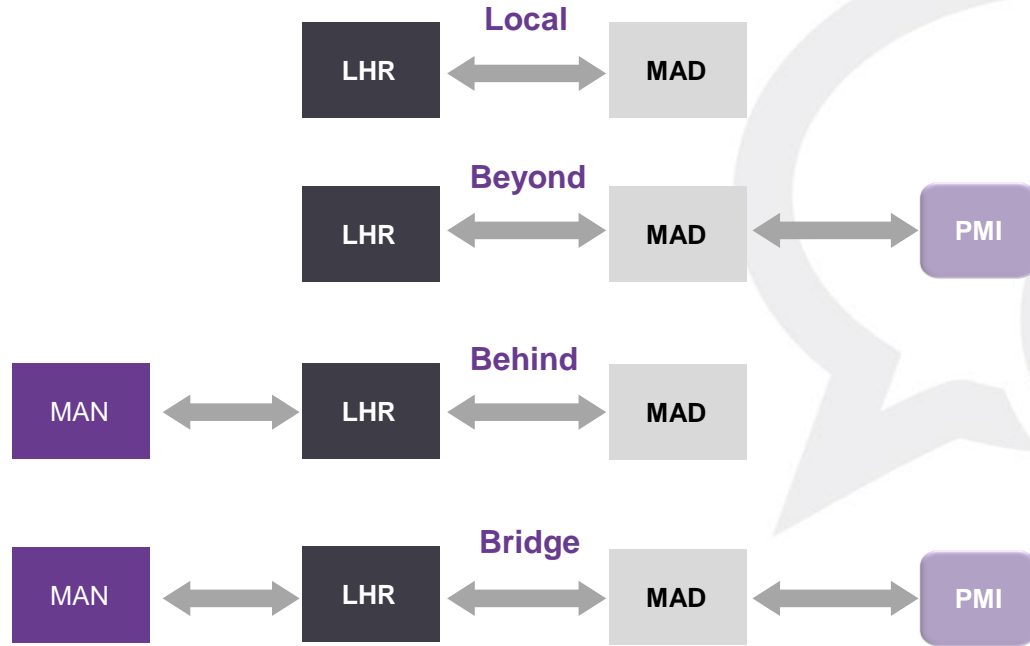


THE FUNDAMENTALS OF ROUTE DEVELOPMENT

BASIC ROUTE FORECASTING
MODULE 7



- Low Cost Carrier
- Scheduled point to point carrier

Local

- Hub Network Carrier
- Scheduled carrier with codeshare partners

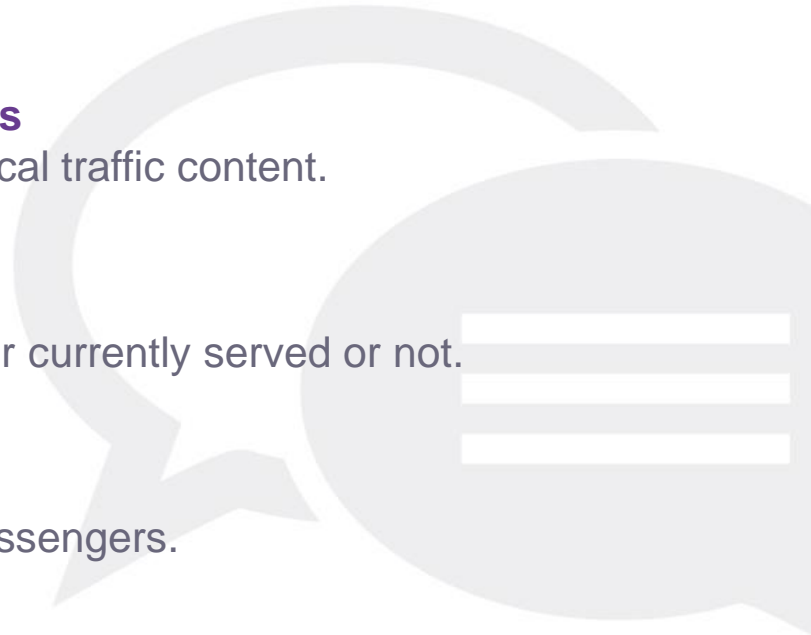
Local

Behind

Beyond

Bridge

- **Market Share/Capacity Share (MS:CS) Analysis**
 - Used in markets currently served, with high local traffic content.
- **Quality of Service Index (QSI) Analysis**
 - Markets with significant indirect traffic, whether currently served or not.
- **Frequency/Capacity Share Analysis**
 - To forecast beyond and behind connecting passengers.



