

ARIZONAFLYER

THE ENTHUSIAST'S GUIDE TO LIFE ON THE WING



The Future of Flying: Trends to Shape Air Travel

Cushla Sherlock

Over the past four decades, the airline industry has changed the way people live and experience the world—not even the financial crisis has gotten in the way of that. Olivier P. Müller, Head of Consumer Goods Research within Credit Suisse's Private Banking and Wealth Management division, says the trend in affordable tickets and high passenger volumes is set to continue.

CUSHLA SHERLOCK: We've seen many technological changes in the airline industry in the past few decades. Will this continue? What big innovations we can expect?

OLIVIER P. MÜLLER: Over the last 20-30 years we have seen two big trends. First, pricing has come down massively due to a number of reasons, particularly competition. The second big trend is that the number of people travelling by air has increased substantially. Despite the financial crisis, passenger volume growth has increased by 5.6 percent over the past 10 years. These trends are likely to continue: pricing will remain under pressure and volumes will continue to increase, particularly in Asia. Innovations will probably be in IT systems that could help to increase efficiency and pricing and profitability.

CS: Low-cost airlines have popped up everywhere

in the past 10 years. Established airlines seem to be adopting a similar approach, for example, cheaper prices. Is this sustainable? Are there dangers associated with this?

OPM: I think it is a sustainable approach and the low-cost model will likely remain attractive because flying has become a commodity. Low-cost airlines have two differentiating factors. First on the revenue side, they try to be flexible on pricing and charge for extras like choosing a specific seat, for additional luggage and for food and beverages. Second, on the cost side, low-cost airlines try to keep costs as low as possible. Traditional airlines have been mimicking that behavior, particularly with regard to pricing. Think about Lufthansa and Air France, for example. We think that this will continue and that price pressure will remain fairly intense — airlines will have no choice but to keep their prices low and try to improve their efficiencies through higher passenger-load factors. The good thing is that it forces airlines to become big because the airline industry is a volume business that requires a lot of operating leverage. That, in our view, will inevitably force combinations, mergers, bigger alliances, or even inter-country mergers, as Air

France and KLM did a few years ago.

CS: How could the increasing popularity of high-speed trains shake up the industry?

OPM: High-speed trains will definitely further impact the airline industry because at the end of the day, for the people travelling, it's a competition between pricing and travel times. Customer loyalty is based mainly on price. For example, if you have to travel between Barcelona and Madrid, it's a question of which method of travel is cheapest and fastest. That increases pressure on airlines.

CS: Looking ahead, what are some of the critical elements for airlines to stay competitive in an environment of rising costs for fuel, labor and maintenance?

OPM: There are three elements for success: The first is on the revenue side, particularly pricing where I think airlines will continue charging for extras. Second, they will have to keep costs low. However, here they have limited flexibility because more than 50 percent of their costs are on fuel and staff. Third, and where I think they have the biggest leverage, is efficiency. Here, they will need to improve aircraft utilization such as seating capacities. ■

