

# Island Economic Resilience Roundtable: Airlines & Air Service Development

**IEDC Annual Conference 2018**  
Wednesday, October 3rd  
Atlanta, Georgia



*Presented by:*

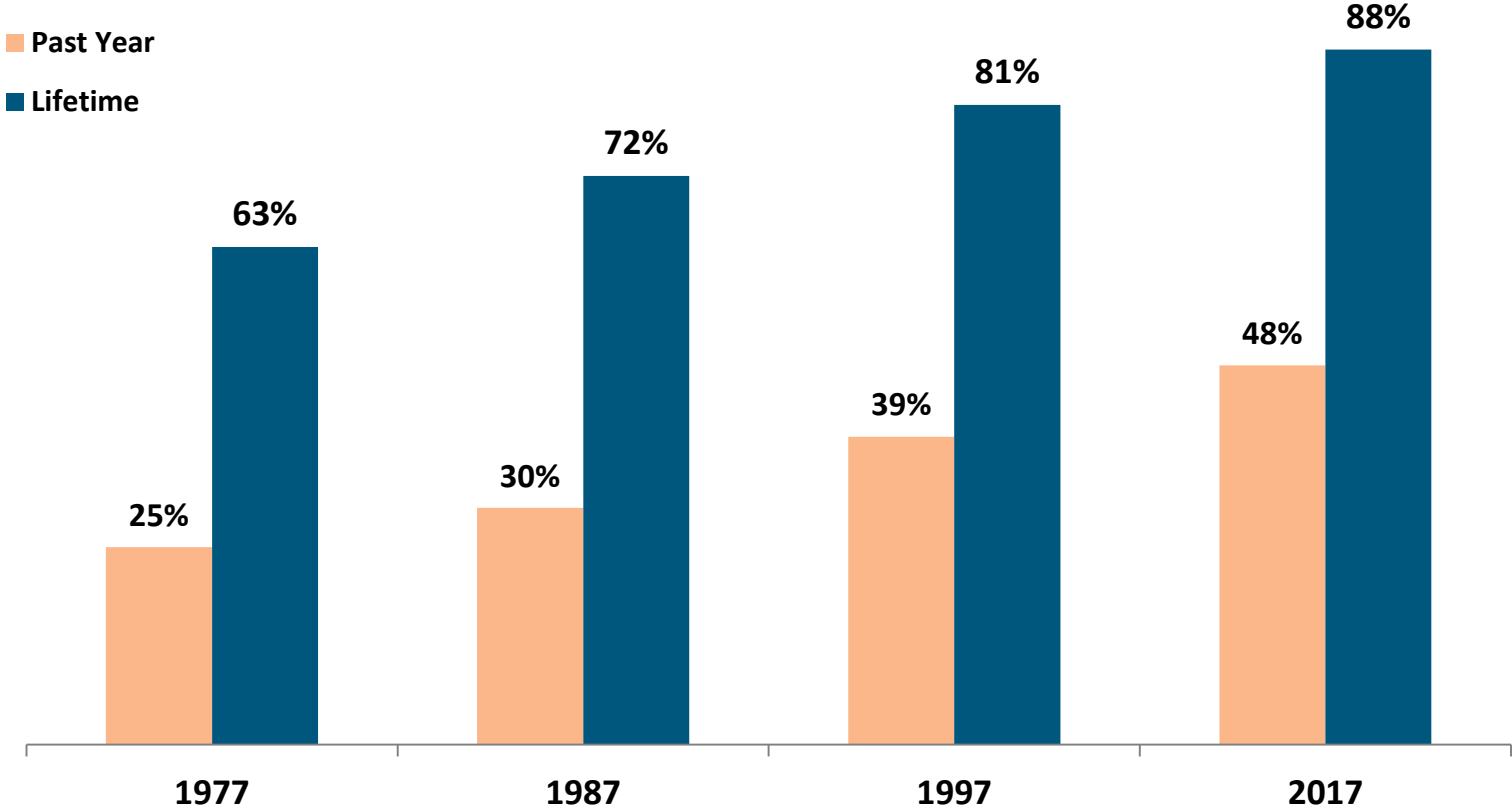
