

FROST & SULLIVAN

AIRLINES IN TRANSITION

INTRODUCTION TO FROST & SULLIVAN RESEARCH & CONSULTING SERVICES





In the wake of record airline profitability, airlines continue to be faced with numerous challenges in their operating environment, having to deal with fluctuating jet fuel prices, pressure on yields, a changing regulatory environment and the rapid commoditisation of their product. Competition between airlines is gradually shifting from the in-flight product to the ground experience, with management teams taking a holistic end-to-end approach and considering how best to engage with passengers throughout their journey. Furthermore, airlines are now faced with new types of competition, from companies that take advantage of the digital transformation trend. They are no longer the sole agents in a passenger's journey, nor are they the sole owners of passenger data. New third-party agents have entered the market, with a clear objective to capture a passenger's attention and engage with them across the door-to-door journey. These agents can take any form, from search engines and online travel agencies to trip management applications and global e-commerce platforms.

Airline functions are in the process of addressing these challenges, each focusing on specific initiatives to achieve strategic objectives.

The core focus of an airline's Corporate Strategy is to develop a future proof business model, assessing new revenue streams, key threats in a rapidly changing marketplace, as well as the merits of corporate diversification. Faced with a new wave of industry

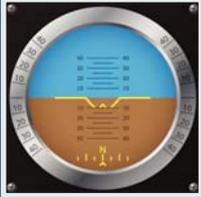
consolidation, airline strategy professionals are looking to form new strategic partnerships and acknowledge the benefits of inorganic growth. Furthermore, corporate strategy has a key role to play in the development and management of digital transformation programmes.

Flight and Ground Operations are core functions in the implementation of profit improvement initiatives, focusing on optimisation of fuel costs, higher employee productivity, minimisation of wastage and consolidation of suppliers.

Finally, the Commercial function is interested to develop a successful e-commerce platform, going beyond the traditional airline product and ticket distribution model. Commercial teams are pre-occupied with making use of all available passenger data sources in their effort to decommoditise the product, while making sure that the airline achieves the right level of engagement with each customer segment.

Frost & Sullivan has over 20 years of experience working with the aviation supply chain, including system integrators, aftermarket and IT solution suppliers as well as major airlines and airline groups. We understand the airline business and work with supply chain stakeholders in the development of corporate and business development strategy plans. Our list of services range from customer research and market intelligence to strategy formation and business planning.

AIRLINE MANAGEMENT AND SUPPLY CHAIN OPPORTUNITIES

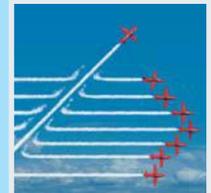


CORPORATE STRATEGY - Future proofing the business model

- Multiple 'horizontal' M&A opportunities for airlines looking to fill geographic 'white spots'
- Aviation Groups in the US, W. Europe, GCC and China to intensify diversification initiatives, expanding 'vertically' in the airline supply chain
- Corporate Strategy evolving as digital transformation sponsors

DISRUPTION - Technology as an opportunity and a threat

- Airlines focus on ancillary revenue streams, driven by technological advances in direct distribution and big data analytics, which allow effective segmentation and ancillary product development and marketing
- 'Third party' agents such as large technology conglomerates, metasearch engines, online travel agencies (OTAs), as well as supply chain stakeholders like airports, all targeting airline passengers throughout the travel journey; airlines pressured to compete or partner.



DIGITAL TRANSFORMATION



- Airlines in process of designing and implementing comprehensive digital transformation programmes, covering business intelligence, digital marketing, core airline services, support functions and IT infrastructure
- Digitisation, connectivity and big data analytics offering unique opportunities for suppliers, who are now expected to move applications to the cloud and engage in joint bids for airline tenders

OPERATIONS

- Airlines introducing fuel cost optimisation taskforces, enhancing internal capabilities to identify optimisation projects
- Fuel management and MRO management software expected to be part of wider business intelligence suite, linking to flight, aircraft and procurement data as well as back-office applications



DISTRIBUTION

- IATA's New Distribution Capability (NDC) driving supplier innovation and overall direct connectivity between airlines and indirect distribution channels
- New business models emerging, achieving both efficiency in existing channels and introducing new distribution channels

LOYALTY MANAGEMENT

- Airline loyalty programmes evolving as profit centres; addition of new partners transforming them into coalition programmes
- Loyalty IT platforms require multi-functionality, with partner management and analytics modules being equally important to the 'points engine'



ASSESSING OPPORTUNITIES ACROSS THE PASSENGER JOURNEY

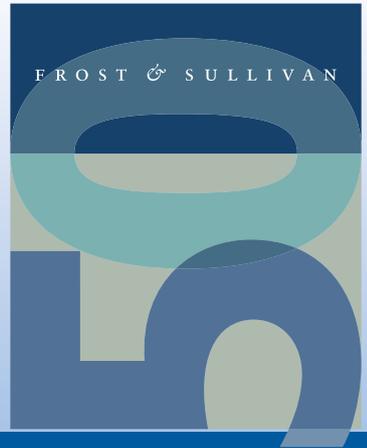
Airlines are assessing expectations and technological advances allowing innovation in each customer touchpoint in order to enhance the end-to-end passenger experience and increase overall engagement. Focus is on both physical and digital passenger journeys. Partnership opportunities emerging, with airlines increasingly open to cooperation with data owners and experience 'influencers' across touchpoints, such as:

- Metasearch Engines in information 'step' (Pre-Travel)
- OTAs in Booking 'step' (Pre-Travel)
- Airports (Airport Landside and Airside)
- Transport solution suppliers
(To Airport and From Airport)

Why

FROST & SULLIVAN

Providing market intelligence and strategy consulting services across the Airline Supply Chain



RESEARCH FOCUS AREAS



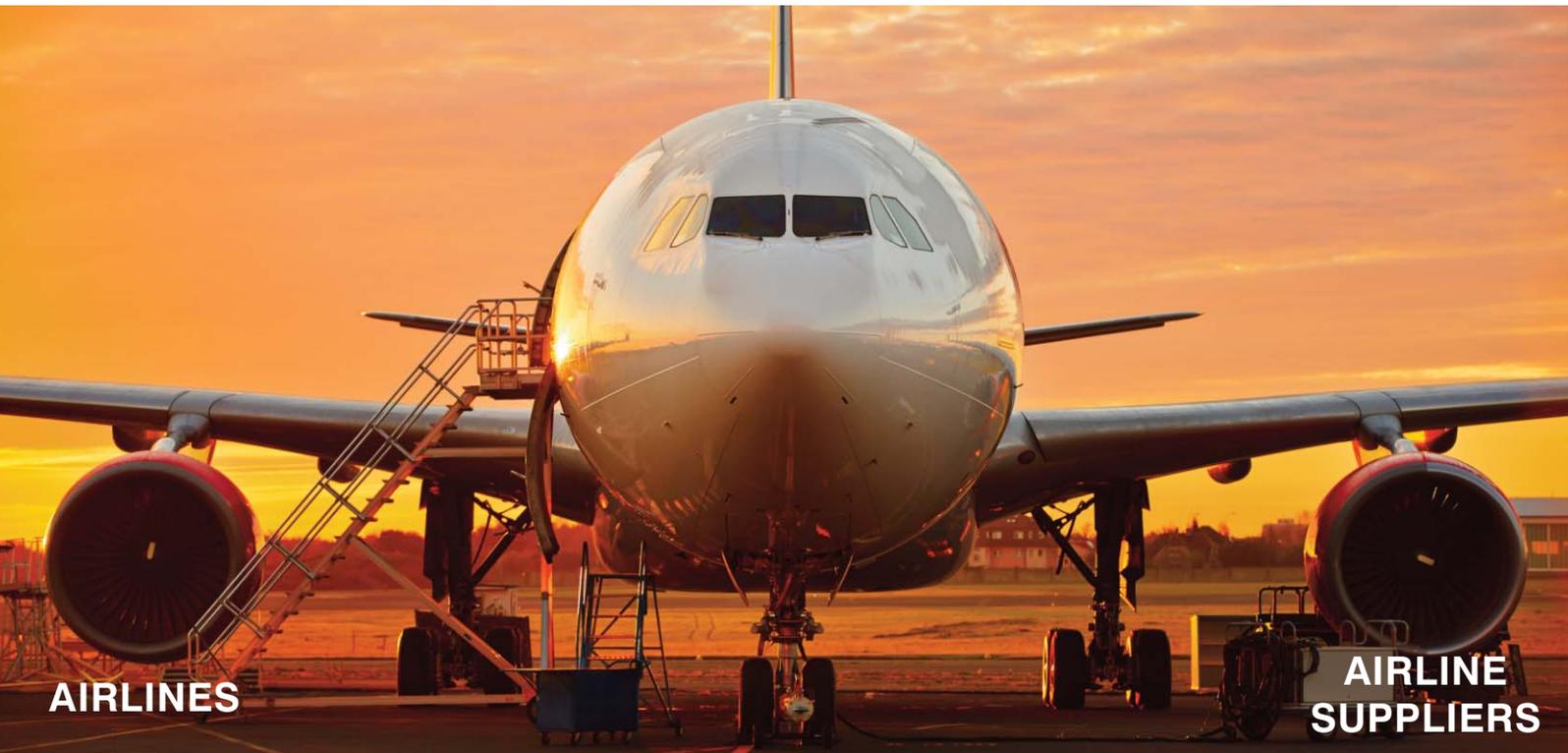
Airline Corporate Strategy

- Digital Transformation
- Business Model



Airline Support Systems

- IT Systems
- Distribution
- Loyalty
- Flight Operations & MRO



AIRLINES

AIRLINE SUPPLIERS

- Digital Transformation planning
- Solution Business Case development
- M&A Advisory
- Strategic Planning
- Market Intelligence

- Technology Insights
- Feasibility Studies
- Ideation Campaigns
- Strategy Workshops
- M&A Advisory
- Strategic Planning
- Market Intelligence

**HOW
FROST & SULLIVAN
CAN SUPPORT
YOUR STRATEGIC
PLANNING
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