- MS:CS forecasting assumes that the market share a new entrant will capture will be in some way proportional to its capacity share.
- **MCR Value = Market Share/Capacity Share**
- The MCR value is a reflection of the relative attractiveness/performance of one airline over another.
- An MCR value of 1.0 means the airline is achieving a market share equal to its capacity share.
- Looking at how a carrier with similar characteristics compares to the new entrant, will give us a benchmark MCR value to apply to our forecast.

MARKET SHARE/CAPACITY SHARE EXAMPLE

MODULE 7

- Many variables can influence how each airline is performing in a market.
- Low cost airlines use price as a powerful mechanism to exceed a ratio of 1.

<u>Barcelona (BCN) to London Gatwick (LGW)</u>					Local content: 98%
Airline	Seats	Pax	CS	MS	MCR Value
easyJet	671,606	589,603	42%	45%	1.07
Norwegian	115,558	101,432	7%	8%	1.07
Vueling	435,053	368,621	27%	28%	1.03
Monarch	129,047	105,547	8%	8%	1.00
British Airways	247,784	147,828	15%	11%	0.73
TOTAL	1,599,048	1,313,031	100%	100%	1.00

<u>Zurich (ZRH) TO Berlin (TXL)</u>					Local content: 85%
Airline	Seats	Pax	CS	MS	MCR Value
Edelweiss	61,135	58,408	5%	7%	1.28
TUI	3,500	3,199	0%	0%	1.23
Helvetic Airways	8,415	6,605	1%	1%	1.05
Belair Airlines	65,684	51,385	5%	6%	1.05
airBerlin	508,859	388,870	43%	44%	1.03
Swiss	548,360	381,768	46%	43%	0.94
TOTAL	1,195,953	890,234	100%	100%	100%

MARKET SHARE/CAPACITY SHARE FORECASTING EXAMPLE MODULE 7

- New Entrant Airline X wishes to enter market currently served by airline Y
- Airline Y carries 150,000 passengers a year at a load factor of 75% (200,000 seats)
- Airline X plans to put 100,000 seats in the market
- Airline X is an LCC which we expect to achieve an MCR value of 1.2

Airline X Market Share = **Capacity Share x MCR Value**

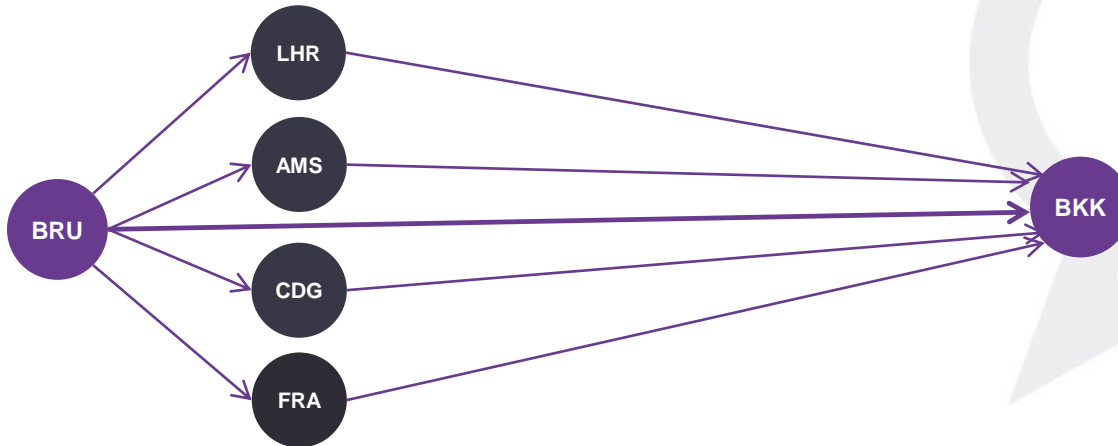
= $100,000/300,000 \times 1.2 = 40\%$

Airline X Passengers = $40\% \times 150,000 = 60,000$

Airline X Load Factor = $60,000/100,000 = 60\%$

QSI (QUALITY OF SERVICE INDEX) ANALYSIS FORECASTING MODULE 7

- Used to forecast demand for a market where **there are identifiable traffic flows via alternate points.**
- Can be used for unserved routes or currently served routes.



