Agenda

- Welcome!
- "Housekeeping"/Plan of Action
- Formal Introductions
- Aims & Objectives
- Airline Industry
- Trends, Challenges, Strategies
- European Operator: The Essentials (Carole Blackshaw, Gates)
- Insurance (David Fisher, AON)
- Executive Perspective (Antonis Simigdalas, Former President, ERA)
- How to Start an Air Carrier
  - Business Plan/Financial Model/ Implementation Plan
- Roundtable/Q&A
Introductions

• John Wensveen, Airline Visions
• Gates & Partners
• Seminar Participants
Seminar Presenter: John Wensveen

- University of Victoria (BA)
- University of Wales Cardiff (MPhil/PhD)
- IATA Certificate – Airline Finance & Accounting
- Passion for aviation since age 3
- Flying lessons at age 15
- Wilderness Airlines in teen years
- Canada 3000 Airlines
- Embry-Riddle Aeronautical University
- MAXjet Airways
- Intervistas Consulting
- Dowling College School of Aviation
- NewAir Airlines ("ghost" name)
- Airline Visions (airlinevisions.com)
Aim & Objectives

• Aim
  • To “graduate” from this seminar with an enhanced knowledge of the airline industry in order to develop a winning business plan

• Objectives
  • Understand the global airline industry by region
  • Define the true purpose of a business plan
  • Gain knowledge of the elements of a business plan
  • Implement the business plan successfully
Airline Industry

• What is it?
• What are its roots? (1914)
• Why invest?
• Is it really that “sexy”?
• Cyclical patterns (peaks/troughs)
• Airline vs. a business
• Why do airlines fail?
  • Undercapitalization
  • Overexpansion
  • Limited flexibility
  • Lack of leadership
• Why do airlines succeed?
• How is success measured?
Airline Industry: Trends, Challenges, Strategies
Presentation Objectives

• Provide background on the global industry
• Present a regional analysis
• Discuss current and future evolvement of the industry (trends)
• Discuss challenges and strategies impacting the industry
• Discuss the new breed of airlines
• Discuss why airlines fail and how to achieve success
Background Section
3 Stages of Development Impacting the Airline Industry

- Regulation
- Liberalization
- Deregulation
- “Re-regulation”
Phases of Industry Restructuring (resulting from Deregulation / Liberalization)

- Expansion
- Consolidation
- Concentration
Past, Present and Future Trends
The Global Airline Industry

Survive
Adapt
Recover
Rethink

State of Industry

Time

1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
“Scenarios”

- Swine Flu
- SARS
- 9/11
- War
- Financial Crisis of 2008/09
- What to prepare for...
  - Globalization
  - Change in international political landscape
  - Distribution of natural resources (oil, gas, water)
  - Internal conflicts (shifts in power) and *unintended* consequences and *unintended* consequences of good intentions
  - Public and international perception
  - War
  - Terrorism
  - Continued financial issues
Top 5 Frustrations in Aviation

1. Fuel/oil
2. Pollution control
3. Personnel cutbacks
4. Global economic woes
5. Recurring safety lapses
Top 3 Costs for Airlines (in any order)

1. Fuel*
2. Labor
3. Maintenance

*40+% for US airlines in 2010: 13-40% of costs in 9 years
Typical Airline Operating Expenses

- Flight Crew (7.4%)
- Enroute Facility Charges (2.4%)
- Station Expenses (10.8%)
- Passenger Services (10.5%)
- Ticketing, Sales, Promotion (16.4%)
- General Administrative and other (12.2%)
- Depreciation & Amortization (7%)
- Maintenance & Overhaul (10.1%)
- Other (7.1%)
- Fuel & Oil (12%)
- Landing & Associated Airport Charges (4.1%)

Source: The Aviation & Aerospace Almanac
ICAO Air Transport Reporting Form EF-1
Overview:
The Industry Continues to Evolve
Industry Overview: Global
(As of October 2011)

