and more open trunk routes in Asia are already served by many network carriers, often with wide-body aircraft. For example, the Bangkok, Thailand/Singapore and Bangkok/Hong Kong markets are currently served by 10 carriers and 13 carriers, respectively. It is tough for a new entrant to make a profit in these markets.

Instead, start-up carriers in Asia have adopted their own hybrid models to gain



Photo by Ahmad Farazi Yehya/Dreamstime.com



Photo by Jan Patton/Stockphoto.com

Several Asian airlines have announced network planning and hub optimization projects because by enhancing their network, schedules and fleet assignments, airlines can create measurable business benefits, such as improved operating profits.

hub concept, and Changi International Airport is celebrating 25 years as a leading Asian aviation hub. However, incumbent leaders such as Singapore's Changi Airport and Hong Kong International Airport are facing increasing levels of competition in Asia.

Across the region, airlines, airports and governments are working closely together to build and strengthen aviation hubs. The flow effect on local tourism and economy from a successful hub is tremendous with supporting industries such as maintenance, hotels and taxis all benefiting.

With its position as a more natural geographical center in Asia and a strategically sound decision to centralize all airline activity in a single airport, Bangkok's new Suvarnabhumi Airport is well placed to attract a greater share of regional connecting passengers.

And the concept of hubbing is not restricted just to carriers in Asia. The SkyTeam alliance is creating a hub at Guangzhou, China's Baiyun Airport. This will give the new Baiyun Airport a boost in its challenge to Hong Kong International Airport as the hub for the southern region of China. This year, the Star Alliance, too, has hubbed its member airlines into a single terminal at the Tokyo, Japan, Narita International Airport. This move

New-World Carriers: The "Hy-Low" Effect in Asia

The success of pure-play low-cost carriers in more mature markets such as Europe and North America has largely depended on very specific market conditions including open access to desired routes, gaining advantage via revolutionary labor agreements, lower-cost secondary airports, and high levels of credit card and Internet adoption.

Only a handful of markets in Asia have similar fundamentals. AirAsia and new players such as Jeju Air have demonstrated that there is opportunity for a pure LCC business model in the domestic markets of Malaysia and Korea. The domestic market in Japan also has the characteristics to support a pure LCC model although slot constraints at key domestic airports such as Tokyo's Haneda Airport will be a limitation.

It is harder to find the same conditions elsewhere in the region, and 68 percent of Asia (from a gross domestic product perspective) is classified as developing. From a population perspective, a staggering 93 percent of Asia is classified as developing. Most Asian countries have a low usage of the Internet and/or credit cards, so the concept of selling tickets directly via the Web is difficult or impossible. Markets

a competitive advantage in their respective markets. Virgin Blue, a self-styled "new-world carrier," is a classic example. Operating on low-cost operational fundamentals such as quick turnaround times and competitive labor agreements, the carrier also offers some full-service frills such as business lounges and loyalty programs. Similarly, India's new entrant Kingfisher Airlines offers premium products and services while maintaining competitive operational practices and multi-channel distribution including global distribution systems. Several Asian LCCs such as AirAsia, Jetstar and Lion Air are also opting for a multi-channel distribution strategy including GDSs.

Certain parts of Asia are not suited for a pure European/U.S. LCC model for at least the medium term. Instead, competitive Asian carriers will continue to develop their own mix of airline practices to meet the requirements of price-sensitive passengers in the particular markets to which they have access. ■

Andrew Powell is Asia/Pacific regional vice president and Melvin Tan is Asia/Pacific regional marketing manager for Sabre Airline Solutions. They can be contacted at andrew.powell@sabre.com and melvin.tan@sabre.com.