

2017 Osaka Kansai
2016 Tokyo Narita
2014 Seoul Incheon
2013 Macau

...in recent times

Previous:
Kitakyushu, Singapore
& more

CAPA'S 4TH LCC SUMMIT

Solid LCC Achievements as Legacy Airlines Start Restructuring – a Renaissance?

WILL HORTON

CAPA SENIOR ANALYST – NORTHEAST ASIA & MIDDLE EAST
HONG KONG

OSAKA KANSAI • 13 JUNE 2017

CANCUN versus KANSAI

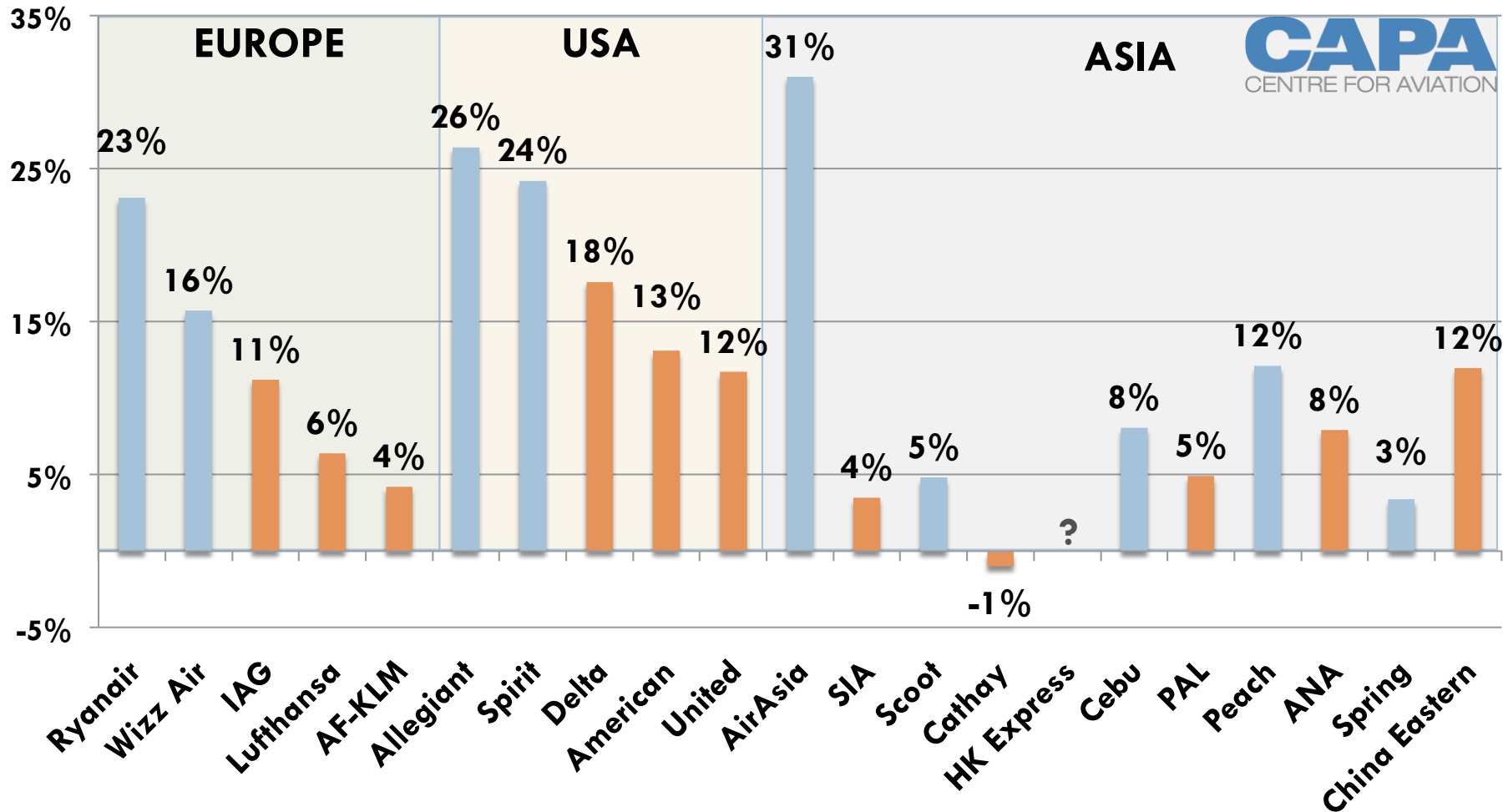






SELECT 2016 OP MARGINS

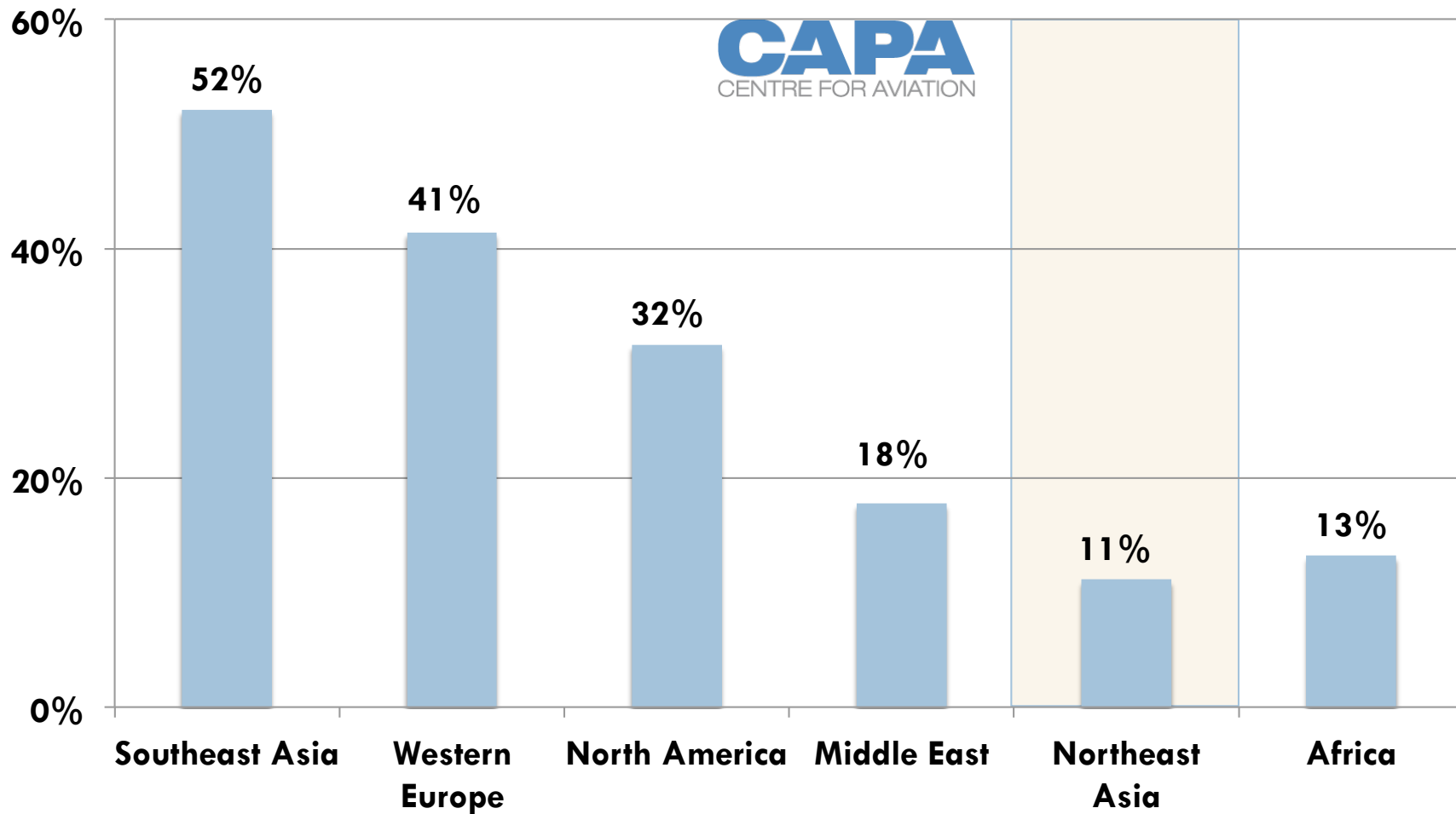
LCC FSC



INTRA-REGION LCC MARKETSHARE

■ 2016