• Global economic crisis?
• Airlines to lose billions 2008-2011 (IATA)
• High oil prices and falling demand
• Demand for travel shrinking (OAG)
• 46M seats cut Oct-Dec (2008)
• 600k fewer flights Oct-Dec 2010 vs. 2009

• 200+ airports to cease offering services
• 3+% decline on trans-Atlantic and trans-Pacific routes (2008-current)
• 30 airline failures since Dec 2007
• Airlines grounding aircraft and reducing capacity
• Pax traffic to grow at 3.2% (from 3.9%)
• Cargo traffic to grow at 1.8% (from 3.9%)
Regional Analysis
6 Regions of the World

- North America
- Europe
- Asia-Pacific
- Middle East
- Africa
- Latin America/Caribbean
Regional Regulatory Trends

- N. America – Deregulation / Privatization
- Latin America – Deregulation / Privatization
- Europe – Liberalization / Privatization
- Asia-Pacific – Deregulation / Liberalization / Privatization
- Middle East – Limited Privatization / Liberalization
- Africa – Cautious Privatization / Some Liberalization
North American Region (Canada/USA/Mexico)

- Canada – privatization of airlines, airports, ATC; rise of low-cost carrier
- USA – rise of low-cost carrier; government control of airports; secondary airports; major airline debt; bankruptcies; mergers; stagnant domestic growth; increased international growth
- Mexico – government controlled; bankruptcy; low-cost carrier to emerge
- US domestic routes hardest hit
• “De-hubbing” or “de-peaking” starting to happen (i.e., AA at Chicago)
• Simplifying of aircraft fleet
• Automation initiatives to improve customer service and enhance productivity
• Changing distribution methods
• Modification of in-flight services
• Initiating broad range of cost savings programs
• **300k fewer flights (25M fewer seats)** Oct-Dec 2010 compared to same 2009
Asia-Pacific Region

- Managed liberalization (slow to change)
- Strong growth (especially since 9/11)(i.e., China 8% PAX growth next 20 years; India growing domestically and internationally 20% per year)
- No regional organization for Asia (unique)
- “Megacarriers” and small international carriers co-exist
- No interline agreements
- Largest share of world economy
- Busiest international route in world (Hong Kong – Taipei)
- Growth of alliances
- Airport and airspace congestion, competition, need for advanced navigational equipment
- 15M seats to be cut
- Centre of growth declining
- **Airline profits shrank $900M in 2007 to $300M in 2008**
European Region (EU)

- Liberalized environment (1997) – Third Package
- Privatization of airlines
- Rise of low-cost carrier
- Growth of alliances
- Competition with other modes of transport (high speed rail)
- Theme for future is ‘leadership’ in air transport regulation
- National pride still an issue
- 45+ European airports lost all scheduled flights by end of 2007
- 83k fewer flights in EU this Q compared to 2007
- **Airline profits fell $2.1B in 2007 to $300M in 2008**
Middle East

- Fairly stagnant in terms of growth
- Rich and poor
- High cost airlines feeling pinch of 9/11
- Implementing low-cost strategies
- Safety and security?
- **Airline profits to fall from $300M in 2007 to $200M in 2008**
African Region

- Low standards (safety, environment)
- Airlines do not contribute to regional economy
- Slow growth but growing (i.e., N. Africa regional growth 4-6% per year 2000-2010)
- Propensity to fly variable limited but will increase over next 15 years
- Increased stability in the region
- Old aircraft fleet (i.e., B727)(Stage I and II)(average age is 18 years)
- Will need 1,000 new aircraft next 15 years to replace old technology
- Since 1992: airline integration; restructuring; commercialization – positive
- ‘Flag carrier’ to self-reliance, privatization, less governmental control
- Need for new management to cope with global trends
- Need autonomy in civil aviation authorities
- Need infrastructure
- Need personnel training
- Airlines to work together as partners
- Rise of LCC start-ups
- **Airline losses of $700M in 2008**
Latin America & Caribbean

- Moving toward liberalization
- Increased PAX growth and competition
- Increased alliances
- Developing corporate strategy and a competitive strategy to cope with competition
- Need for training
- Need for R&D
- Brand culture important
- Focus on safety
- **Airlines losses of $300M in 2008**
Latin American Challenges

