Disruption in the airline industry. It is coming - faster and bigger than you think!

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Two Main Areas of Disruption

1. Ownership & Control (O&C) - a relic of 1945; nobody wants it – so why does it remain? It's already being eroded. How much longer will it hold back industry evolution?
2. "Ownership" of the Traveller – always contentious; now new forces have appeared: 3rd party data analytics are about to crash the party

The order of play

DAY 1

1a. Ownership and Control (O&C) – Debate & discussion

2a. “Ownership” of the Traveller – Debate & discussion

DAY 2

1b. O&C changes - Devising airline strategies

2b. “Ownership” of the Traveller – Devising airline strategies

Other industries - disintermediated

1. **Hotels**
   - Most don’t own real estate, just market and sell – had already disrupted themselves. And consolidating
   - Airbnb: owns no real estate. Only an app
2. **Telecoms**: the original “flag carriers”, previously heavily and nationalistically regulated. Now just pipes, competing for space with the other renters.
3. **Taxi companies**: heavily regulated, protected. Now being uber-ed

Other industries - disintermediated

4. **Media**: were locally and nationally dominant. Direct electronic production and selling has diffused market power
5. **Music**: dominated by major recording companies and “hard” product. Internet and millennials reshaped the product
6. **Retailing generally**: combination of internet sales and sophisticated use of Big Data is replacing retail chains

Other industries - disintermediated

Various combinations of factors are working to reshape industries:

- The internet and the transparency it delivers
- Globalisation opening up markets
- Millennials with a different attitude
- Greater market intelligence, through small and Big data
- New markets like Asia bringing new values and market balance

From zero to one

Many companies develop products or services that take "the world from 1 to n, adding more of something familiar."
The future survival of companies like airlines will instead require taking the world "from 0 to 1."

ie They need to self-disrupt to survive. Incrementalism is not enough

Peter Thiel (with Blake Masters), *ZERO to ONE: Notes on Startups, or How to Build the Future*

The airline industry has had *some* disruption in the past 50 years

The 4 Phases of Disruption in the Airline Industry:

1. 6th Freedom Disruption
2. Gulf Carrier Disruption
3. LCC Disruption

4. The "Next Phase": China, partnerships and...... Big data analytics

The 4 Phases of Disruption in the Airline Industry

(1) 6th Freedom Disruption

Technical innovations	Operating environment	Regulation	Sales and Marketing
1940s-1960s	• Multiple union strength evolved in complex operating and admin companies • Boeing 707s arrive • Boeing 737s arrive	• Strict – entry, capacity, frequency, pricing, routes all tightly controlled. Rigid ownership and control (O&C) rules applied • Passenger origin established as the “currency” for bilateral trading. Dominated by “flag carriers” • IATA fixes global prices – and enforces them • Tight control of 3rd and 4th freedoms, a little 5th • Major airline disputes over free sandwiches and in-flight movies on N Atlantic	• Manual, personal, direct sales and high street airline offices. Travel agents gradually intervene. • No pricing flexibility • Typical load factors around 50% • Economy class grows rapidly after jet operations begin • Interlining organised through IATA agreements
1970s	• B747s arrive • First oil crisis and economic downturn	• Pricing challenges as 747s add large amounts of capacity and weak global economy suppresses demand	
PHASE 1 6TH FREEDOM DISRUPTION		• 6th freedom operations become viable – Netherlands and Singapore + “Singapore Inc”	• Many airlines break ranks, with “illegal” price discounting

Source: Airline Leader, Nov/Dec-2016)

The 4 Phases of Disruption in the Airline Industry

(2) Gulf Carrier Disruption

1990s

Technical innovations	Operating environment	Regulation	Sales and Marketing
PHASE 2 GULF CARRIER DISRUPTION Ultra-long haul aircraft arrive -	• Long haul network planning reshaped	• Emirates and "Dubai Inc" become a global force. Etihad and Qatar enter	• Three GDSs emerge from the previous CRSs and sold off by airlines; pricing transparency grows

Source: Airline Leader, Nov/Dec-2016)