**MARCUS LAM**  
*Vice President*

**InterVISTAS**

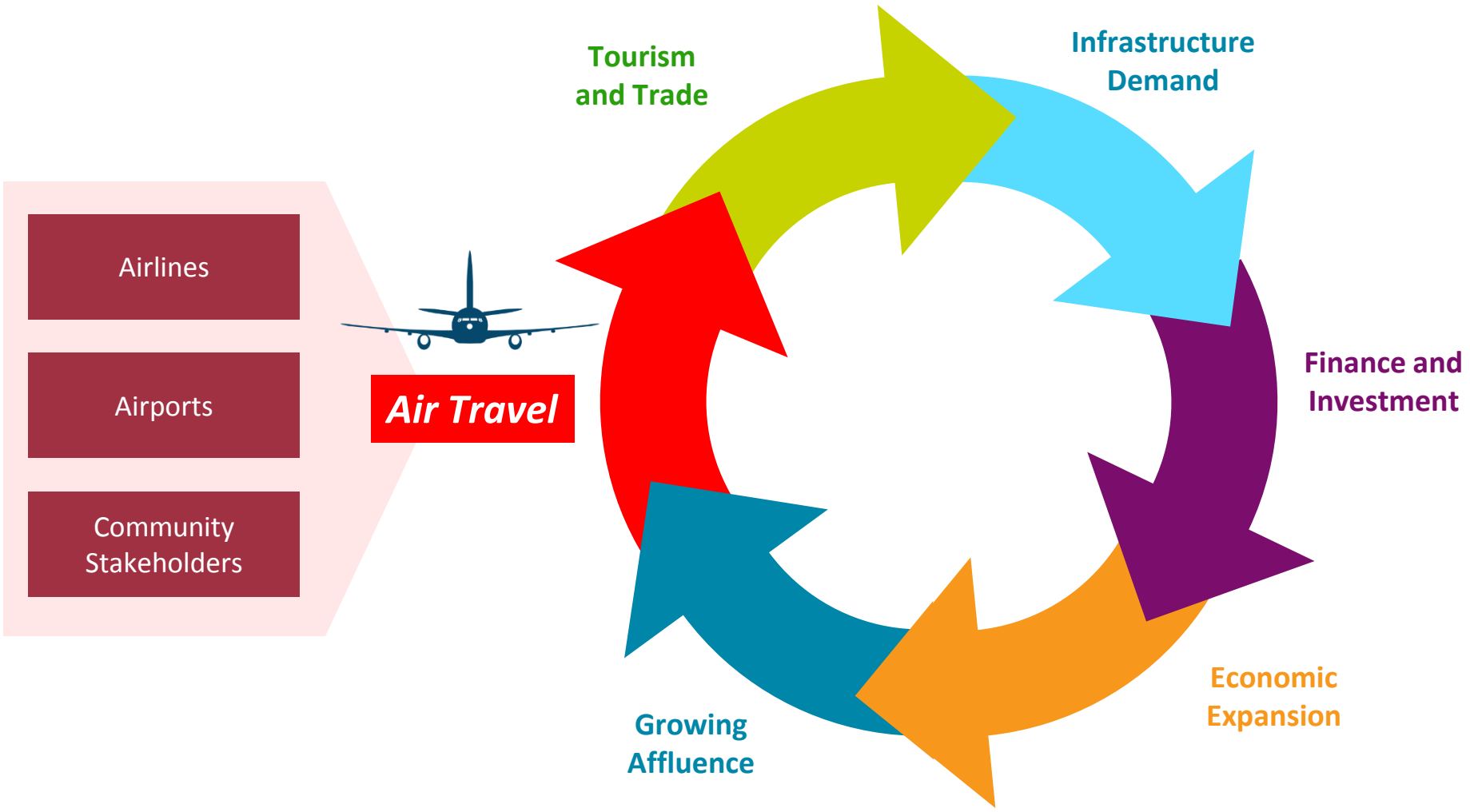
a company of Royal HaskoningDHV

# Air travel is safer, and more accessible than ever before – despite tighter seats and