- Think as a “business” and not an airline
- Cost savings
- Focus governments on economic benefits the industry brings
- Airport privatization issues (failed?)
- User charges and accounting for money
- Taxes and use of proceeds
- Safety performance
  - Industry 1:1.5M; LA 1:550,000 (2010)
  - 5% of traffic and 14% of incidents
- Environmental performance
  - Invest in new technology
  - Efficient use of infrastructure
  - Operate aircraft effectively
  - Discuss emissions trading
- Infrastructure (airports)
- Liberalization issues
- Improve communication internally and externally
- Will there be a SAFTA? Impact?
The Industry:
Challenges & Strategies
Major Players and Forces Comprising An Airline’s Environment

- Competitors
- Threat of New Entrants
- Threat of Substitutes
- Power of Suppliers
- Power of Market Intermediaries
- Power of Customers
- Physical
- Technological
- Demographic
- Economic
- Socio/Cultural
- Political/Legal
**Infrastructure Issues**

**The Case for Investing in Aviation Infrastructure**

- **Existing Demand for Air Transport -> Demand Growing**
- **RECOGNITION THAT DEMAND WILL SOON EXCEED CAPACITY**
- **INVEST IN CAPACITY?**
  - **YES**
    - Capacity $\geq$ Demand
    - *Efficient System with Economic Benefits Fully Realized*
  - **NO**
    - Demand $>$ Capacity
    - *Increased Costs and Loss of Economic Benefits*
    - Congestion + Delays
    - Demand goes elsewhere

Critical Financial Issues & Challenges

- Cost Controls
- Access to Capital Markets
- Insurance
- Foreign Currency Exposure
- Fleet Replacement and Price of New Aircraft
- Industry Losses and Inconsistent Profitability
- Cost of Funds and Low Yield on Surplus Funds
- Productivity and Labor Reform
- World Economy
- Irrational Pricing and Predatory Action by Major Carriers
- Over-Capacity
- Cash Flow and Ability to Self-Finance
- Debt/Equity Ratios
- Taxation
- Ownership Issues
Global Aviation Challenges 21st Century

- New operating environment
- Bankruptcy and shut downs
- “Generic” vs. “Airline” business plan
- “Flexible” strategic plan (key)
- Treat as a “business”
- Regulation vs. Liberalization vs. Deregulation
- Rising costs (fuel, labor, maintenance, security)
- New generation airlines vs. legacies (tiers)
- Restructuring and alliances
• Excessive capacity
• Competition (transport and technology)
• Customer (target, loyalty)
• Organizational design
• Internal challenges
• Strategy
• Duplication
• Functional and departmental barriers
• Staff relations and new types of employees (Generation Y)
• Legacy system dependencies
• Lack of compromise
• Air carrier ownership and control
• Sustainability of air carriers and safeguards
• Physical and environmental constraints
• Air transport and the global trade mechanism
• Consumer protection and passenger rights
• Impact of technology (aircraft, e-commerce, CRSs and GDSs, Internet) on liberalization process
• Future approaches to regulatory reform
Global Aviation Strategies 21st Century

- Understand reality of change and become “flexible”
- Revitalize strategy
- LCC, LC/HV, “Virtual” carriers
- Customer focus (ask what they want)
- Eliminate duplication
- Organizational accountability
- Staff relations into strength
- Updating of airline systems
- Build partnerships (alliances, interactive marketing)
- Act decisively
- Diversify the business (core and non-core)
• Airlines “inventing” new ways to reduce future costs and spending of capital
• Increased efficiency
• Dependent upon aviation (links local, national and international economies)
• Airlines must take control of business issues and work in partnership (first time in history)
The New Breed of Airlines: Is “Low-Cost” the Answer?
“Does low-cost always mean being squeezed in like sardines?”
Discombobulated Syndrome:
What the heck does low-cost mean?