- In this case, QSI can be used to forecast demand for a direct service between BRU and BKK.

- QSI analysis works by assigning a weighting factor to different flight options available to a passenger when flying between point A and point B.
- Variables could include:
 - Frequency of service
 - Elapsed journey time
 - Price
 - Departure time
 - Aircraft type
- In order to forecast what market share it might capture, the airline weights itself against this and other factors.



For the purposes of what you wish to achieve at an airport it is appropriate to simplify this process and just consider the relative attractiveness of a non-stop flight compared to the competing online connecting options available in any given period.

However, even to perform this simplified QSI analysis you still need as a minimum:

MIDT/BSP data to show non-stop versus indirect traffic

Schedules data which will show you the on-line connecting and non-stop flight options between two points

- QSI value – how to determine how much more attractive a non-stop flight option is compared to the competing on-line connections.
- The example below illustrates the split of O&D traffic by routing between 2 airports and the number of non-stop and on-line connections between them in a given week.

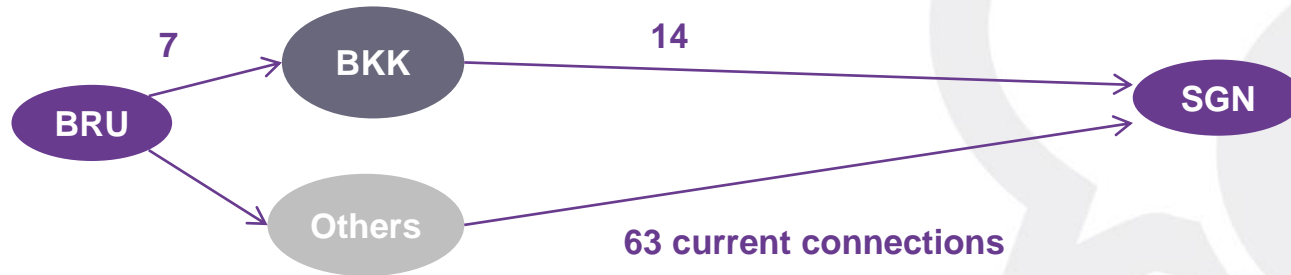
O&D Traffic			Market Share		Weekly Frequency		QSI Value		QSI
Non-stop	Connecting	Total	Non-stop	Connecting	Non-stop	Connecting	Non-stop	Connecting	Factor
80,000	20,000	100,000	80%	20%	7	43	11.43%	0.46%	25

QSI Factor or how much more attractive is the non-stop flight option compared to the indirect one
 $= 11.43\% / 0.46\% = 25$

Service Option	Weekly Freq	QSI Factor	QSI Value	Market Share
On-line Connection	50	1	50	22.2%
New Non-Stop	7	25	175	77.8%
Total QSI Value			225	
BRU – BKK Total O&D Market Size			50,000	
New Service Market Share			77.8%	
Forecast New Service Local Traffic			38,900	

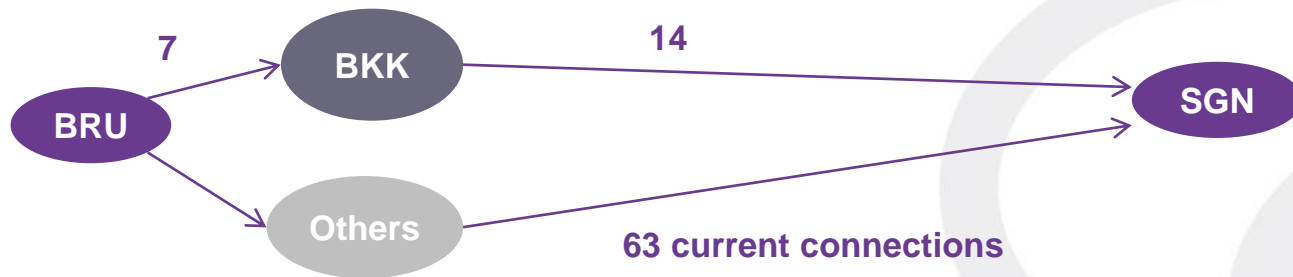
FREQUENCY SHARE

- To forecast connecting traffic a frequency share technique can be applied.
- The market share of connecting traffic between 2 points is assumed to be proportional to its share of the on-line connections.