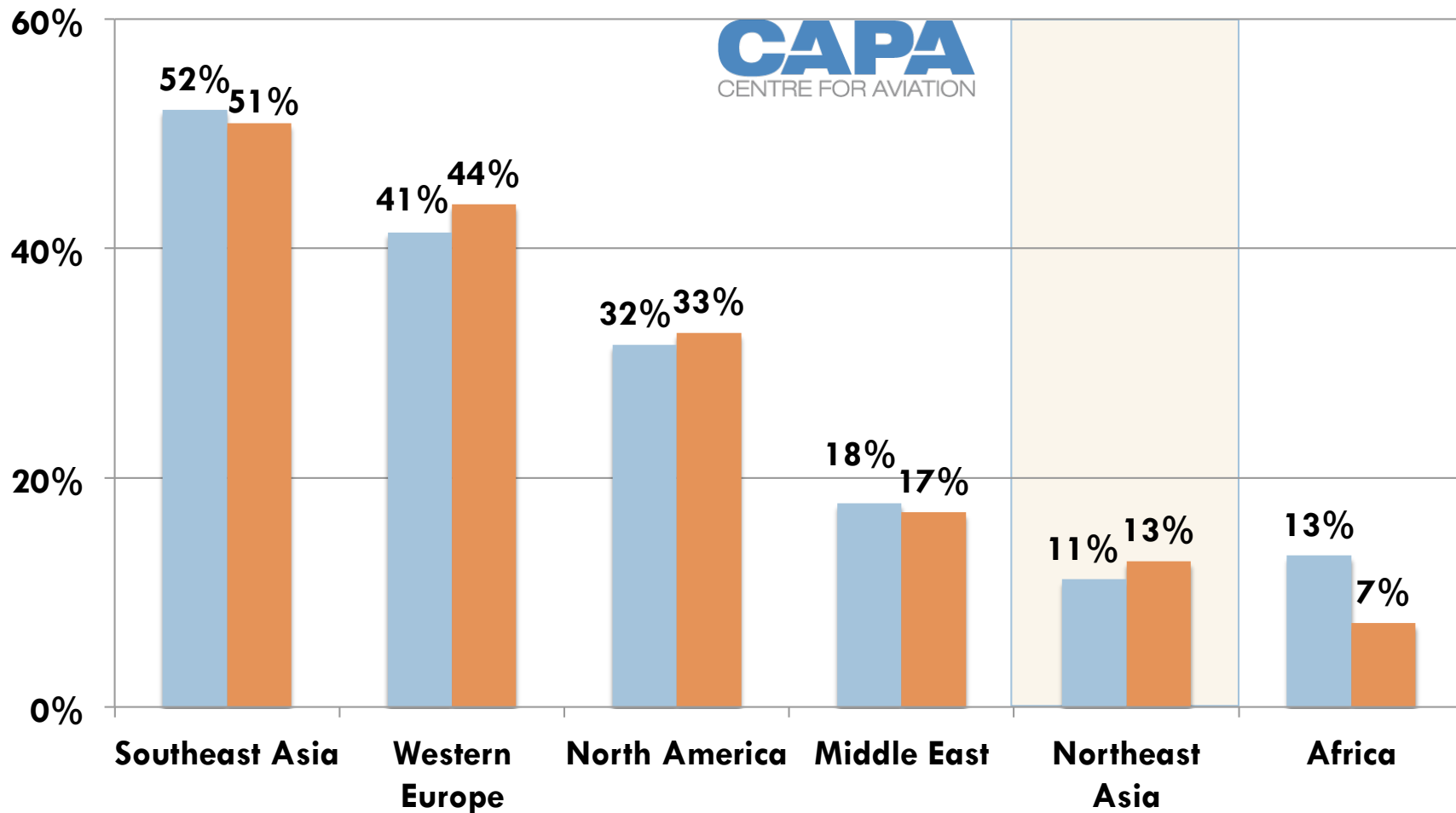
CAPA
CENTRE FOR AVIATION



INTRA-REGION LCC MARKETSHARE

2016 2017

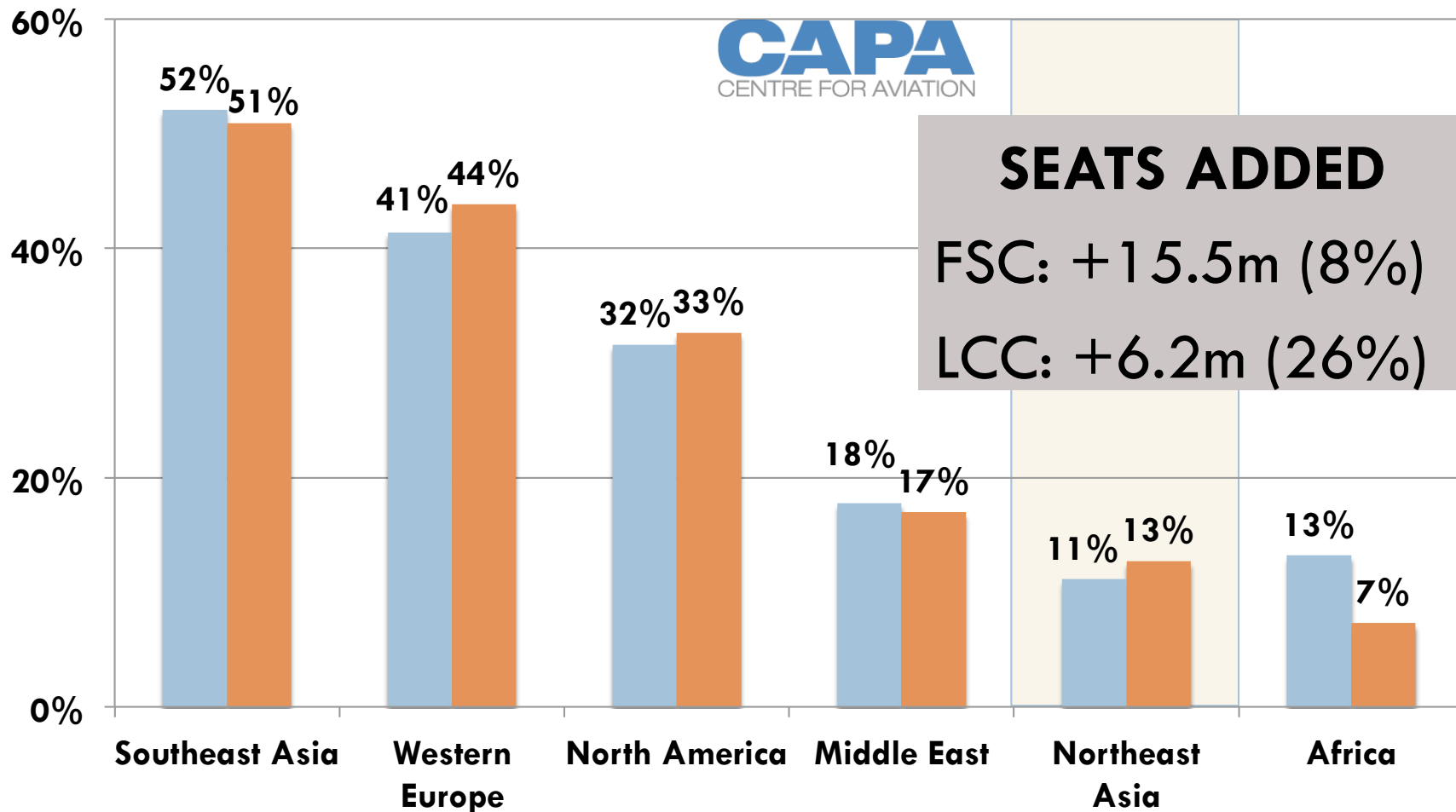
CAPA
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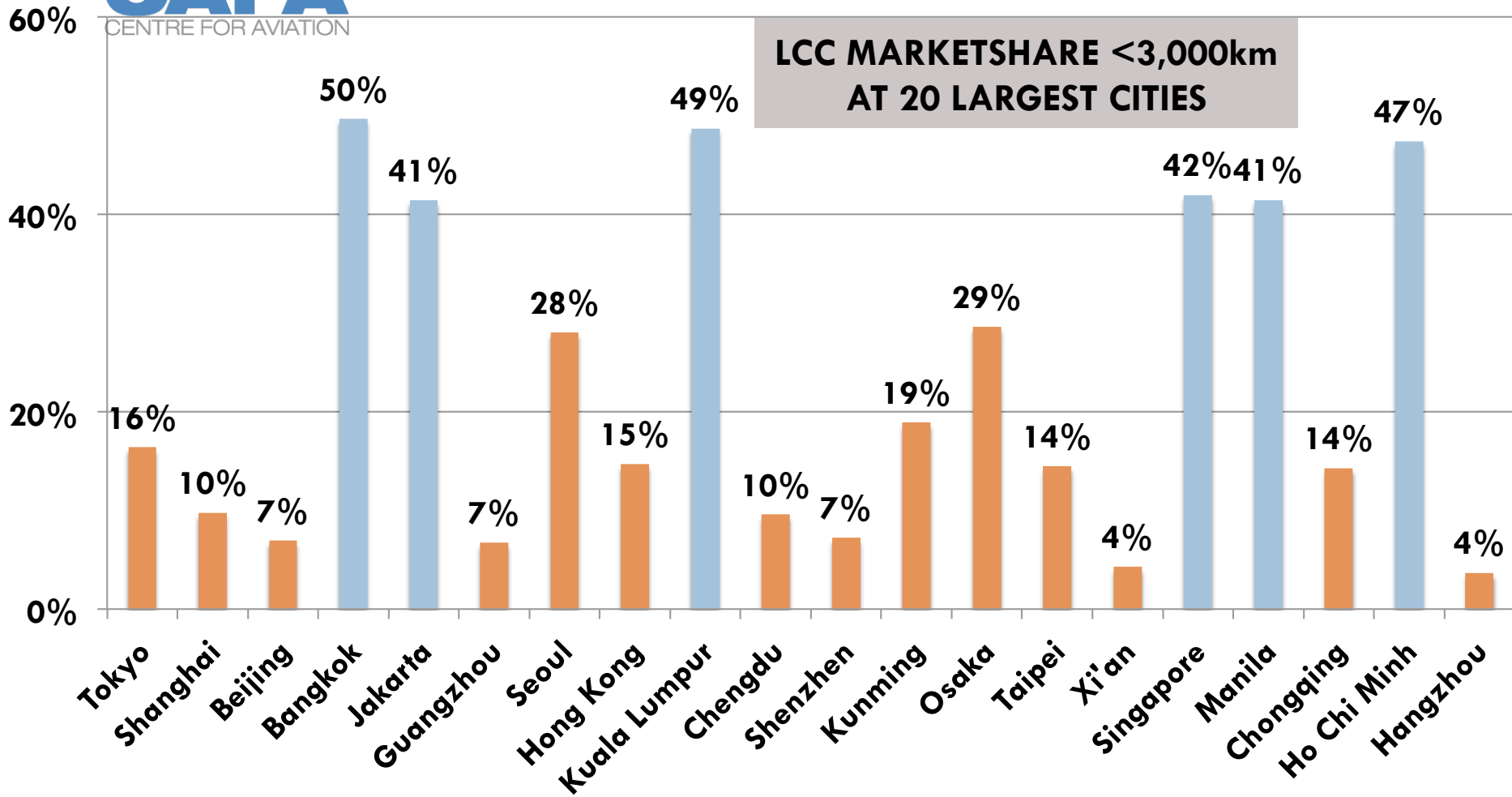
INTRA-REGION LCC MARKETSHARE