• Low-Cost Carrier/No Frills (LCC/NF)
• Low-Cost Carrier (LCC)
• Low-Fare/High Value Carrier (LFHV)
• Less Frills Carrier
• Value Carrier
• Budget Carrier
• New Generation Carrier
New Airline/Airport System

- Legacy Carrier Network
  - Small number of global alliances

- Point-to-Point Network
  - Mini alliances
  - Interactive marketing agreements / cross-selling
  - Mergers / acquisitions
  - Establishment of global network

- Regional/Feeder Network
  - Independent with loose partnerships
New Breed of Air Carriers

- Megacarrier – legacy airlines
- “LCC” (multiple versions)
- Regional/Commuter
- Network Specialist - PrivatAir
- Product Specialist – Eos, MAXjet, Silverjet, L’Avion
- Price Specialist – Oasis, Zoom, Jetstar
New Breed of Airline Alliances

- Megacarrier Alliances
- “LCC” Alliances (P-P now overlapping)
- Network Specialist Alliances?
- Product Specialist Alliances?
- Price Specialist Alliances?
- Interactive Marketing Agreements
Failing & Achieving Success
Failures in Airline Business Planning

• Undercapitalization
• Overexpansion
• Lack of flexibility
• “Wrong” leadership
• “Wrong” money
• Unable to obtain sustainable, competitive advantage
• Failure to demonstrate revenue growth and profitability
• Lesson?
Air Transport Infrastructure: A Conceptual Framework for Decision-Making
Five Forces Affecting Industry Profitability

- Threat of New Entrants
- Threat of Substitutes
- Bargaining Power of Suppliers
- Rivalry among Existing Competitors
- Bargaining Power of Buyers

Source: Competitive Strategy by Michael E. Porter
Five Forces Affecting Airline Industry Profitability

THREAT OF NEW ENTRANTS
- DEREGULATED / LIBERALIZED ENVIRONMENT
- FREEDOM OF ENTRY / EXIT
- AVAILABILITY OF AIRCRAFT, ETC.

BARGAINING POWER OF SUPPLIERS
- SUPPLIER CONCENTRATION
- ACCESS TO CAPITAL ETC.

RIVALRY AMONG EXISTING AIRLINES
- COMPETING FOR GROWTH, MARKET SHARE, ETC.

BARGAINING POWER OF BUYERS
- BARGAINING LEVERAGE
- BUYER INFORMATION
- SUBSTITUTE PRODUCTS
- PRICE SENSITIVITY ETC.

THREAT OF SUBSTITUTES
- TELECOMMUNICATIONS
- VIDEO CONFERENCING
- HIGH-SPEED RAILROADS ETC.
Achieving Success

- Solid “airline” business plan
- Flexibility
- Diversity
- Leadership
- Steady and moderate growth strategies
- Effective cost cutting strategies
- Fleet commonality
- Reasonable capital requirements
- Long-term vision
• Ensure that available tonne-km remain congruent with demand (route / network realignment / optimization)

• Shift capacity to take advantage of routes and markets where depressed currency will significantly increase value-for-money opportunities for leisure travel

• Improve balance sheets and credit ratings (prudent capital planning)
• Develop strategies to counter continuing pressure on yields (e.g., pricing service to cover costs, avoid price wars)

• Carefully evaluate new partnerships and alliances

• Respond to consumer needs

• Create an environment that enhances labor/management relationships and cooperation

• Engage in effective lobbying efforts to influence critical government policies, laws, regulations and taxes

• Reduce cost structures, eliminate inefficiencies and increase productivity to the greatest extent possible (e.g., technological applications)
Questions & Answers
Let’s take a break!
European Operators: The Essentials
Carole Blackshaw, Gates and Partners
Insurance

David Fisher, AON
How to Start an Airline
What will be covered?

- Is it realistic or a dream?
- Stages of development and implementation
- Purpose of a business plan
- “Generic” vs. Airline business plan
- Business plan mistakes
- Non-Disclosure/Non-Circumvention
- Elements of the airline business plan
- Financial model (sample)
- Implementation plan
- Certification (general discussion)
- Useful materials
  - Marketing slide deck or pitch sheets
  - Executive Summary
  - Pro-forma business plan
  - Financial model
  - LOI/revenue assurances
Is it realistic or a dream?