higher fees

Percentage of U.S. Adult Population That Flew

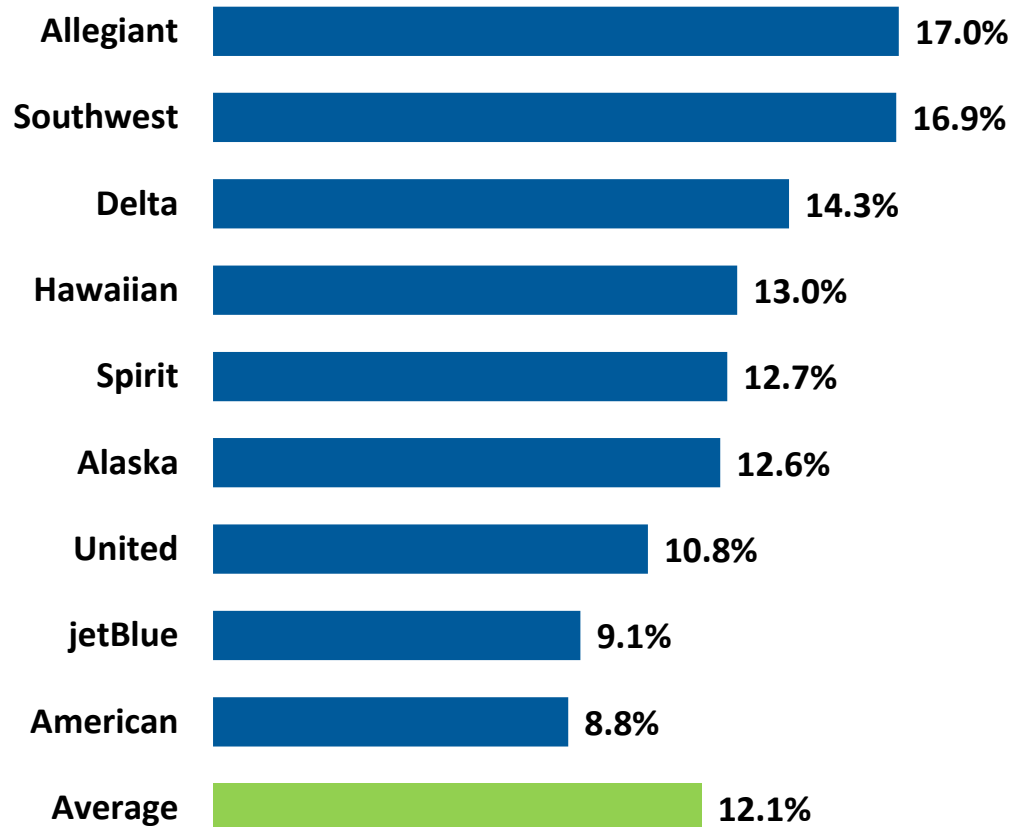


# Air Travel is an verifiable economic engine



# U.S. Airlines: Operating margins for the 2<sup>nd</sup> quarter 2018 averaged 12.1%...

