

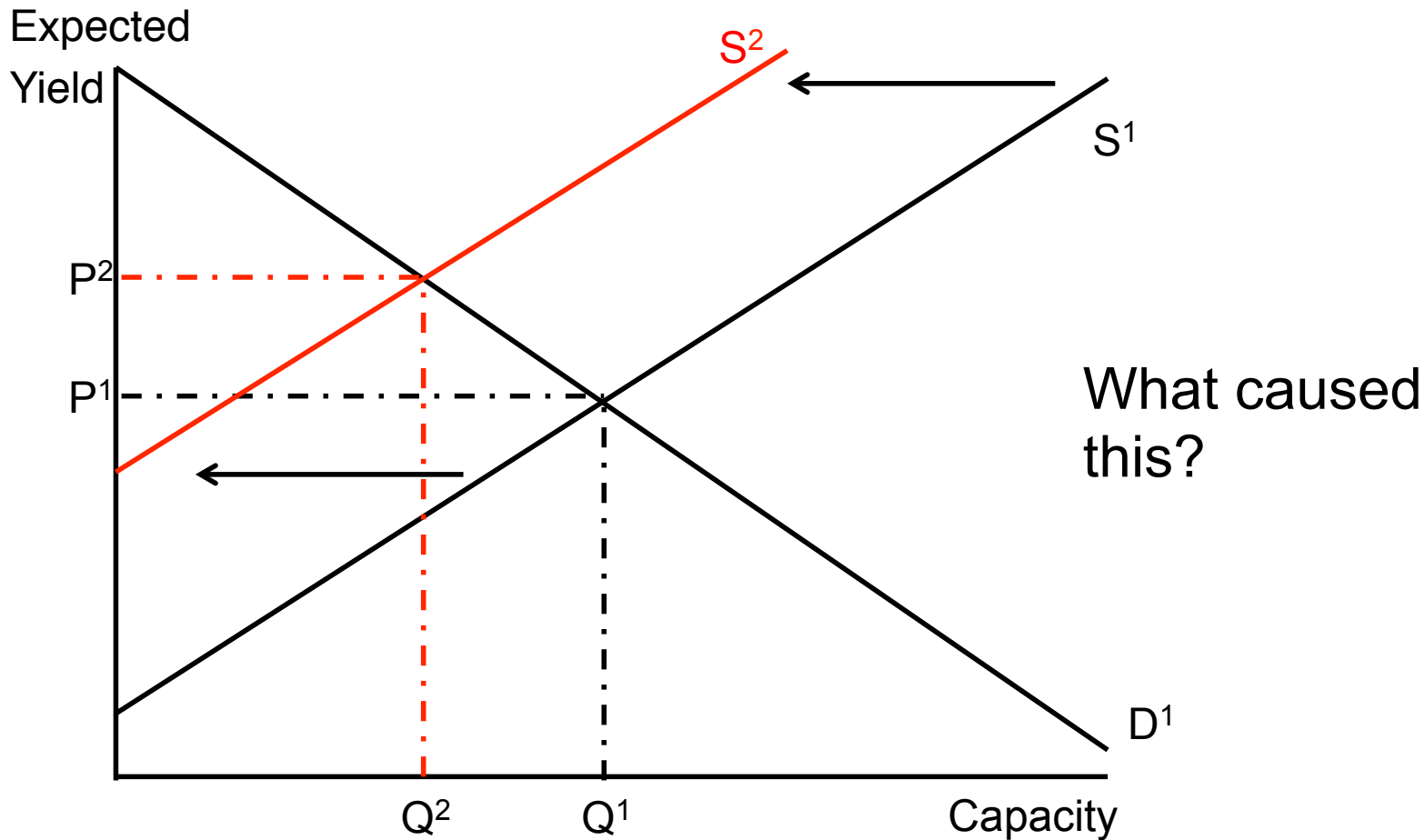
Air Carrier Incentives – Do They Work?