- Am “I” crazy for even thinking this?
- Is it really that “sexy”?
- Are there better businesses to start?
- Where do “I” start?
- Do “I” need a map to make this happen?
- What if “I” have no money?
- Will “I” be CEO?
- Will “I” own the airline?
- What expectations should “I” have?
- It takes how much?
- It takes how long?
- What do you mean “I” see no revenue for two years?
Stages of Development and Implementation: “Dream” Stage to Commercial Operations

- Phase I: Idea
- Phase II: Business Plan
- Phase III: Capitalization (phases)
- Phase IV: Certification (options)
- Phase V: Aircraft Fleet
- Phase VI: Recruitment/Infrastructure
- Phase VII: Commercial Operations
- Phase VIII: Transitioning of Leadership
Purpose of a Business Plan

- What do “you” think a business plan is?
- Why do airlines fail?
  - Undercapitalization
  - Overexpansion
  - Inflexibility
  - Lack of leadership/vision
- Selling tool to raise money
- Develop road map/ideas of how business will be conducted
- Addresses all known/potential risks
- Assess company’s performance
“Generic” vs. Airline Business Plan

If you have no plan, you plan to fail!

• Business plan is worth the effort
• Business plan makes/break a business
• Provides formal structure
• Guides company and functions
• Will develop variations over time based on internal and external factors
• Key missing ingredient - FLEXIBILITY
Generic BP – Be cautious!

• BP books, BP software, download free BP samples
• Templates / Cut-and-paste products
• “One-stop” BP shops
• Quick turn times
• Sounds very affordable
• “Consultants” / “Experts” vs. Qualified
• Would you go to an Italian restaurant for Mexican food?
Generic BP

- Executive Summary
- NDA
- Description of Business/Industry
- Market Analysis
- Competitor Analysis
- Strategic Plan
- Organization/Management Plan
- Financial Plan/Request
- Strategic Action Plans

Airline BP

- Executive Summary
- NDA
- Business Introduction
- Mission
- Strategy
- Market Opportunity
- Analysis of Market Demand Levels
- Proposed Route Structure/Schedule
- Financial Analysis/Model
- Sales/Promotion Strategy
- Aircraft Operating Strategy
- Competition and Response
- Risk Factors
Questions

- What are the main functions of a BP?
- What are the differences between generic and airline BP?
- Does the BP allow for flexibility in a rapidly changing aviation environment?
- Is the business going to be impacted as the operating environment changes?
- Does the BP permit changes or contingency planning?
- As the airline grows, is the BP structured in a way that it does not have to be seriously altered?
- If changes have to be made to the BP, how will these changes impact the success/failure of the airline?
- If a consultant or organization is hired to write the BP, how does one determine if source is credible and what are the right questions to ask?
Business Plan Mistakes

- Must start with an “idea”
- BP permits exploration
- Recognize potential barriers and act on them
- Original idea usually not end idea
- Don’t create a “fantasy plan”
- Be realistic, conservative, steady/moderate growth
- No BP is perfect
Mistake 1: Capturing Reader’s Interest

- BP read by numerous audiences
- 90 seconds to make impression
- Aesthetic appeal
- Captivating and well organized
- Encourage reader to turn pages
- Don’t “jazz” it up with “art”
Mistake 2: Inaccuracies, Inconsistencies, Lack of Objectivity

• BP must be accurate and thorough
• Minor error could be major
• Reader should not be distracted
• Avoid negative bias
• Be realistic
• Should not appear “too good”
• Don’t “sugar coat” reality
• Be honest
• Be clear
• Be complete
• Do your homework
Mistake 3: Sustainable, Competitive Advantage

- Difficult in airline business but must be done
- What is the market?
- Does the market really exist?
- Does this company fit the market?
- Can this company compete long-term?
- If no competition exists, assume it will
- Failure to ID market strength too common
Mistake 4: Management Team

