Traffic Forecasts and Route Development

Jonathan Naylor, 3rd March 2011
Why is route development important?

- High proportion of new capacity at airports is derived from new routes
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Source of New Scheduled Capacity
Source: OAG for Non Stop Departures from Western European Airports Summer 2005 v 2011
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Source of New Scheduled Capacity
Source: OAG for Non Stop Departures from Western European Airports Summer 2005 v 2011

- Existing Routes, 21%
- New Routes, 79%
Why is route development important?

- High proportion of new capacity at airports is derived from new routes

- New routes are in themselves a driver of demand (in addition to more traditional top down drivers of demand such as GDP and reduction in fares).
  - Capture of traffic from catchments of competitor airports.
  - Improves connecting traffic.
  - Stimulates the market.
Synopsis

• When developing overall short to medium term traffic forecasts for an airport, it is important to understand the range of credible route opportunities available. These are influenced by:
  – Structural issues
  – Airline industry issues
  .....which may change substantially over time

• Developing detailed route level traffic forecasts allows targeted interaction with existing and potential new airline customers.
  – Airlines not necessarily aware of opportunities available at each airport – in particular, if not their home market.
Overview of Route Development Analysis
First Step: Benchmarking Current Route Portfolio

- Identify peer airports (with similar catchment populations).

- Typical network benchmarks:
  - Number of cities served.
  - Number of non stop frequencies.

- Review structural issues that are likely to influence network benchmark:
**First Step: Benchmarking Current Route Portfolio**

ILLUSTRATIVE Summary of Analysis of Structural Issues

<table>
<thead>
<tr>
<th>Airport</th>
<th>Strength of Economy</th>
<th>Attractiveness to inbound visitors</th>
<th>Political Governance</th>
<th>Population concentration</th>
<th>Air network concentration</th>
<th>Protection from local competition</th>
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First Step: Benchmarking Current Route Portfolio

- Identify peer airports (with similar catchment populations).

- Typical network benchmarks:
  - Number of cities served.
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- Review structural issues that are likely to influence network benchmark:

- Adjust benchmarks to reflect structural issues
  - Mix of qualitative and quantitative approach.
First Step: Benchmarking Current Route Portfolio

Comparison of Network Performance v Structural Issues Scoring

Illustrative

- Cities served / million of population
- Structural Issues Score

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• Adjust benchmarks to reflect structural issues
  – Mix of qualitative and quantitative approach.

• Also growth of network over time is typically analysed.
Second Step: Identifying New Route Targets

Key metrics to consider:

• Local market
  – Existing O&D demand in local market.
  – % premium traffic.
  – Average fare levels.
  – Seasonality.

• Connecting market
  – Potential for connecting traffic through your airport.
  – Potential for connecting traffic at other end of the route.

• Overall
  – Services from peer airports (adjusting for specific geographic or ethnic linkages, differences in overall market size at each airport).
  – Previous route history
  – Existence of suitable airlines with appropriate aircraft equipment (taking into account stage length)
Third step: Developing Route Forecasts

Suggested Approach:
• Forecasts must be transparent, with assumptions clearly articulated. Simplistic better than sophisticated black box.
• Airlines interested in revenue – will have a better handle on their costs than an external organisation.
• Added value information is appreciated e.g. major companies which travel on a route in question, specific tourism linkages etc.
• Purpose is to get airlines interested in a route – they will do their own analysis
• Needs to be joined up with wider airline engagement strategy.

Forecast techniques:
• Traffic allocation models – for new route opportunities competing with existing routes at local competitor airports.
• Quality of Service index / connection builders – for assessing connecting traffic potential versus competing hubs.
• Market stimulation – based on similar routes.
• Travel trade / local business surveys.
• Forecasts using top down drivers of demand typically can be robust at the national or regional level.
  – Assuming perfect information on future development of top down drivers.

• At an airport level, local aviation industry factors can be equally important.
  – No single forecast can provide a complete picture as the future development of airline industry issues can take a number of paths.
  – There are winners and losers in traffic development between airports.
Range between Winners and Losers

Source: ACI for European airports > 100,000 passengers in 1994, reporting in both 1994 and 2009

Weighted average for airport sample: 4.2% CAGR

26% of airports

20% of airports

10% of airports
Conclusions

• Scope for new routes (as well as growth of capacity on existing routes) is a key determinant of future overall traffic growth.
  – Scenario planning can be a useful tool in considering this topic – can be lumpy / 1 or 0 outcomes.

• More generally, it is important to link forecasts used for master planning, business planning etc. with airline engagement activity.

• Furthermore, proactive engagement with airlines can in itself lead to opportunities for the airport to develop “ahead of the market”.