Operating Profit Margin  
2<sup>nd</sup> Qtr 2018



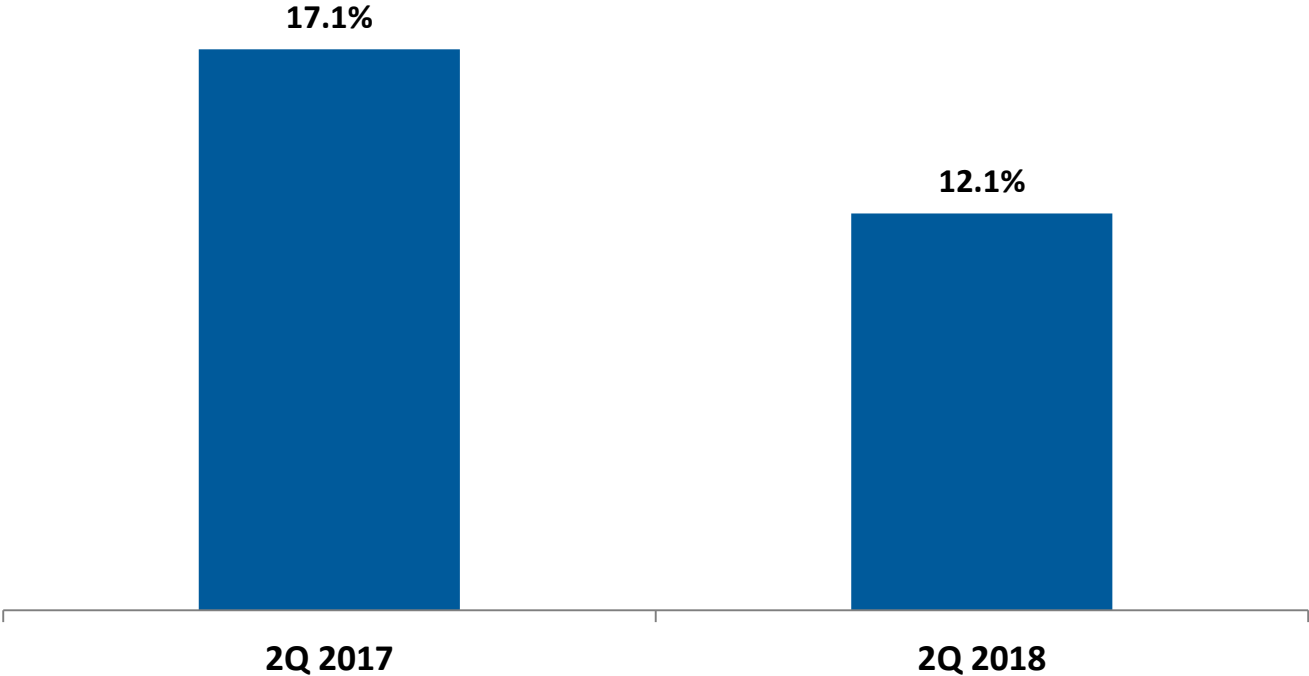
Note: Frontier has not reported 2Q 2018 financials.

Source: Carrier Financial Reports.