- Start-up team vs. Long-term team
- “Right” person / “right” job
- Importance often underestimated
- Superior team can make mediocre idea successful
- “Been there, done that”
- Reduce doubts/risks
- Aware of all risks
- Example: DOT/FAA 5 Wise Guys
Mistake 5: Revenue Growth & Profitability

- Failure to demonstrate revenue growth
- Failure to demonstrate profitability
- Show bottom line growth
- Credible financial assumptions
- Quantitative and qualitative sections
- Consistent financial projections
- Accepted accounting principles
- Show “less,” not “more”
- Failures
  - Failure to show how ROI will be generated
  - No clear ROI
  - Lack of return on investment figures
  - Too much concentration on financial numbers
  - Vague assumptions regarding cash flow
  - Lack of understanding of business start-up costs
  - Lack of research
BP Myths to Avoid

• “We don’t need a business plan”
• “We need a business plan, but not right away”
• “We need a business plan, but we can do it ourselves”
• “We need a business plan, but we can’t spend more than X dollars”
• “We only have to do this once”
Legal: How to Protect the “Idea”
Do I need a lawyer?

- Protection is key
- Legal documentation not a 100% guarantee but ...
- Best tool in “your” tool box
- Legally binding form for protecting the business concept
- “Envelope” and “SASE mail”
- Write once BP completed
- Sign before distributing content
  - Legal documentation
  - Executive Summary
  - BP
- **RUN** if party won’t sign
- Secure in safe place
- Caution: Internet download vs. Customized
Non-Disclosure Agreement

- Designed to obligate one of the parties (or more) not to disclose or communicate confidential information to any third party and protect such information from disclosure.

- Usually found in two instances: when entering into a new business activity or collaboration, or when hiring an employee.
Non-Circumvention Agreement

- Designed to obligate one of the parties (or more) not to contact, deal with or otherwise become involved with any entity or any other entities or parties introduced, directly or indirectly, by or through the other party, without the specific approval of the other party

- Complementary to Non-Competition Agreements.
Non-Competition/Non-Compete

• Designed to restrict potential competition
• Restrict the other party from performing similar business activity for a specific period within a specific geographical territory
• Usually found when entering into a business activity or collaboration, or when hiring an employee.
Elements of the Airline Business Plan
Executive Summary (ES)

- As important as BP itself
- Sometimes more important than BP
- Last piece to be written
- Summarizes BP without all “secrets”
- “Teaser package”
- Clear, concise, highlight important points
- Stimulate investment/credibility
- Sell business idea to interest groups
  - Investors, lawyers, consultants, airports, aircraft leasing, Civil Aviation Authority, suppliers, government agencies, et al
Elements of the ES

- The Company
- Mission
- Products/Services
- Marketing/Sales Strategy
- Competition
- Target Market

- Management
- Operations
- Stages of Development
- Financials
- Funds Sought & Utilization
ES: The “Do’s”

- Restrict access
- Request original be returned
- Limit number of copies
- Avoid mass distribution
- Avoid electronic distribution
- Reader sign legal documentation before seeing BP
ES: The “Do Nots”

- Never write before the BP
- Do not provide all strategies
- Do not distribute freely – credible parties
- Do not allow reader to photocopy
- Do not provide ES and BP together
- Do not use electronic format
Business Introduction

• Name, type of company, office location
• Business concept
• Passenger target market
• Destinations served
• Source of financial backing
• Current position of the company
Mission: Failure is not an option

- Assists with success or failure
- A must for every airline
- Define the aim of the airline
- Back up with a Vision Statement
- Desired destination and time frame
- Incorporate flexibility into MS and VS
Mission Statement

• Tool for leadership/clear position
• Motivational tool for employees
• Brief, easily remembered, simple words
• “Audible” (sound good)
• “Becoming” (what the airline “is”)
• Unique and different
• Increase financial performance
• Inspire members
• Increase airline’s focus (purpose/direction)
• Distinguish from competition
• Challenge airline
• Enhance decision making (values/vision)
• Improve planning process
Strategy: “Game Plan”

