



GLOBAL ROUTE
DEVELOPMENT

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PART 1

ROUTE TO RECOVERY –

Route Development Beyond COVID-19

AVIATION WEEK
NETWORK

By Informa Markets

ROUTE TO RECOVERY - Route Development Beyond COVID-19



Many, if not most of us, in the industry are dealing with the here and now impact of COVID-19 as it spreads globally. Today those impacts appear unprecedented in scale, but we know that as an aviation community we are resilient and have a strong faith that recovery will happen in time. This article is the first of an upcoming series in which will look into route and air service development through the recovery period and the post COVID-19 industry backdrop that we think we will all need to adapt to. Through this work we hope to help our industry colleagues navigate through these most challenging of times and reshape how to be the most effective in the future.

For our first piece we will look into lessons learned from the past, whilst COVID-19 is in many ways unprecedented, we can look back to some of the major impact events on aviation and how they shaped the industry going forward, there are undoubted parallels and clues to what we can expect our future backdrop to look like.

We hope that this work, as it develops, will be helpful to all of us working in route development now and in the coming months ahead,



David Stroud

Managing Director - ASM

PAST CRISES - WHAT WAS THE IMPACT?

The aviation industry has experienced many crises over the previous decades, all of which impacted the industry to varying degrees. Examples include the oil crisis (1979), gulf war (1990/91), Asian financial crisis (1997), 9/11 (2001), SARS (2002/03), Indian Ocean earthquake/tsunami (2004), global financial crisis (2008) and the Icelandic ash cloud (2010).

In relating these past events to the current COVID-19 crisis, we've focussed on 9/11 and the global financial crisis as being the most relevant because:

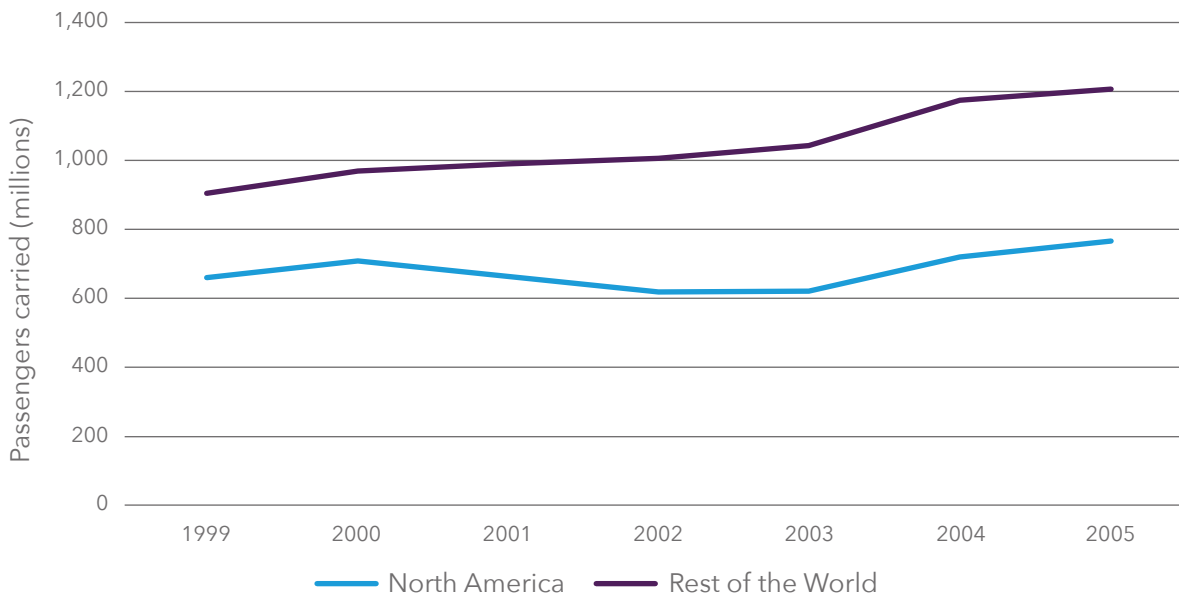
- a. They had a large-scale impact that was felt around the world
- b. They resulted in long-term changes to the industry that are still felt today

9/11 TERROR ATTACKS (2001)