2016 2017

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**LCC MARKETSHARE <3,000km
AT 20 LARGEST CITIES**



30%

23%

20%

20%

10%

10%

11%

16%

9%

7%

6%

6%

6%

0%

0%

5%

5%

4%

2%

Beijing Capital

Guangzhou

Shenzhen

Chengdu

Kunming

Xian

Shanghai Hongqiao

Shanghai Pudong

Chongqing

Hangzhou

Nanjing

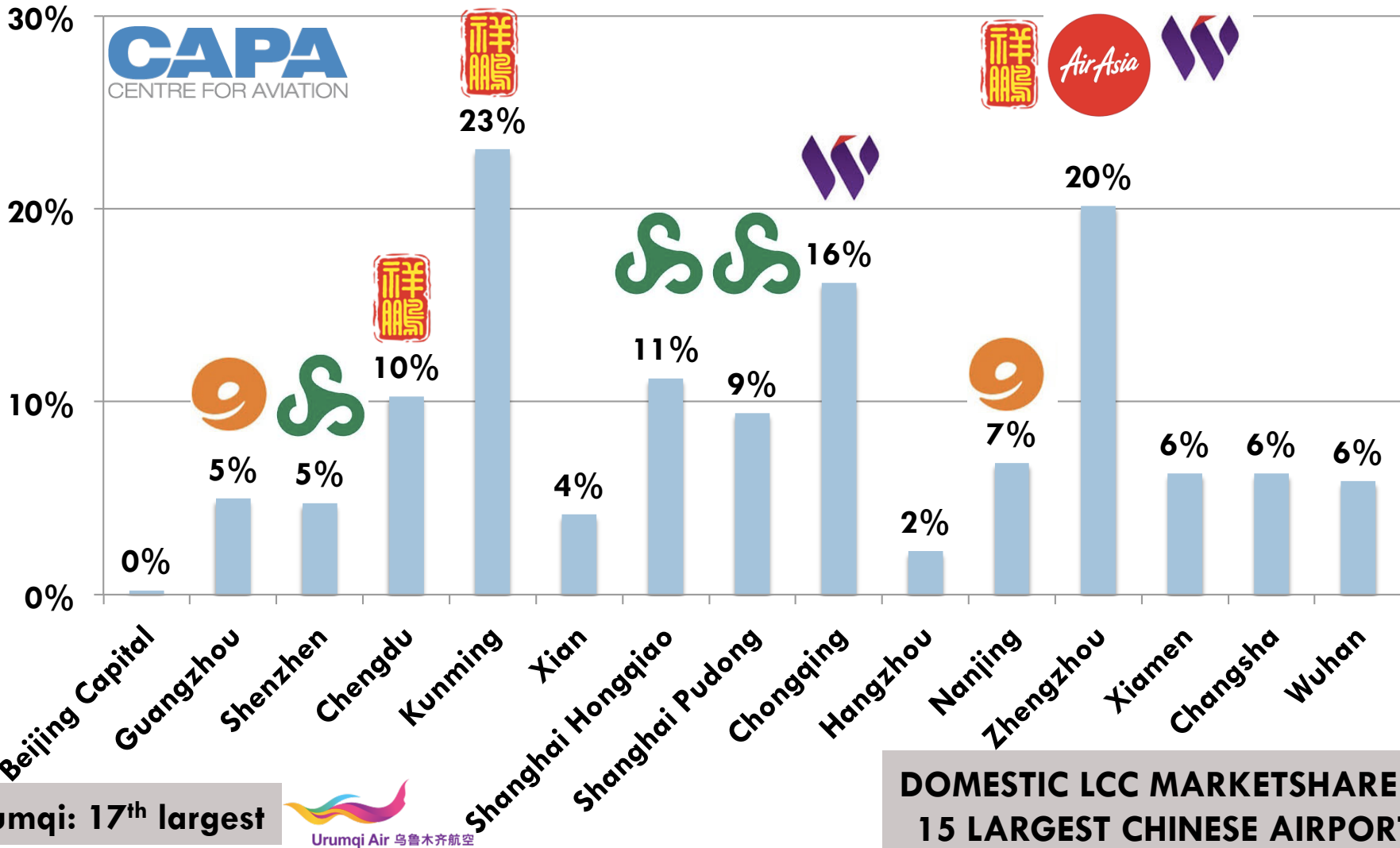
Zhengzhou

Xiamen

Changsha

Wuhan

**DOMESTIC LCC MARKETSHARE AT
15 LARGEST CHINESE AIRPORTS**



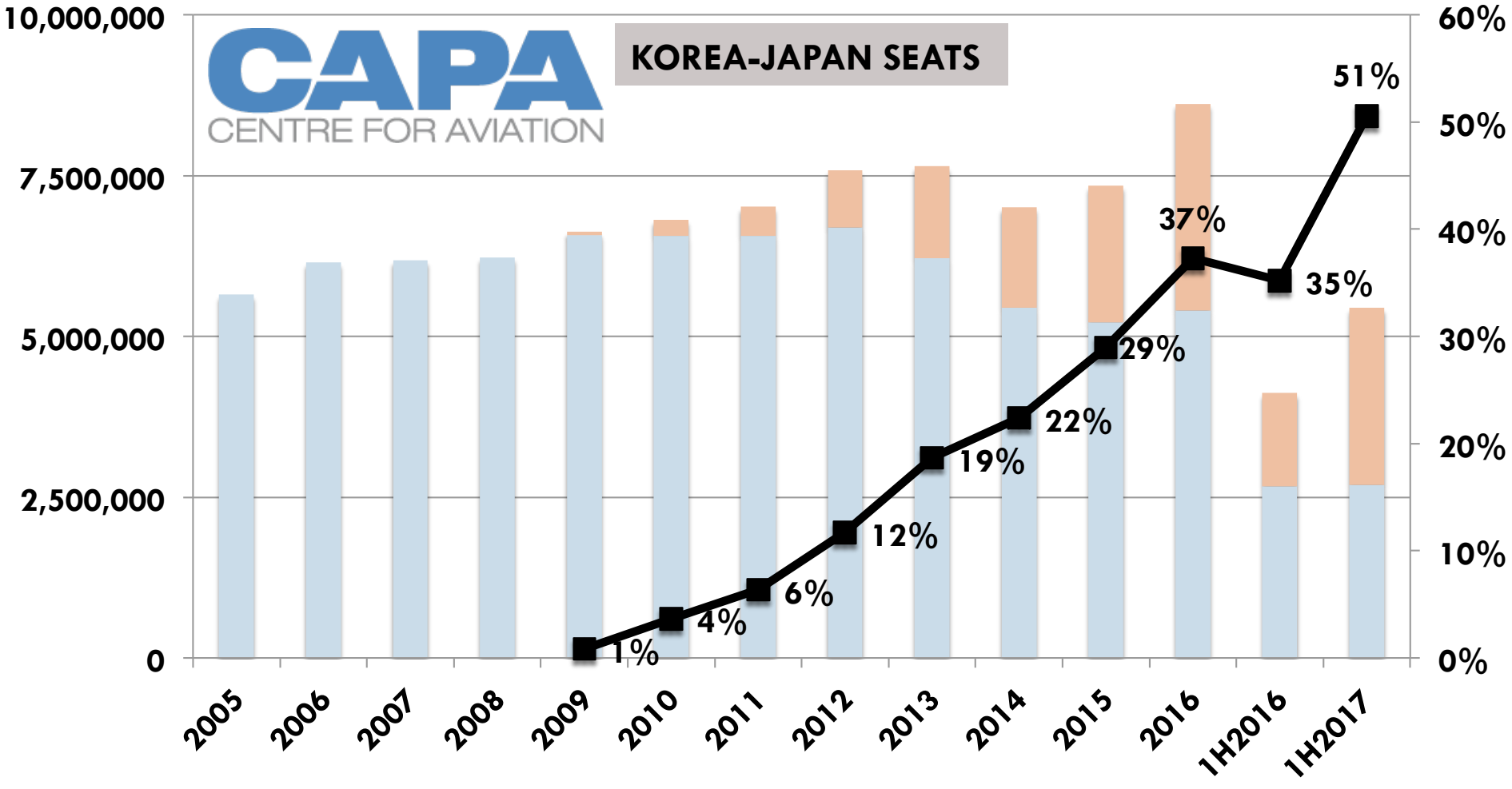
LCC PRESENCE LARGEST ROUTES

RANK NORTHEAST ASIA			SEATS	LCC?	SOUTHEAST ASIA			SEATS	LCC?
1	Hong Kong-Taipei	1,046,407	✗		Jakarta-Singapore	718,046	✓		
2	Shanghai-Hong Kong	734,992	✓		Kuala Lumpur-Singapore	717,294	✓		
3	Seoul-Tokyo	709,406	✓		Singapore-Bangkok	630,719	✓		
4	Taipei-Tokyo	615,439	✓		Kuala Lumpur-Jakarta	408,851	✓		
5	Seoul-Osaka	564,517	✓		Bangkok-Kuala Lumpur	408,394	✓		
6	Hong Kong-Seoul	553,132	✓		Manila-Singapore	347,693	✓		
7	Tokyo-Hong Kong	510,352	✓		Denpasar Bali-Singapore	320,034	✓		
8	Tokyo-Shanghai	477,848	✓		Bangkok-Yangon	303,507	✓		
9	Hong Kong-Beijing	452,848	✗		Ho Chi Minh City-Bangkok	291,179	✓		
10	Taipei-Osaka	403,648	✓		Singapore-Ho Chi Minh	267,422	✓		