The 4 Phases of Disruption in the Airline Industry

(3) LCC Disruption

2000s

Technical innovations	Operating environment	Regulation	Sales and Marketing
PHASE 3 LCC DISRUPTION The entrance of the A320 stimulates price competition	• LCCs in Europe and AsiaPac. • Ryanair, easyJet, AirAsia begin	• Short haul disruption begins in earnest	• Online, direct sales start to disrupt distribution channels

Source: Airline Leader, Nov/Dec-2016)

The 4 Phases of Disruption in the Airline Industry

(4) The Next Phase

Technical innovations	Operating environment	Regulation	Sales and Marketing
2016 -2025			
PHASE 4 CHINA + BIG DATA TRANSFORMATION	• China much more powerful in global aviation	• Ownership & Control lines blur as Chinese airline and travel investment spreads • Virtual airline operation becomes more widespread as third parties dominate retail	• Distribution changes fundamentally • 3rd parties, much more adept at aggregating, interpreting and using big data, dominate marketing and sales • Consumers control markets through direct access tools

Evolving the O&C rules

Many examples have eroded the basic principle over the past 15 years:

X-Border Joint Ventures (states have tacitly accepted)

X-Border Equity Investments (various goals in partnership)

A confluence of interest in change

European Airline "Group" Structures

AT Immunised Joint Ventures

Many major airlines want to cement partnerships with equity

- Delta – Latin America, Europe, China
- Lufthansa - Europe
- Etihad – Europe, Asia, Africa
- Qatar – Europe, Latin America…..
- LATAM – Latin America
- Volaris – Latin America
- AirAsia – AsiaPac
- Lion Air – AsiaPac
- SIA - AsiaPac
- Qantas - AsiaPac