# ... five percentage points lower than the prior year – *ninth consecutive quarter of operating margin declines*

**Operating Profit Margin**  
*2<sup>nd</sup> Qtr 2017 vs. 2<sup>nd</sup> Qtr 2018*



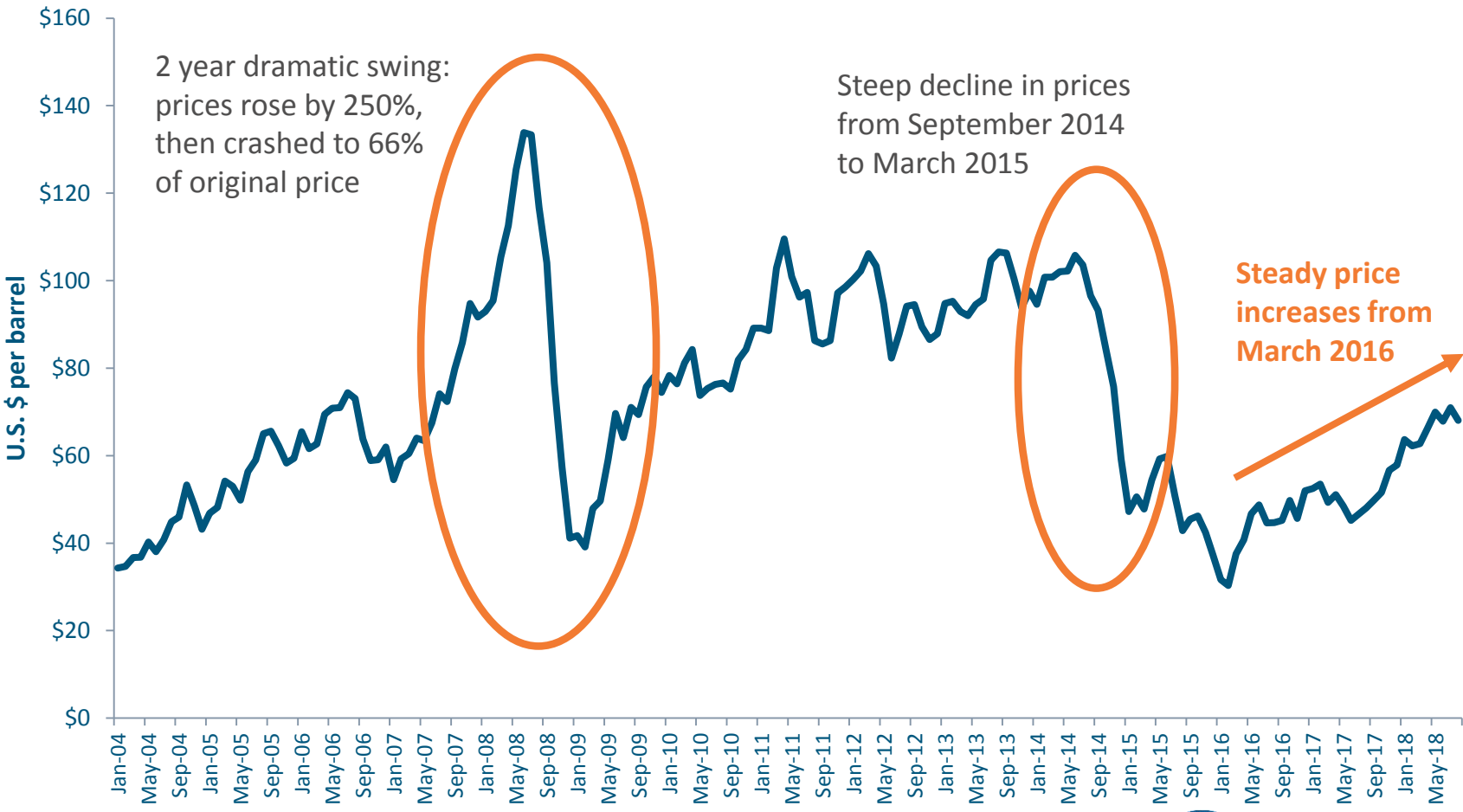
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# The Airline Industry "F" Word

