



Routes to riches

The route development market has begun its recovery following the global economic downturn, and change is afoot. ASM managing director **John Grant** gives Mark Brierley his predictions on the likely opportunities for airlines and airport operators as the market evolves.

There is no doubt that the global route development market has experienced a turbulent couple of years. A drop in consumer confidence linked with the recession has led to a consolidation in route offerings among carriers. However, the green shoots of growth are starting to emerge following the upswing in the global economy. This recovery is uneven, with some regions faring better than others – most notably those that weathered the economic storm better.

“There’s a lot of activity out there,” says John Grant, managing director of route development experts ASM. “There has been a bounce back in terms of confidence in many parts of the world. China, India and southeast Asia have been doing really well. The same can be said for Latin America. In terms of development, they didn’t suffer that severely at the hands of the global recession.

John Grant

As managing director of ASM, John Grant is responsible for the strategic expansion of the company and for taking it into emergent market sectors around the world. Before joining ASM in 1999, he spent 20 years working in senior management roles in the airline industry.



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Despite these promising signs, the markets most severely affected by the recession still have ground to make up before a full recovery can be made.

“When you look at the global picture, the governments that are taking punitive fiscal measures and making cuts to the public sector tend to be in Europe,” says Grant. “The depth of the recession there was a bit deeper than we thought, and

consumer confidence was hit harder than it was in other parts of the world.”

European recovery was hampered further by the eruption at Eyjafjallajökull in Iceland in mid-April. The ash that choked European airspace for the best part of a week is estimated to have cost the industry \$200 billion.

“Clearly the ash didn’t help,” says Grant. “For five or six days, the whole

industry wound down. Whatever your business is, if you lose five or six days of revenue, it is going to knock you flat."

North America, the epicentre of the financial meltdown, has fared better than Europe. It has taken positive steps towards recovery and growth, and made them quickly.

"The US and North America are generally coming back a lot quicker than anyone expected," says Grant. "It surprised us all a bit, in terms of the recovery in yield and the optimism about the market going forward."

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Strength in numbers

Part of this increased confidence in the marketplace is likely to stem from the \$3.2 billion merger of Continental Airlines and United Airlines, creating the world's largest global carrier.

"The Continental and United merger has, in many ways, acted as a catalyst," says Grant, who sees this deal, along with the recent merger of British Airways and Iberia, as having a profound effect on the market. "Obviously, this is going to raise the competitive stakes."

The mergers, coupled with the recent approval of anti-trust immunity by US and European regulators for the Oneworld Alliance, has put the market in a unique position. Anti-trust immunity gives airlines within an alliance the option of working together to set fares and schedules across the Atlantic.

"For the first time, there are three competitive alliances that look pretty secure in their tenure, relationships and partners: Star, Oneworld and SkyTeam," says Grant. "They have all got access to anti-trust immunity, which means they are all on a level playing field. They are all going to be working their schedules more efficiently and using hub and spoke destinations more. We are going to see a lot more competition between these guys."

This development could spell new opportunities for low-cost airlines, and

Grant sees these carriers becoming of increasing interest to the alliances.

"For many years, legacy and low-cost airlines were saying they were complete opposite ends of the spectrum, but maybe they're not anymore. Low-cost carriers can bring the cost efficiency that the legacy airlines want to take advantage of," he explains.

The Oneworld Alliance recently welcomed budget airline Air Berlin to its ranks, and is openly courting Jet Blue, which is part-owned by Lufthansa. EasyJet also has informal arrangements

with several legacy airlines around the world. These actions could herald the beginnings of low-cost, long-haul air travel; the precedent has already been set by Air Asia X, which operates such flights within the Asian region and to London Stansted.

"It's a part of the segment that hasn't evolved yet, but it could happen. The payload range for some of these aircraft, particularly single-aisle twin engine equipment, is on the verge of being able

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to complete a low-cost, long haul journey between the US and Europe, most likely somewhere in the UK or the Republic of Ireland."

Improvements in equipment offer new options for route development in addition to the transatlantic possibilities for low-cost carriers. The Airbus A380 and Boeing 787 are considered to provide excellent opportunities in this regard.

"The A380 will work for an airline like Emirates. For them, it is heaven sent that they can operate an A380 because they are restricted to a frequency of one flight a day on certain routes" explains Grant. "The 787 has non-stop range. Just look

at Continental; the first route for their 787 is Auckland to Houston. That is a huge sector to be operating. Truth be told, there is probably a role for both aircraft within the wider development of the market."

Dangle the carrot

Central to all of this is the need for airport operators to respond accordingly to the changing landscape of route development. By making an airport an attractive option for any new route opportunities available to carriers, some business can be transferred away from the major hubs.

"If you can demonstrate cost efficiency or operational effectiveness, that will give you an advantage over a big airport, and there will always be a customer who is interested in looking at and evaluating the opportunity," says Grant.

One such example is Shannon Airport in the Republic of Ireland, which has a US border pre-clearance facility. This allows passengers to arrive in the US without having to go through immigration or customs, something seen as a big incentive to attract airlines.

"The most important thing airports need to do is get out there and start talking to airlines," he adds.

All these new opportunities spell good news for route development. But it is up to airlines, aircraft manufacturers and airport operators to work together at World Routes to make these possibilities a reality, and get the aviation industry back on track.

ASM will be at stand N18 at World Routes on 19-21 September 2010. ■

Further information

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