

Air Travel Six Months After 9/11: Working Towards Recovery

Closing Session - Looking Ahead: The Airline Industry Tomorrow

Dan Kasper, LECG Consulting – Implications for Airline Industry Structure and Competition

- A “snap back” to pre-9/11 airline operating conditions is unlikely to happen soon
- Control of airline over product quality and customer satisfaction has been diluted by new security requirements, and new costs since 9/11 will be difficult to reduce
- Increased passenger delays will ultimately lead to decreased aircraft utilization
- Fuel prices are likely to go back up
- As time since 9/11 increases, the “hassle factor” will increase resulting in less acceptance of delays by passengers due to security
- Continued adherence to a premium pricing strategy by network carriers may result in decreased demand
- Low cost carriers were less affected by and recovered more quickly from 9/11. Network carriers will continue to lose market share to low cost carriers
- Mergers will not be the way out of this crisis
- Continued growth in RJ flying is likely:
 - Lower labor costs allow profitability at lower load factors
 - Passengers more willing to pay higher fares for nonstop flights
- Highly unlikely that hubs will disappear, however, shrinkage in the total number of hubs is likely
 - Shrinkage will depend on cost differentials between network carriers and low-cost carriers
- Keys to survival of existing network carriers
 - Strong balance sheet
 - Low unit cost relative to competition
 - Route structure (alliances and exposure to LCCs)
- Keys to low-cost carrier survival
 - Strong balance sheet
 - Low unit cost relative to competition
 - Competitive scope
 - Strong brand identity
- Prediction: There will be 4 large network carriers, and several large and successful LCCs

Bill Swelbar, ECLAT Consulting – Role of Low-Cost Carriers

- Each LLC alone might appear to be small, but together they are a major force
- Over the past six months, impressive growth by LLC at expense of network carriers
- Post 9/11 cuts in the western US have made the situation worse for network carriers

- Low cost carrier market penetration follows a gradient from West (high penetration) to East (low)
- Since 9/11, LCCs have gained 2.5 total pts market share
 - Frontier Airlines- fastest grower since 9/11
- United Airlines has the largest exposure to Southwest
- Delta Airlines has the largest exposure overall to LCCs
- Delta Airlines' expansion since 9/11 looks like the US Airways route map
 - Smaller RJs used to enhance overall network
 - American has used them most effectively
 - Delta has done more in NE with RJs in last 6 months, than US Air's entire network
- Growth of LCC presence in Midwest will increase price sensitivity
- Pricing will be difficult as network carriers try to recover

Gordon McHenry, Boeing – Updated Market Outlook for Air Travel

- Since 9/11, air travel trends have become disconnected from world economic growth
- System travel should be back to normal by end of this summer, but yield recovery not until 2003 or 2004
- International traffic will recover sooner, Asian traffic least affected
- Traffic growth predicted to return to positive by Dec'02 and to pre-9/11 levels by end of Summer '03
- Asian air cargo should return to pre-9/11 levels by Q3 2002
- Are we ready to meet consumer expectations when demand comes back?
 - High levels of frustration can lead to travel avoidance
 - Need to reduce the "hassle factor" – especially for business and short-haul travel
- Vision of the future:
 - Smart cards for travelers
 - Pre-screening of passengers
 - Radio Frequency tags on boarding passes and luggage
 - Ion scanning
 - PPBM
 - Explosion proof cargo containers
 - Air marshal proliferation
 - Improved training for crews
 - Live video feeds to air traffic control
- We need a systems approach to increased security
 - Requires a collective vision for shaping of the industry
 - Out of this will come a new era of opportunities in the industry