- In this example there are 63 connecting options per week between BRU and SGN, with airline Y operating 14 weekly BKK - SGN flights.
- If airline Y were to operate BRU to BKK 7 times/week the airline could generate an additional 7 connecting opportunities from BRU to SGN via BKK.
- Therefore, airline Y could potentially capture 7/70 or 10% of the indirect BKK-SGN traffic.

FREQUENCY SHARE



Route	Indirect Pax	Proposed Weekly Freq BRU-BKK	Existing Weekly Freq BKK-SGN	New Cnx Opp. between BRU and SGN	Existing Cnx between BRU and SGN	Total Cnx between BRU and SGN	Share of Cnx Opp. between BRU and SGN	Forecast Pax
BRU-SGN	10,000	7	14	7	63	70	10%	1,000

SIMPLE MARKET PENETRATION

- Benchmark typical Bridge traffic % on existing routes – similar airline(s) and/or similar market(s)
- Apply % of Bridge traffic to the consolidated Local, Behind, Beyond forecasted traffic

Forecast Summary

Segment 1 - Local XXX-YYY Traffic incl. stim @80%

Year 1

23,991

Segment 2 - Beyond YYY 1 Stop Connecting Traffic

30,106

Segment 3 - Behind XXX 1 Stop Connecting Traffic

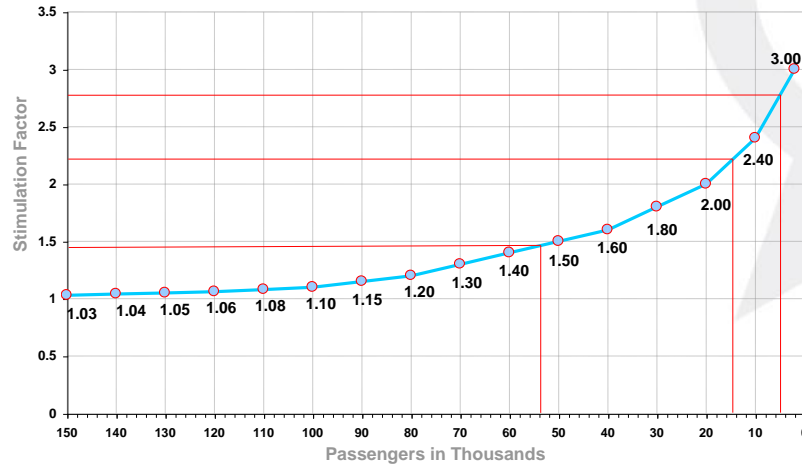
45,468