Full-service Low-cost LCC Share

CAPA
CENTRE FOR AVIATION

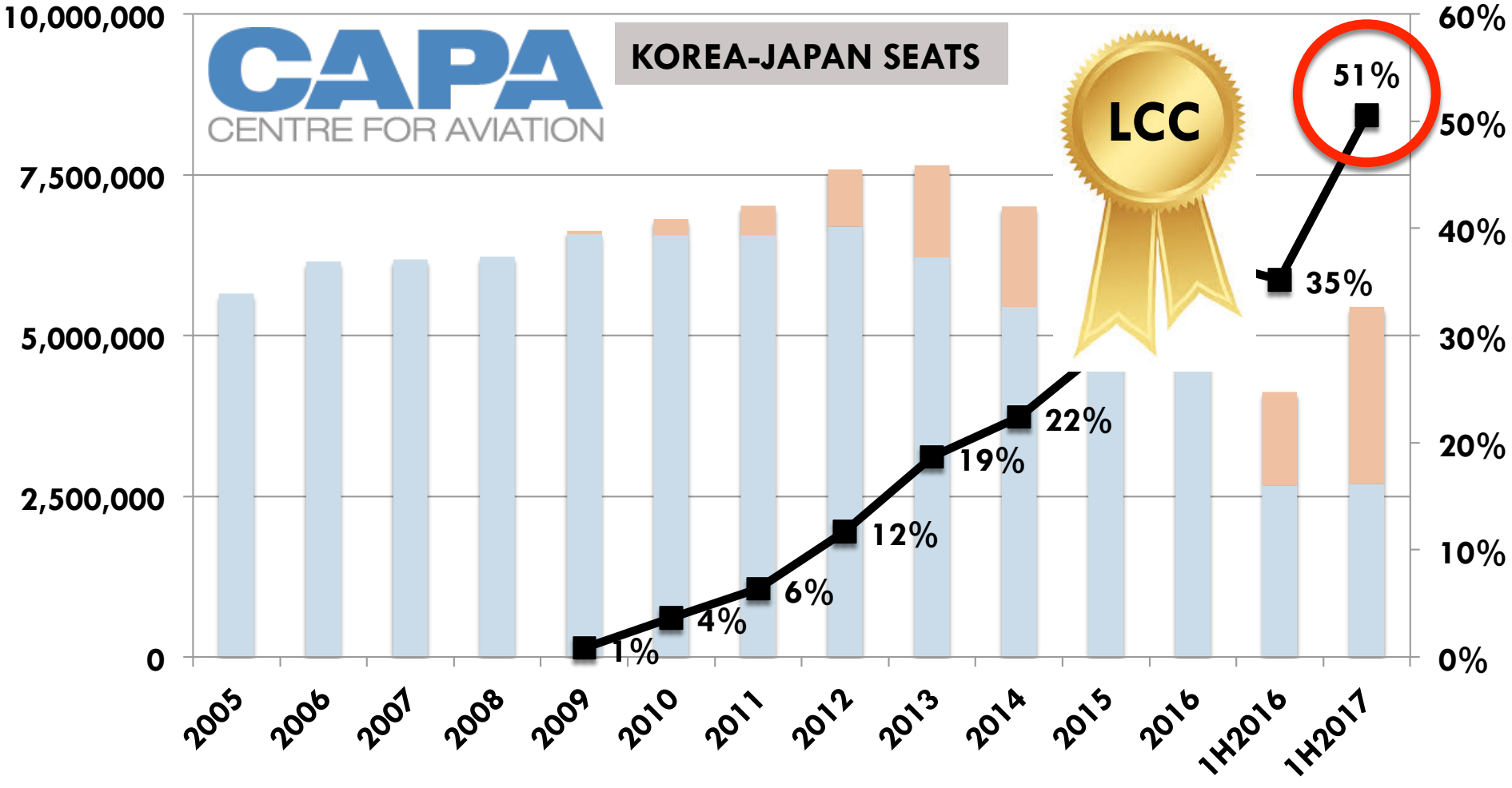
KOREA-JAPAN SEATS



Full-service Low-cost LCC Share

CAPA
CENTRE FOR AVIATION

KOREA-JAPAN SEATS

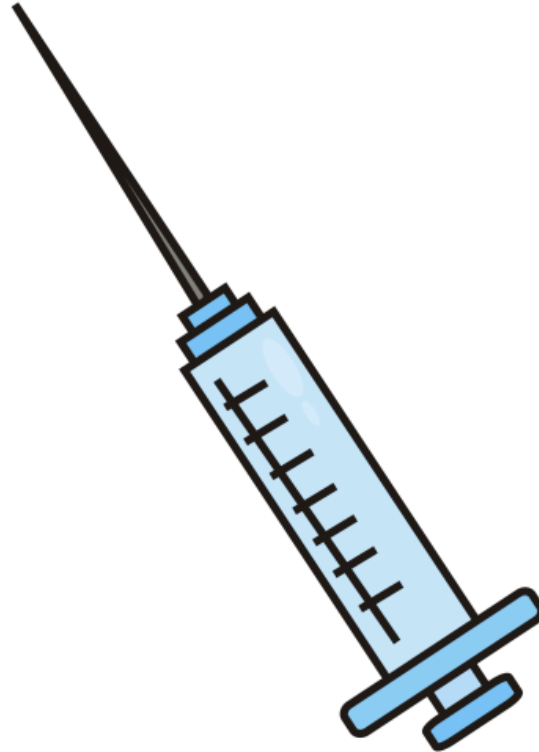


IT HASN'T BEEN AN EASY YEAR

- ❑ Aircraft delays
- ❑ Higher charges & taxes
- ❑ Limited liberalisation
- ❑ Fuel higher but stable
- ❑ Slots decreasing



CAPA IMMUNITY!





MORE LCCs ON THE WAY

AirAsia Japan • AirAsia China • K Air •
Fly Yangyang • Air Pohang • & more

INTERESTS WERE ALIGNED



WHO DELIVERS GREATER VALUE?

COUNTRY

≠

HUB

≠

AIRLINE

???