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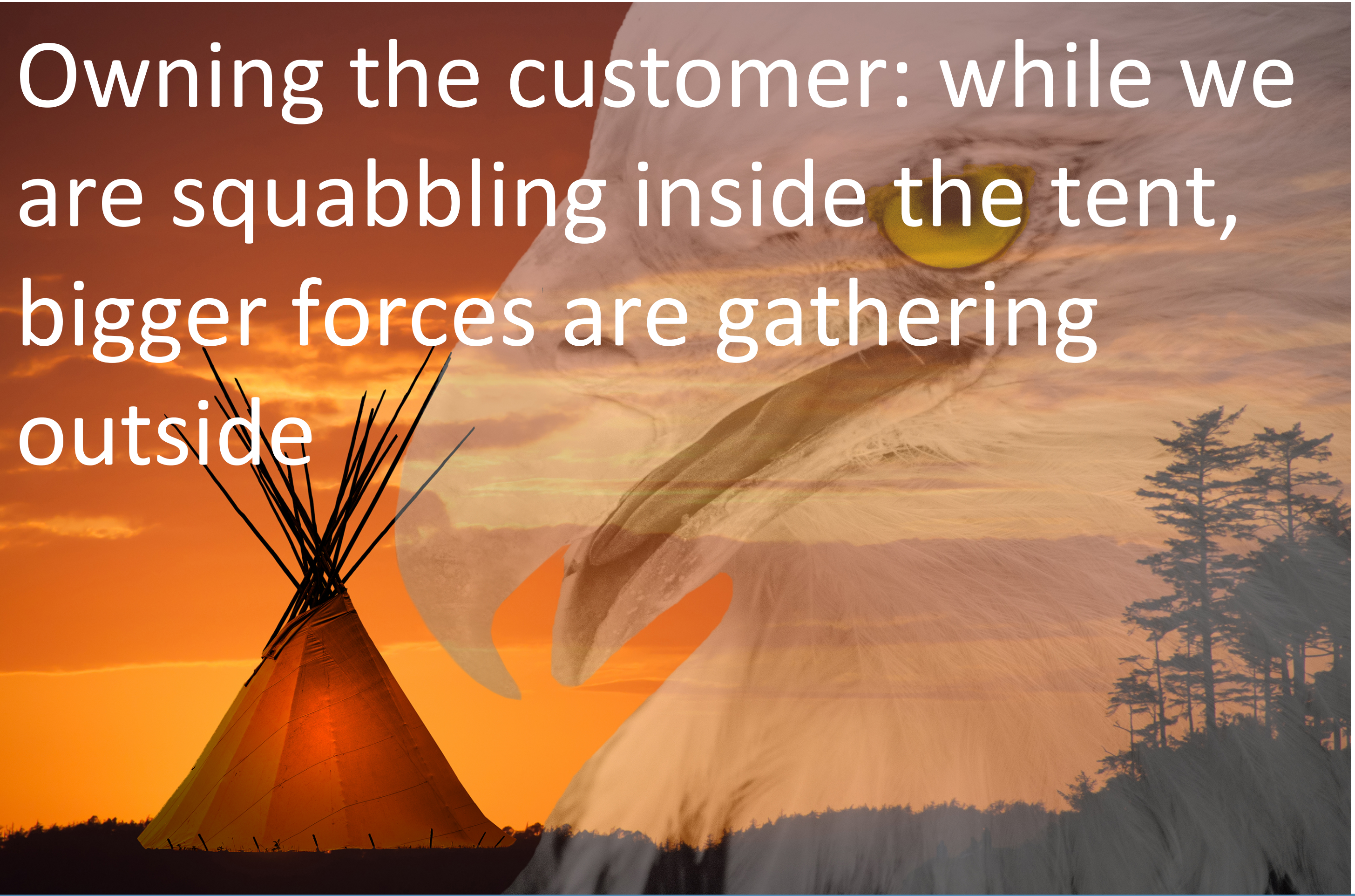
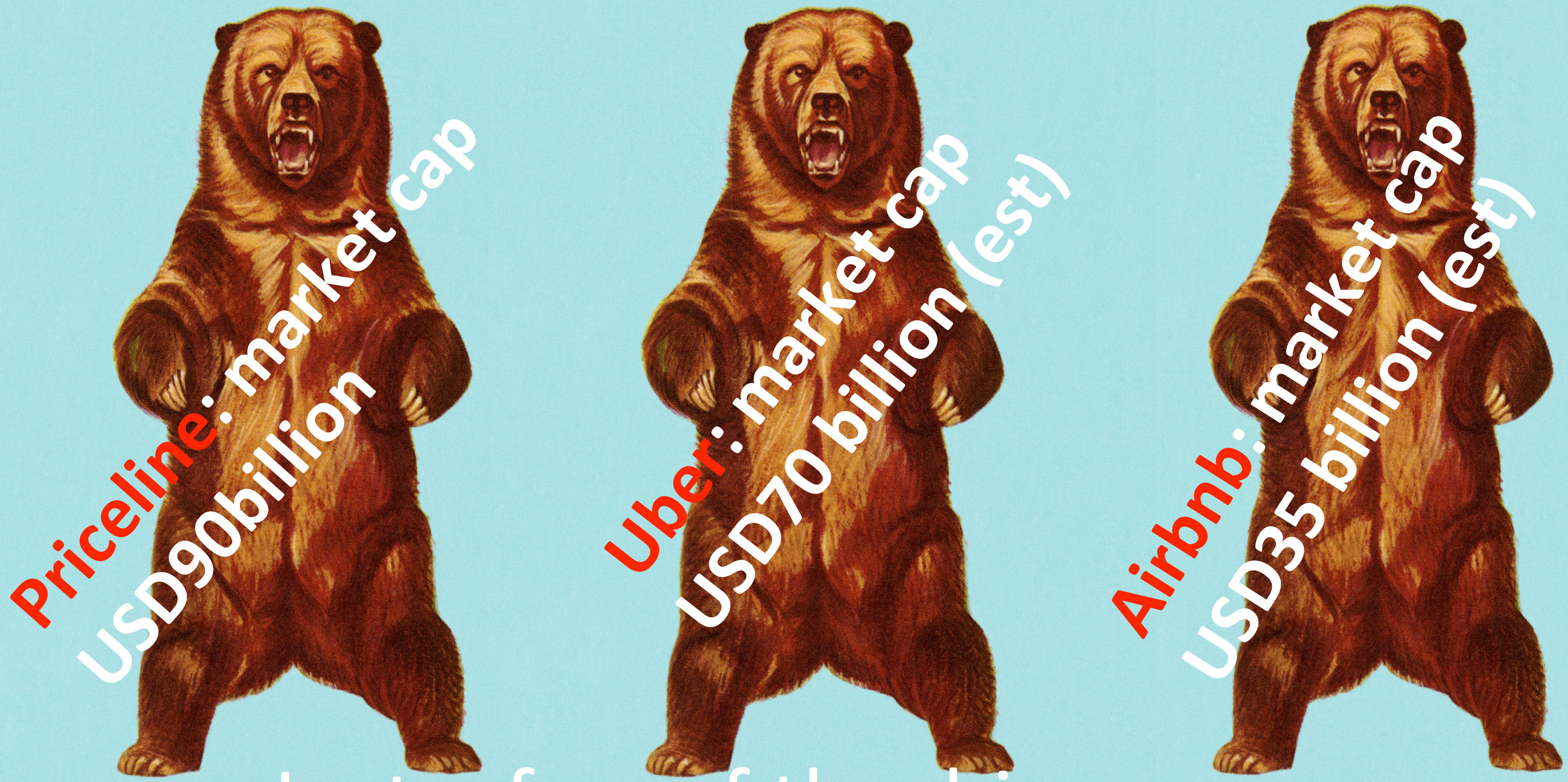
Owning the customer: while we are squabbling inside the tent, bigger forces are gathering outside