## Crude Oil Spot Prices



Source: www.eia.gov

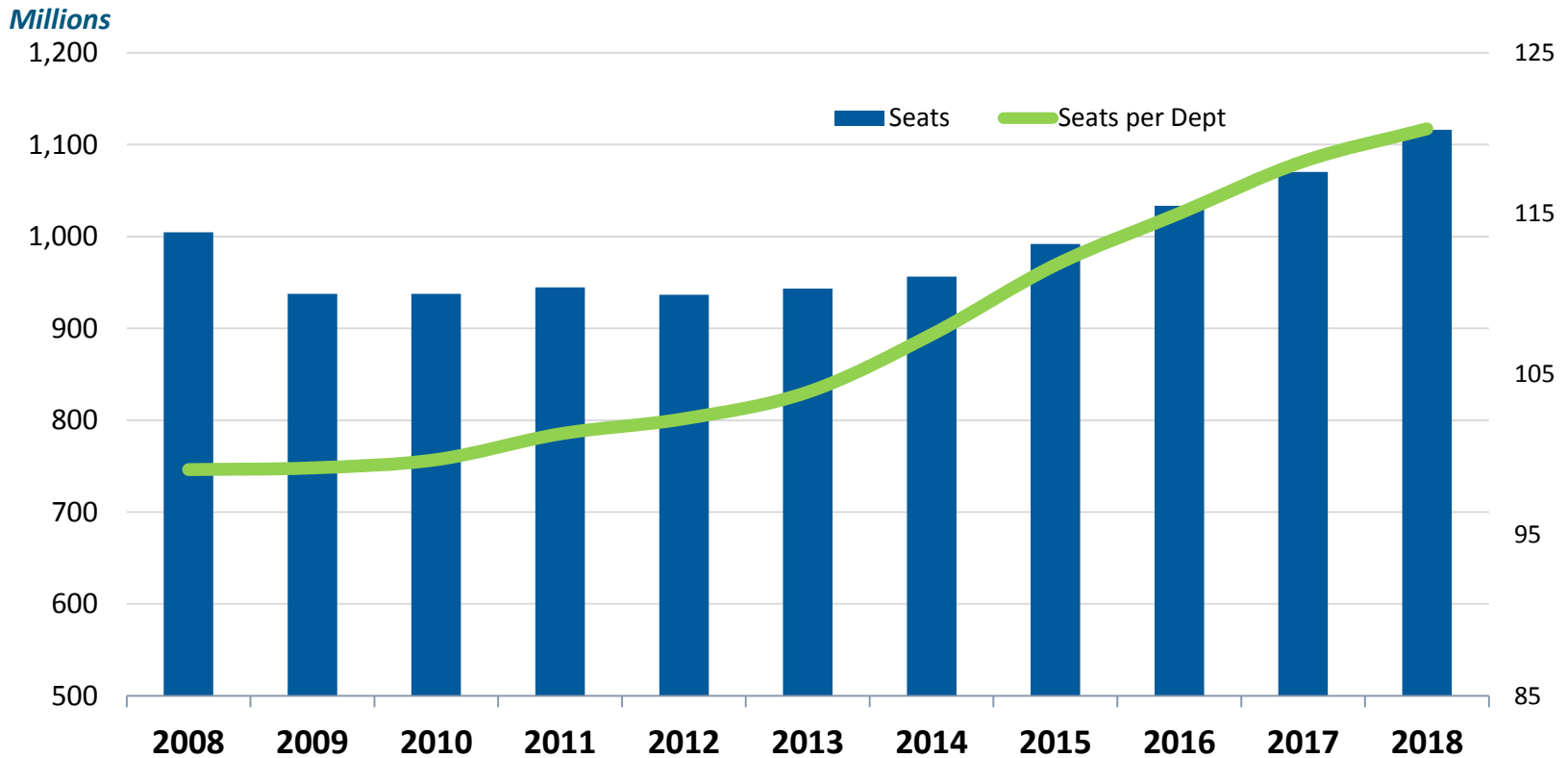
**“If the Wright brothers were alive today, Wilbur would have to fire Orville to reduce costs.”**