Immediate Impact

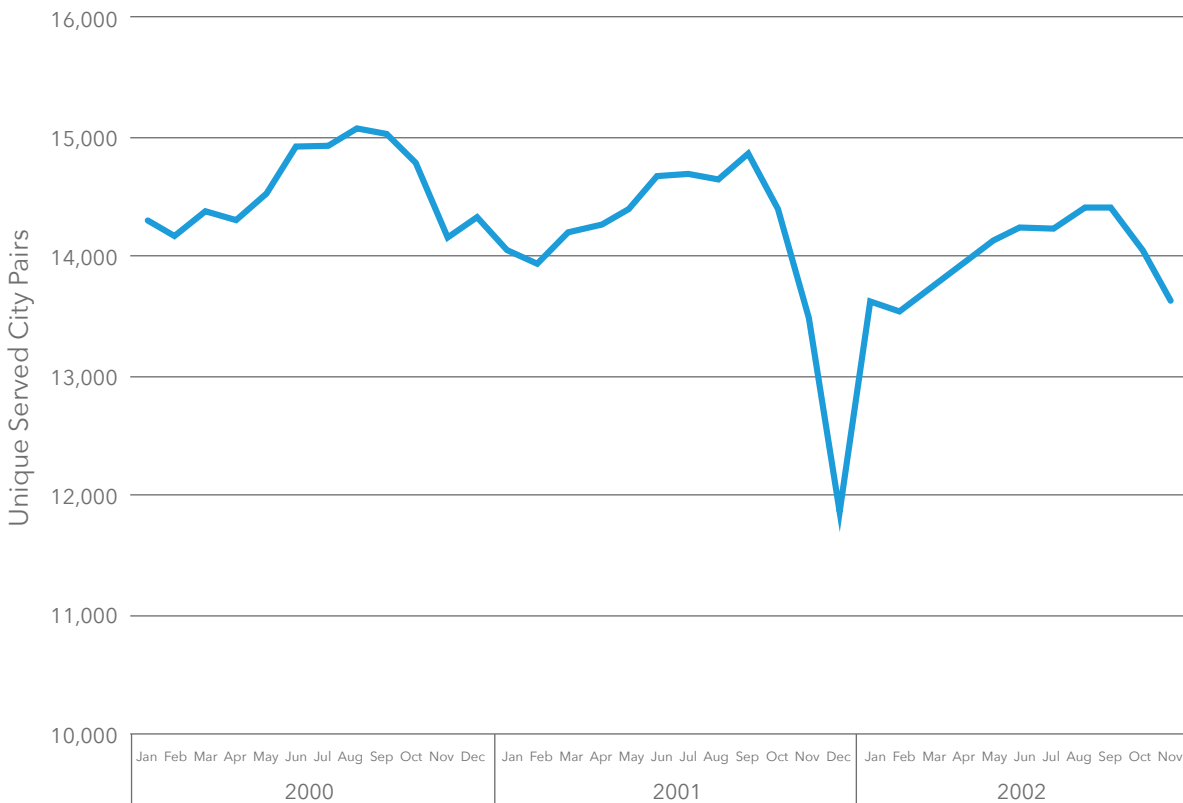
- Following the terror attacks, U.S. and Canadian airspace was closed, and airborne planes were required to land at the first opportunity.
- Civilian air traffic resumed on Sep. 13th, and the backlog of passengers took a few days to clear.
- In the two years following 9/11 traffic declined globally -2.8%, primarily driven by North America where 2002 traffic volumes were -12.1% lower than before the attacks.
- While traffic in the rest of the world grew in 2001 and 2002, the rates of growth were much lower than the previous two years. North American traffic did not recover to pre 9/11 levels until 2004

9/11 IMPACT ON AIR PASSENGER TRAFFIC



- In the years following 9/11 airline capacity remained relatively flat on routes to/from North America while growing in the rest of the world.
- While the number of unique city-pairs served in the world dropped dramatically after 9/11, the numbers started to come back up just a few months later.

WORLDWIDE UNIQUE CITY PAIRS
(Scheduled Flights)



Longer Term Impacts

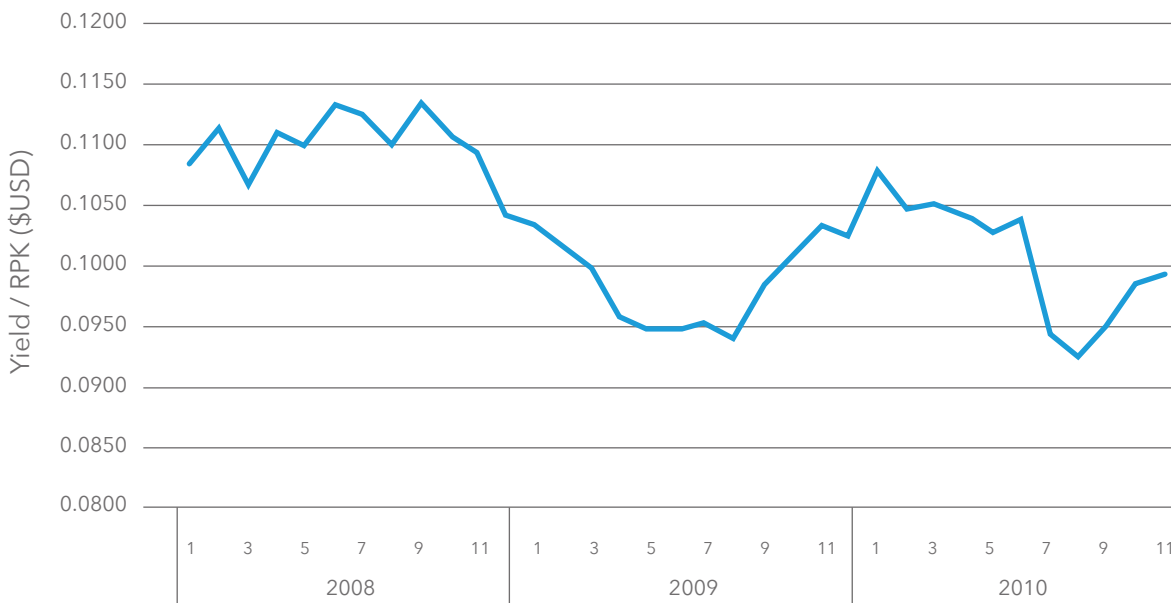
- Despite government bailouts, there was a wave of major carrier bankruptcies in the years following 9/11. Airlines such as Ansett, Sabena, Aloha, Mexicana, and Swissair ceased operating. Others, including United, Delta, US Airways, Air Canada, Avianca and Northwest, filed for bankruptcy protection.
- In the U.S. mergers and bankruptcies resulted in several hub closures
- There was a mass retirement of a lot of older aircraft such as early 747s, tri-jets (DC10, MD11, L10) and older narrowbodies (DC-9, B727, MD-80).
- Additional security measures that disproportionately impacted short-haul travel as pax switched to other modes (rail, coach, private vehicle).