Third parties, with massive data and analytics capabilities are preparing to swoop

Just a few of the big ones



Just a few of the big ones

The Specialists will Dictate the Market

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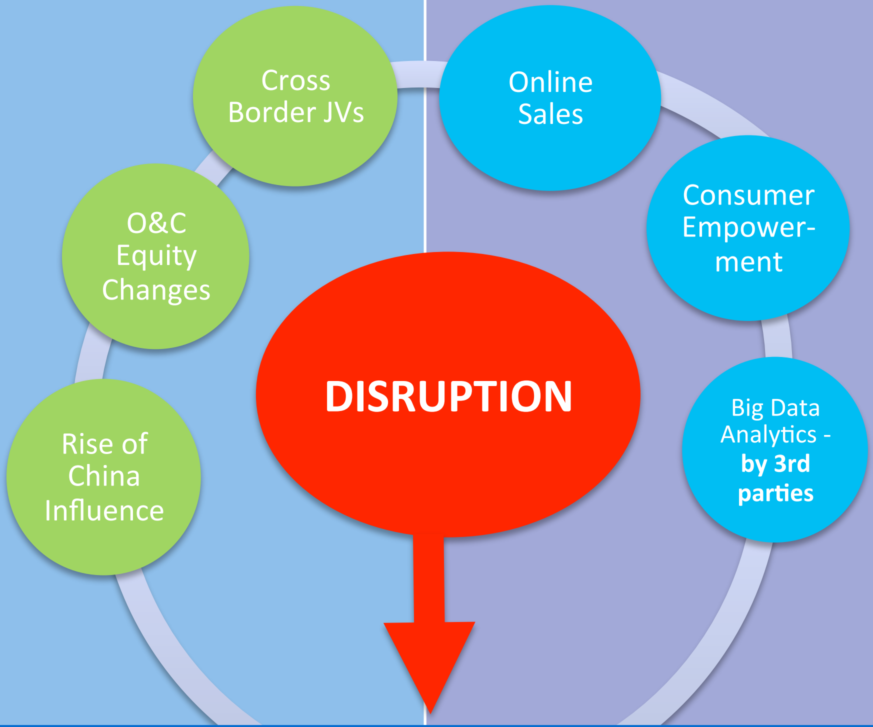
- The data gatherers have the skills, the data and the intent (and the cash)
- Amazon has *thousands* of engineers working on cloud tech and analytics

	(USD)
DELTA	37 billion
UNITED	24 billion
IAG INTERNATIONAL AIRLINES GROUP	13 billion
QANTAS	9 billion
Lufthansa	8 billion
RYANAIR	16GBP

Source: CAPA – Centre for Aviation, Yahoo Finance

Coalition of Forces for Disruption

Ownership & Control Erosion



Consumer and Data Aggregator Forces

- **Foreign airline ownership allowed**
- **Retail controlled by 3rd parties**

Disruption 2025

- In the regulatory area, China will be the Big Disruptor as it expands into its new global role;
- Airlines seeking partners and cross-border efficiencies will increasingly undermine O&C principles;
- Technology and the associated rise in consumer empowerment will transform the process of buying and selling tickets;
- Third parties with Big Data Analytics will control markets

It will happen sooner than we expect…..

Enjoy the next two days!