Incheon Airport



KOREA AIRPORTS CORPORATION

KOREAN AIR

JEJUair EASTAR JET

이스타항공

t'way AIR SEOUL

AIR BUSAN



5th & 6th
Freedom



THE HUB MUST WIN



“In formulating aviation policies, governments should look beyond the narrow interests of their national carriers. The latter approach will limit the potential that growth in the aviation sector can bring.”

Former Singapore Prime Minister Goh Chok Tong

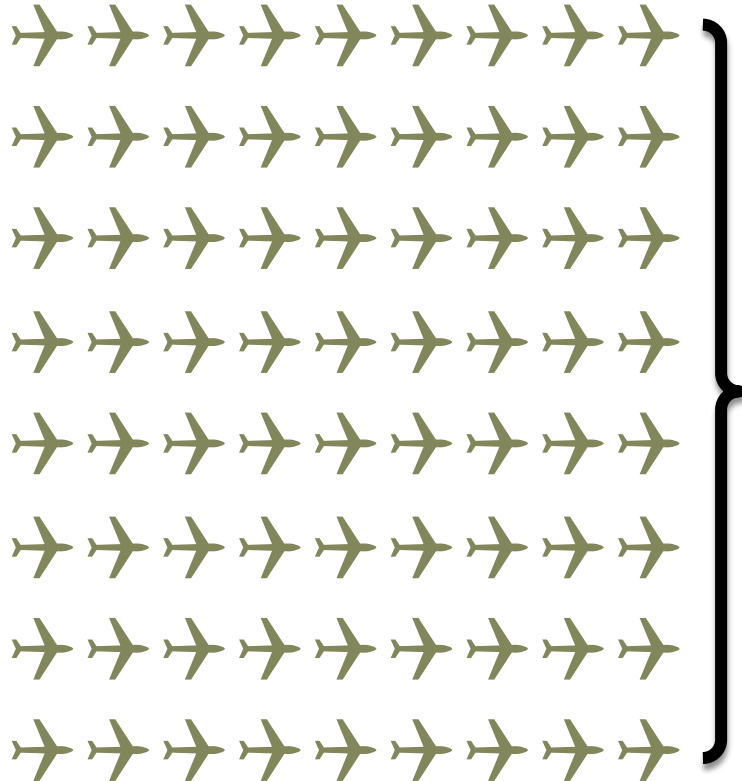


GROWTH CHALLENGES

Where there are profits, there are no slots

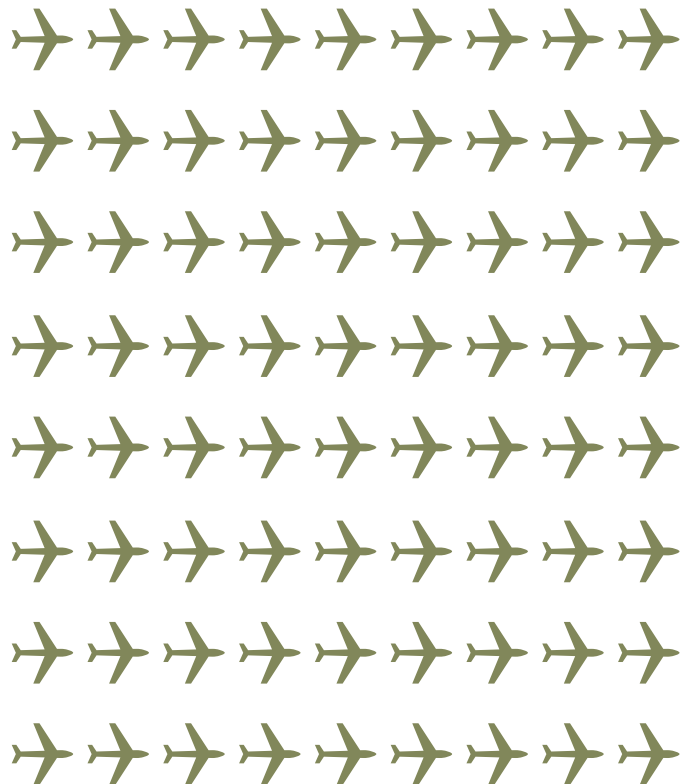
Where there are slots, there are no profits