*Herb Kelleher*

*Co-founder / Former CEO, Southwest Airlines*

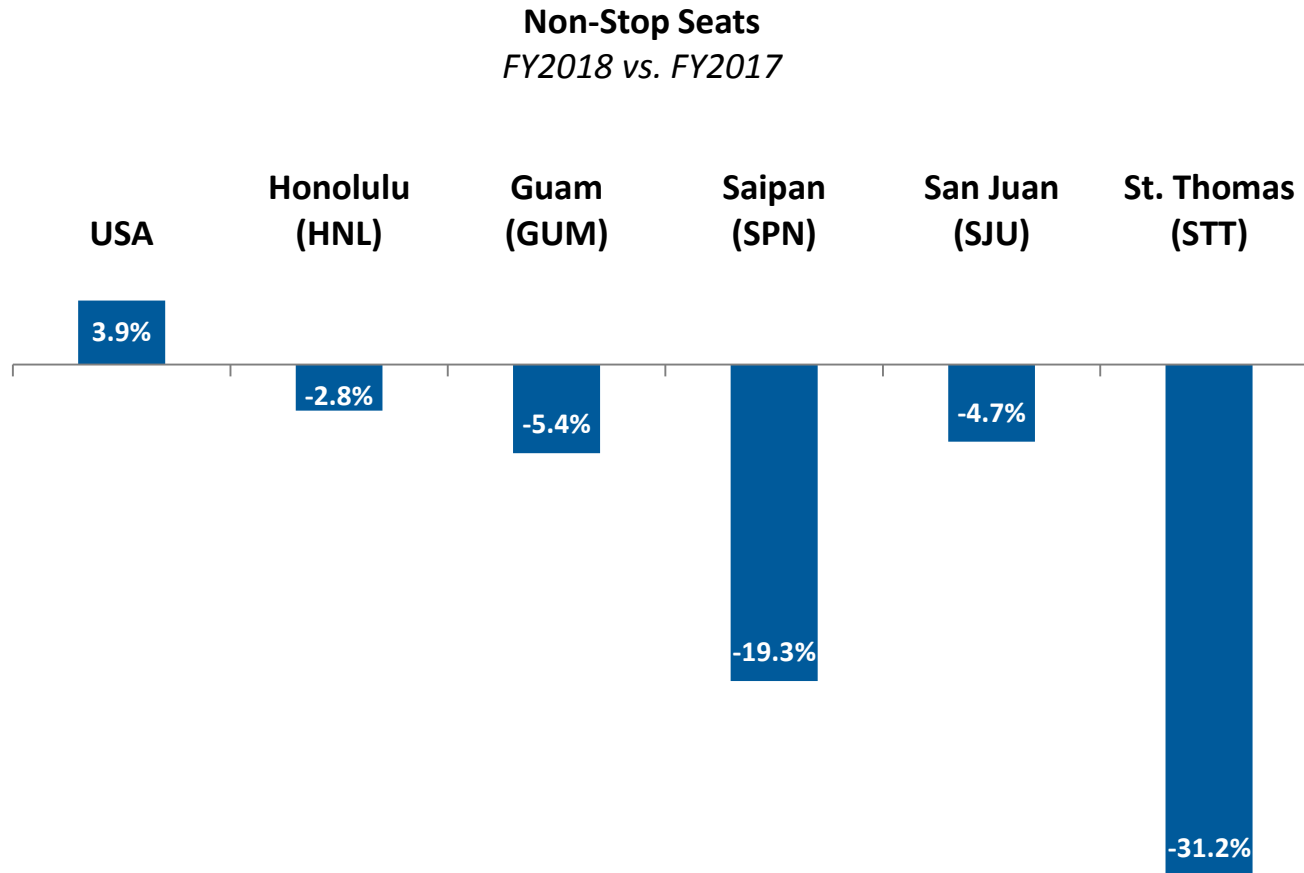
# Over the past five years, seat capacity from U.S. airports has increased 18% ...