GLOBAL FINANCIAL CRISIS (2007/08)

Immediate Impact

- The crisis began in 2007 in the USA, and then became a global crisis in Sep/2008 with the collapse of the Lehman Brothers investment bank. The crisis ended in June/2009.
- Airline traffic dropped the most in North America, where passenger volumes declined more than 8% and did not recover to pre-crisis levels until 2011
- Traffic in other parts of the world did not drop substantially, however yields dropped in the range of 13%-16%. Given the industry’s traditionally thin profit margins, this drove many airlines into a loss-making position.

GLOBAL AIRLINE YIELDS / RPK



Longer Term Impacts

- Financial losses incurred during the crisis drove significant airline consolidation. In North America and Europe in particular, a whole raft of airline mergers took place, including:
 - Southwest / AirTran
 - United / Continental
 - Delta / Northwest
 - American / US Airways
 - Alaska Airlines / Virgin America
 - LAN / TAM

- Lufthansa / Swiss / Austrian / Brussels Airlines
- Avianca / TACA
- Travel agencies and reservation services never really recovered
- Airlines worked to diversify their revenue sources, with a stronger focus on ancillary revenues and alternate revenue sources such as credit card deals.
- An industry-wide focus on cost reduction took place. Aircraft seat density increased, onboard products were either removed or went from free to pay-per-use, distribution costs were reduced by shifting sales to their own websites, and airlines increased the pressure on airports to reduce their fees and charges.

WHAT CAN THESE EVENTS TEACH US ABOUT THE CURRENT COVID-19 CRISIS?

- Because these events left airlines in a much weaker financial position, they were forced to re-assess their entire business and look for ways to operate more cost-effectively.
- Indications are that the COVID-19 impact will be much more severe than these past events. The urgency for airlines to improve their cost efficiency will therefore be more acute.
- These previous events drove some airlines out of the market, and others to consolidate and to rationalise their hubs and networks. It is likely there will be more casualties this time. One airline (UK-based Flybe) has already failed, there will likely be more. While governments are offering financial aid, there won't be enough money to save everyone. Preference will likely be given to large airlines with broad networks.
- When the recovery from COVID-19 begins, airlines will be focussed on increasing network efficiency. Previous crises resulted in mergers and hub closures, so it's unrealistic to think that this time airlines will put everything back the way it was before. Every route and destination will likely be scrutinised, with marginal performers being reduced or cancelled. Retirement of older aircraft will likely be expedited, as well as large widebodies such as the A380 because of their high operating cost.
- Airline failures will take capacity out of the market; in many cases airlines will view this as a market correction and leave the capacity unreplaced.
- Given the urgency to reduce costs, expect airlines to significantly increase the pressure on airports. Airport costs will likely be a more important factor than ever before, and airlines will be looking for more creative types of route support and incentives.



Mike St-Laurent
Vice President,
Consulting - ASM

WHAT DOES THIS MEAN FOR ROUTE DEVELOPMENT AT AIRPORTS?

1. Route development will be more important than ever – attracting and keeping air routes will be the major priority for airport businesses.
2. Deep and long-lasting route support will be a necessity – airlines' need to mitigate risk will demand more of airports and their city/destination stakeholders.
3. Strategy and positioning needs refinement - networks and airlines will change, being clear and laser focused on your place, opportunity and targets will give you an edge against rivals.
4. Airline engagement will be more important than ever – building relationships, understanding their business and drivers, and being a true trusted partner will ensure sustained success.
5. Delivering the market to sustain air routes will be critical - being immersed in the detail of your market and working with airlines to make sure it delivers on its promise will underpin the recovery growth for which we should all be planning.

About ASM

Airport Strategy & Marketing (ASM), the founder of the renowned Routes events, has supported airports, airlines, tourism organisations and governments in the development of new routes since 1993.

ASM was the first air service development consultancy in the world and we have maintained our leading position in the aviation industry – our clients rely on us to help them expand their air service networks.

We guide and support clients through every step of the air service development process: identifying potential new services, preparing business cases and presentations, negotiating with airlines and ensuring new routes are sustainable.



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