- Strategic planning methodology
- Kind of airline
- Strategic action plan
- Strategy implementation
- Growth and expansion strategy
- Failures in planning
Strategic Planning Methodology

**STP**
- Situation, Target, Path
- **S** = Evaluate current situation
- **T** = Define aims & objectives
- **P** = Create path leading to aims & objectives

**DSTP**
- Draw, See, Think, Plan
- **D** = Define ideal image
- **S** = Define current situation
- **T** = Outline actions required to fill holes
- **P** = Define resources required to complete task
Kind of Airline

- Know the different types
- Clearly define what “you” are
- Scheduled/non-scheduled?
- Domestic/international?
- Charter/ad-hoc charter?
- Short/medium/long-haul?
- Pax target market?
- “Low-cost”/no-frills/medium/high?
Strategic Action Plan

- Guide management (objectives)
- Reason for existence
- Main goals
- Position in the market
- Compete
- Satisfy customers’ needs
- Achieve good business performance
- Six key questions...
1) Are aspirations consistent with the external environment?
2) Is the opportunity appropriate given the available resources?
3) Is there an acceptable degree of risk?
4) Is there an appropriate time frame?
5) Is the opportunity workable?
6) Does it motivate?
Strategy Implementation: Success

• 1) Figure out best location
• 2) Establish a top management team
• 3) Decide what, if any, services to offer
• 4) Stay flexible and opportunistic
• 5) Design an original marketing plan
• 6) Admit mistakes
• NOTE: 11 steps for implementation (page 44 ‘Wheels Up’)

Growth & Expansion Strategy

- “Live for today” vs. “Live for tomorrow”
- Must show vision and growth
- 5 to 7 years of growth
- “Prove” how management will sustain business
- Describe how opportunity will expand
- Describe timeline for profitable status and acceptable market share
Failures in Strategic Planning

- Management assumes planning can be delegated
- Wrong strategy selected (not flexible)
- Wrong organizational design use to implement strategy
- Preoccupation with current day-to-day activities
- Failure to develop suitable company goals
- Failure to involve line personnel
- Lack of motivation
- Failure to use plans as standards for measuring performance
- Too formal; lack of flexibility; looseness; simplicity
- Ineptness or negligence on part of management
- Failure to review plans adopted/finalized
- Decisions that conflict with formal plans
- Lack of communication
Market Opportunity

• Most airlines fail in this area
• Not enough research
• Types of research
• How valid is O&D?
• Challenging task
• Prove market opportunity for product/service
• Scheduled or non-scheduled
• Luxury, low-fare luxury, mid-range, low-cost, no-frills, shuttle, charter, other
• First, Business, Economy “Plus”, Economy
• Food and bar
• Entertainment
• Cargo and freight
• Duty-free
• Baggage restrictions
• Interline agreements
• Interactive marketing agreements
• Other amenities
• Market analysis and opportunity
• Airports to serve
Analysis of Market Demand Levels

- Different forecasting techniques
  - Causal methods
  - Time-series of trend analysis methods
  - Judgmental methods
- Forecasting three functions
  - Analysis
  - Planning
  - Control
- Don’t use on own/integrate with other methods
- Understand goals, strategies, alternative courses of action
- Realistic fit with market conditions
Route Structure & Schedule

- Difficult task
- What is the purpose of scheduling?
- Internal vs. external factors
- Forecasting, equipment maintenance, flight operations, ground operations, crew scheduling, schedule planning, aircraft assignment

Four tasks
- Provides adequate service based on pax demand
- Provides economic strength (profitability)
- Provides for sales and economic effectiveness
- Provides operational dependability and efficiency
Financial Analysis

- Most important section of the BP?
- Serious and thorough research with correct calculations based on actual data
- Be realistic
- Modest profits
- Don’t exaggerate assumptions
- State assumptions with projections
• Income statement (expenses)
• Income statement (revenue)
• Operation plan
• Summary financial projections (5-7 yr)
• Statistical summary (5-7 yr)
• ROI
• Page 71-75 ‘Wheels Up’ shows major content
Financial Model: Seven Year