THE EASY WORK IS DONE



72 AIRCRAFT

THE EASY WORK IS DONE



- To meet 2020 tourism target:
 - Japan needs 72 new A320/737 flights
 - every day
 - for next 4 years
- Tokyo & Osaka do not have the capacity available

IATA and LCCs



“I have some **concerns**. First is the trend to build dedicated ‘**low cost**’ **terminals**... Before building dedicated infrastructure for low cost airlines, it is prudent to make sure that the **existing terminal infrastructure** is used to its fullest”

-Alexandre de Juniac, Kansai, 9 March 2017

PARADIGM SHIFT; QUESTIONING VALUE



- ❑ “Asians will pay for all the perks”
- ❑ “Full service is safer”
- ❑ “LCCs arrive late”
- ❑ “Our loyalty programme is great”

NE ASIAN FSCs: LEADERSHIP CHANGE



- Younger generation
- Aware of competition
- Market no longer sacred
- Some turmoil
- Limited LCC experience

IF LCCs WERE UNLEASHED...

METRIC	SPRING AIRLINES	CHINA AVERAGE
Net margin	41%	12%
Load factor	94%	76%
Sales expense per ASK	¥0.08	¥0.41
Maintenance expense per ASK	¥0.13	¥0.25
Management cost per ASK	¥0.11	¥.025
Utilisation (A320)	11.4 hours	9.2 hours
Employees per aircraft	95	122

LCCs IN NE ASIA: 13%. WHAT IF...

CHINA 20%
DOMESTIC
(2017: 9%)

JAPAN 50%
DOMESTIC
(2017: 17%)

KOREA-CHINA 30%
INTERNATIONAL
(2017: 10%)

LCCS IN NORTHEAST ASIA WOULD HAVE MARKETSHARE:

20%

18%

13%

CHINA & PROTECTIONISM



“Pursuing protectionism is like locking yourself in a dark room, which would seem to escape the wind and rain, but also block out the sunshine and air”

Chinese President Xi Jinping, Jan-2017

Does it apply to aviation?



CHINA & PROTECTIONISM



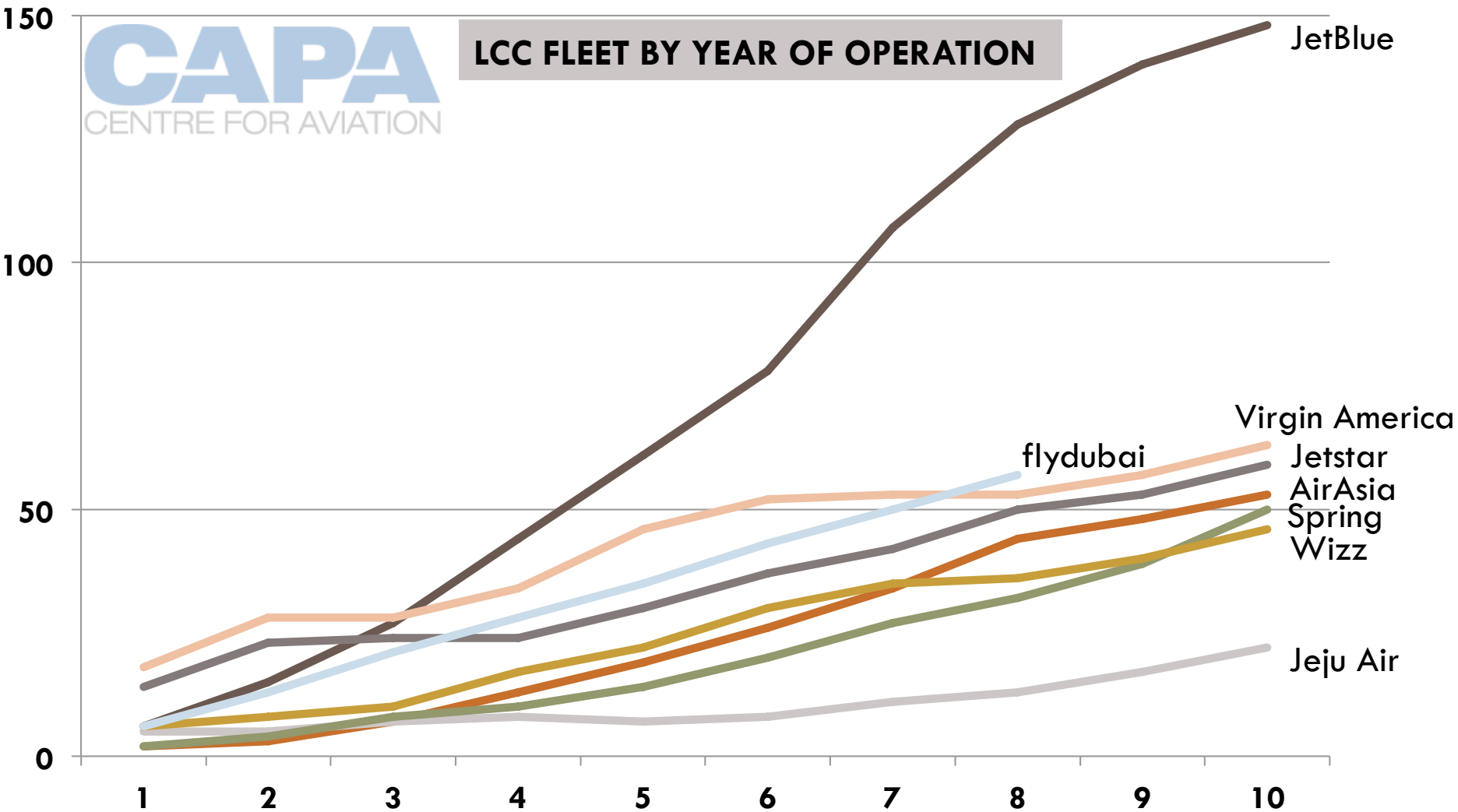
“China will keep its door wide open, and not close it. We hope that other countries will also keep their doors open to Chinese investors and maintain a level playing field for us.”