**U.S. Airports Historic Nonstop Service**  
CY 2008 – CY 2018

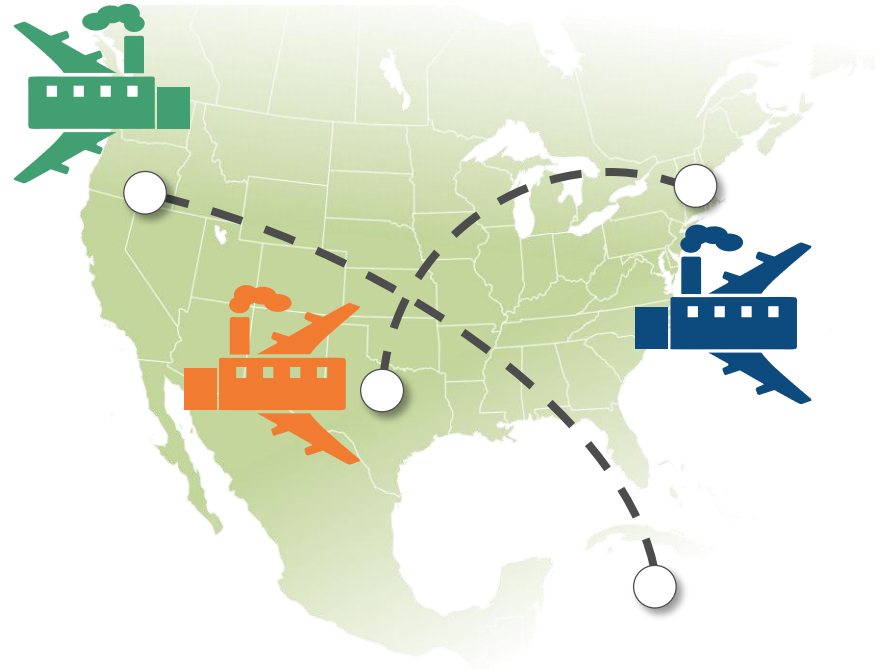




# ... but air services to select island communities have seen a notable decline in 2018



# Airline assets are like mobile factories: each flown market is always at the expense of another market opportunity



**Air Service Development** is the practice of establishing and retaining air services to a given airport or community

# Who leads air service development efforts?

AIRPORTS

ECONOMIC  
DEVELOPMENT  
/ TOURISM

COMMUNITY  
STAKEHOLDERS

*A continuous,  
multi-year  
team effort*



# Airlines are also constantly planning



- Network Strategy
- Aircraft Acquisition
- Onboard Product

- Destinations
- Routes
- Frequency

- Equipment
- Line of Flight
- Airport Gates
- Crew

- Pricing
- Inventory Control
- Tactical Schedule Changes



5-10 Years

2-3 Years

6-12 Months

1 hour-5 months

Time to Departure




# How to influence the airline planning process

- Airlines evaluate both current and potential new markets in order of **forecast profitability** and **market risks**
- Airline planners require **detailed and accurate market information** to make new route decisions, but **do not have the resources** to fully evaluate every market
- New Markets need to fit in the airline's **fleet and network strategy**
- Markets can move up the list with:
  - Solid research & analysis (always)
  - Incentives & risk sharing (sometimes)

## “The Airline Planner List” (Current Routes & New Markets)

RANK	ROUTE
1	-----
2	-----
3	-----
4	-----
5	-----
6	-----
7	-----
8	-----



**Some markets spend years moving up the “list” before a service announcement; some are never started**

# The Airline/Community Compromise: Risk Reduction Strategies

Airlines require a positive and acceptable financial return from each service ...



... while Island communities want easy air access for inbound visitors as well as for outbound residents



## Market risk profile for airlines:

- Demand risks - leisure & business traffic
- Cost risks - fuel, labor & airport costs

## Risk reduction strategies:

- Market updates, constant communication
- Cost sharing / incentive programs

**Airlines are in the driver's seat – so their needs are critical.**

# Example 1: Community Update

## Demographics



**45 Years**  
Median age



**67%**  
of population is of  
working age



**8%**  
Average  
annual growth  
from 2005 to  
2015

## Economy



**25%**  
Growth in housing starts –  
2016 to 2017



**8.4%**  
Forecasted average  
real GDP growth –  
2017 to 2018

**5.8%**

2017 employment  
growth

**\$85,000**

Average Household  
Income

# Example 2: Industry Update

## Infrastructure Investments



**\$147 billion**

Planned investment for 50 oil exploration projects in the next 10 years



**\$750 million**

Recent investments in public transit and infrastructure projects

## Economic Investments



**\$3M federal grants for small businesses**

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**\$50M private sector investment for 3000 new hotel rooms by 2020**





# A comprehensive air service development program incorporates three key elements

## Air Service Strategy

- Analyze market position
- Identify service targets
- Evaluate facility and fees
- Develop outreach strategies
- Structure an airline incentive program

## Stakeholder Outreach

- Meet with local businesses to identify air service needs
- Work with government to build support and communicate efforts

## Airline Outreach

- Demonstrate to airlines how new service in your community will be profitable to its networks
- Negotiate & implement incentives

## Consumer Outreach

- Publicize new service to leisure & business travellers

## Air Service Support

- Implement co-marketing programs
- Monitor route performance
- Identify & support at-risk routes
- Publicize success of new routes



# Developing Air Service: A Continuous Multi-Year Team Effort



To the airline, every flown air service is at the expense of another market

## Be on Lists

Airlines are continuously evaluating lists of current and new market opportunities

## Share the Risk

Find ways to share airline risks and signal confidence of new air services

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## Team with Airport

Work closely with your airport authority in airline discussions

## Long-Term Relationship

Provide continuous community updates – patience and persistence is key



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## Q&A

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