Segment 4 - Bridge/2 Stop Traffic @5% of Traffic

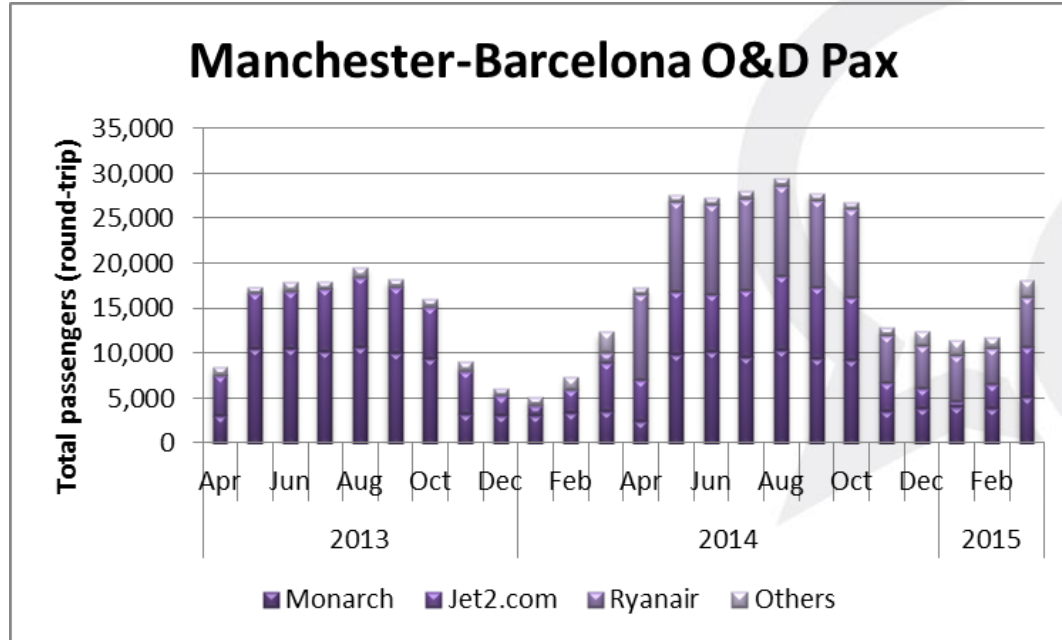
5,240

= ('LBBTraffic' / (1 - 0.05)) - 'LLB Traffic'

- The introduction of new non-stop service can stimulate local traffic with a one-off increase beyond normal market growth. The extent of the stimulation is affected by factors such as price, frequency of service, marketing activity, etc.
- IATA has developed a stimulation curve that relates potential stimulation to current market size. In general, smaller markets experience higher stimulation



- When Ryanair introduced service between Manchester and Barcelona in 2014 the market size grew 61% despite the route being already served both by Monarch and Jet2.com.

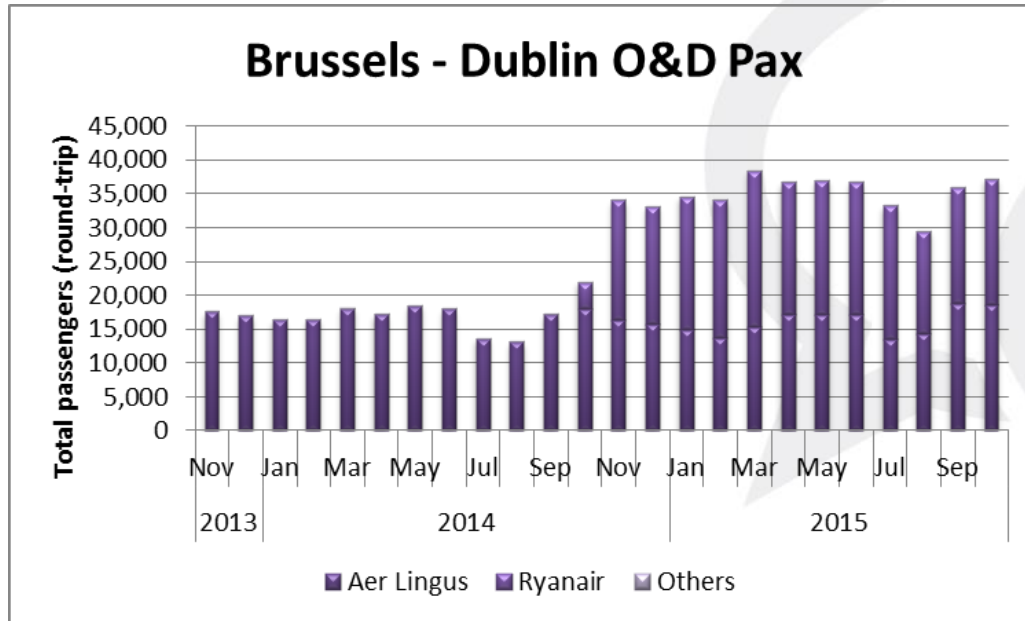


Source: Sabre Market Intelligence

LOW COST STIMULATION EXAMPLE

MODULE 7

- In the case of Brussels, with no incumbent low-cost carrier on the route the market size grew 104% following Ryanair's introduction of nonstop service in November of 2014.



Source: Sabre Market Intelligence

- What's relevant?
- What's credible?
- What stands out?
- What would you use in your presentation?