Chinese President Xi Jinping, Jan-2017

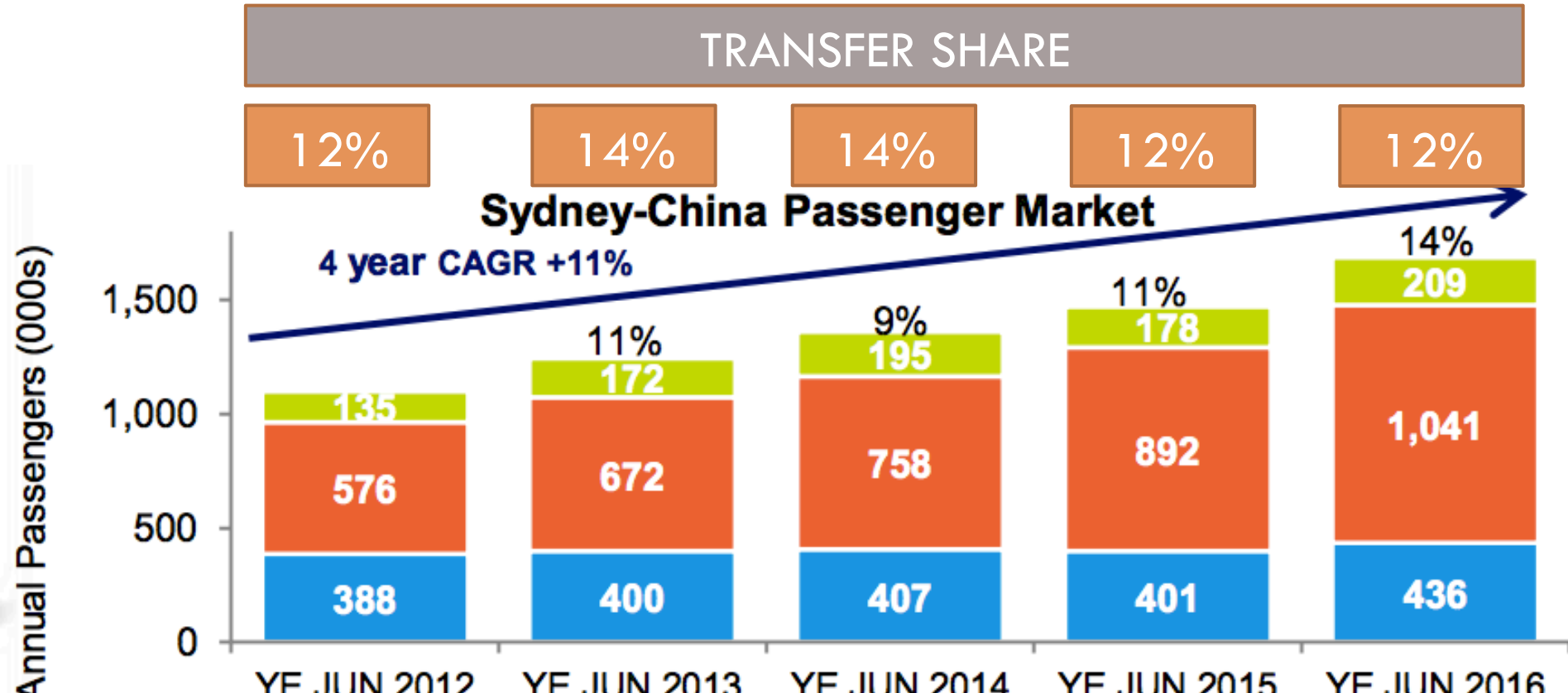
Does it apply to aviation?



LCC FLEET BY YEAR OF OPERATION

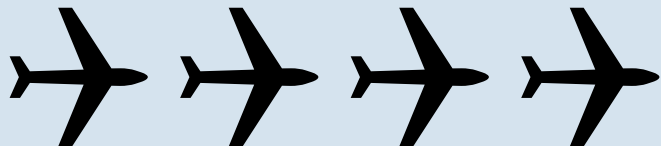


IMPACT OF NETWORK TRAFFIC



GROWING XFER IMPACTS POINT-TO-POINT NETWORK, PRICING

2012: 5 DAILY

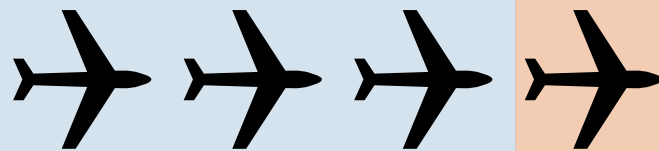
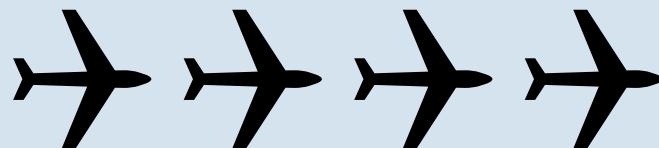


O&D: **4.4** DAILY FLIGHTS

XFER: **0.6** DAILY FLIGHTS

CHINA-
SYDNEY

2016: 8 DAILY



O&D: **7** DAILY FLIGHTS

XFER: **1** DAILY FLIGHT

	Economy Lets GO	Economy Super Saver	Economy Saver	Economy Flex
		   	   	   
Included Baggage 	0 KG	20KG	20KG	20KG
Rebooking / Reissue	\$3000TWD before Departure	\$2000TWD before Departure	✓	✓
Refund💰	X	\$2000TWD	\$1000TWD	\$1000TWD
No Show 	X	X	X	X
Seat Selection(Not applicable for Codeshare) 	X	X	✓	✓
Miles 	X	50%	50% ~ 80%	100%
Upgrade with Miles(Not applicable for Codeshare)	X	✓	✓	✓

CHINA AIRLINES HAND BAG-ONLY FARES

Basic fares: US\$79-91 cheaper one-way

Taipei-Tokyo: 2,182km ~3.5 hours

BASIC FARES

BAG ONLY IN SEAT IN FRONT, NO SEAT RESERVATION, LIMITED FFP PERKS

AMERICAN (2017)

- ❑ 50% upsell
- ❑ Inventory restricted

UNITED (2017)

- ❑ 30% upsell
- ❑ Always available

AIR CANADA (2006)

- ❑ 33% upsell

HOW RICH IS YOUR UP\$ELL?

CHALLENGES

THE USUAL

- Runways, terminals
- Airspace
- Higher taxes & fees
- Airport/gov't changes?
- Move airports?

AMSTERDAM MARKETING CEO:

- “We see lots of visitors with no respect for the character of the city. Low-cost carriers create a problem. Ryanair — they are the loudest.”

DISRUPTION! Google



In the next 10-15 years there will be two types of airlines: those that drastically rewrote the business model, and the rest will work for Google.

Emirates Chief Innovation Officer Christoph Mueller, 2017 IATA AGM

DISRUPTION!



AirBNB founder about flight search:
“If we’re going to do something, we
should try to do it differently.”

Nathan Blecharczyk, Economist May 2017



What will be the pace of change?

SLOW?



FAST?



OR MAYBE BOTH