Pull up sample for UTOPIA AIRLINES
Sales & Promotion Strategy

• Successful BP does not equal successful business
• Marketing directs flow of services
• Marketing goes beyond “selling”
• Marketing includes forecasting, market research/analysis, product R&D, price setting, promotion, finance activities
• Brand strategy
• How to attract pax
• Four “Ps”
  • Product
  • Price
  • Promotion
  • Place

• Uncontrolled variables
  • Cultural and social differences
  • Political and regulatory environment
  • Economic environment
  • Existing competitive structure
  • Resources and objectives of the company
• Unique characteristics to recognize
  • Perishable product (inventory issues/excess capacity)
  • Service is usually personalized
  • No such thing as replacement of a bad product
  • Difficult to check quality of service before final sale (no showroom)
  • Delivery of product cannot be guaranteed (mechanical, wx, other)
  • Service produced in batches and not individual units
• Entry strategy
  • How do “we” get in?
• Exit strategy
  • How do “we” get out?
• How do we get pax?
  • CRS
  • GDS
  • Other
Aircraft Operating Strategy

- Type of aircraft means success/failure
- Historically, wrong decisions
- "Sexy" vs. practical
- Route & strategy selection
- Aircraft selection
- Aircraft type availability
- Aircraft capacity
- Aircraft range
• Fleet & crew commonality
• Aircraft commonality
• Powerplant selection
• Aircraft performance
• Aircraft efficiency
• Maintenance issues
• Hull & liability insurance
• Noise restrictions
• Noise & operational curfews
• ETOPS
• Aircraft economic & performance evaluation
• Purchase / lease decision
  • Operating lease
  • Financial (capital) lease
  • ACM/CMI
  • Other
Competition/Competitive Response

- Why is it necessary to deal with competition?
- How should competitors be described in BP?
- What are the steps in analyzing competitors?
- What is marketing strategy and what is its purpose?
• Add uniqueness
• Primary competitor’s assessment
  • Summary of product lines
  • Strengths/weaknesses
  • Sales and estimates
  • Primary competitor’s targets
  • Impact on new airline
Management & Support Team

- Key success ingredient
- “Right” person/“right” job
- Management = planning, organizing, staffing, directing, controlling
- Investors invest in people and BP
- What does a team look like?
  - Leadership vs. operations
- Organizational structure
- Corporate culture
- New workforce (Gen Y et al)
• Changing nature of HR
  • Skills
  • Need for new skills
  • Finding the right staff
  • Labor trends
  • Multi-skilling/flexibility
  • Control of labor costs
  • Cross-utilization of HR
  • Making human resource strategies adaptive
Risk Factors

• Don’t hide the risks!
• Operating environment
  • Regulated, liberalized, deregulated
• Need for contingency planning
• High barriers to entry
• What is the definition of risk factor?
• What strategies does the BP implement to reduce risk?
• Exit strategy
Invitation to Participate: 
Show “me the money”

- How much does it cost to start an airline?
- Today’s investor
- Timeline for investment/operations
- Who’s going to pay?
- Total amount of investors sought
- Individual investors
- Be aware of foreign ownership restrictions
- Expected rate of return on investment
- Investment terms
- Private Placement Memorandum (PPM)
  - See MAXjet sample
• 18-24 month process
• “Dream” stage
• Ramp-up stage
• Capital stages
  • Phase I – Seed Capital
  • Phase II – Ramp-up Capital
  • Phase III – Operating Capital
Certification
• Purpose of certification
• Types of certification
• Timing of certification
• Certification process
  • Pre-application
  • Formal application
  • Document compliance
  • Demonstration and inspection
  • Certification
Implementation Plan
• Finalize BP and rename it
  • “Confidential Information Memorandum”
  • Addition of “legal” jargon
  • Focus on addressing associated risks

• Legalize company
• Office location
• Certification
• Aircraft fleet
• Personnel
• Physical infrastructure
• Investment
• Other
Round table / Q&A