Edward Shelswell-White
Principal

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Imagine (GPS Story)

Industry Equilibrium Post-2007



The Environment

Two fundamental airline changes post-2007:

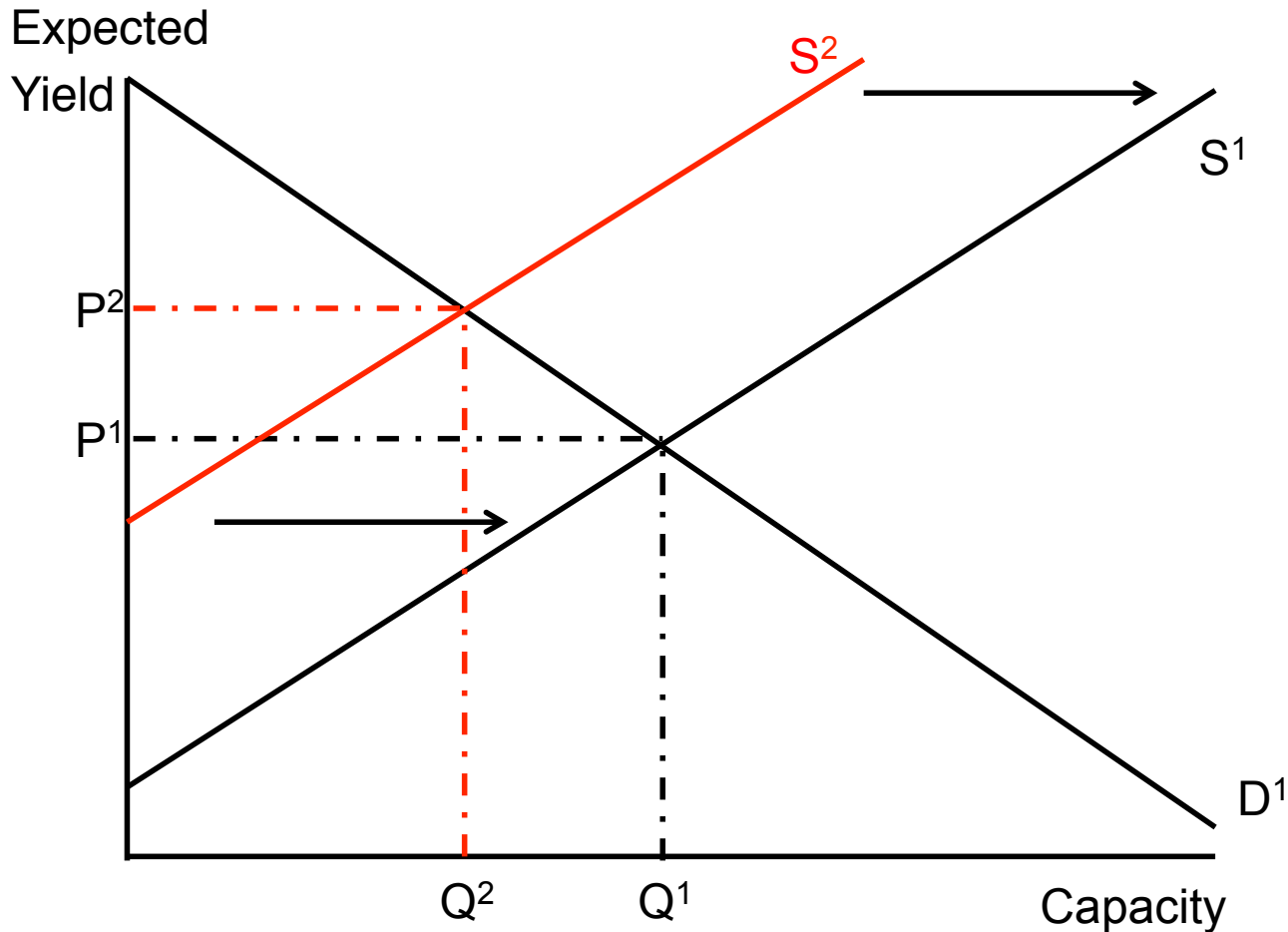
1. Business model

- Then – Low marginal cost. Low risk.
- Now – High marginal cost. High risk.

2. Psychology

- Then – Undisciplined. Wanted it all.
- Now – Very disciplined. Risk-averse.

What Your “Customers” Want

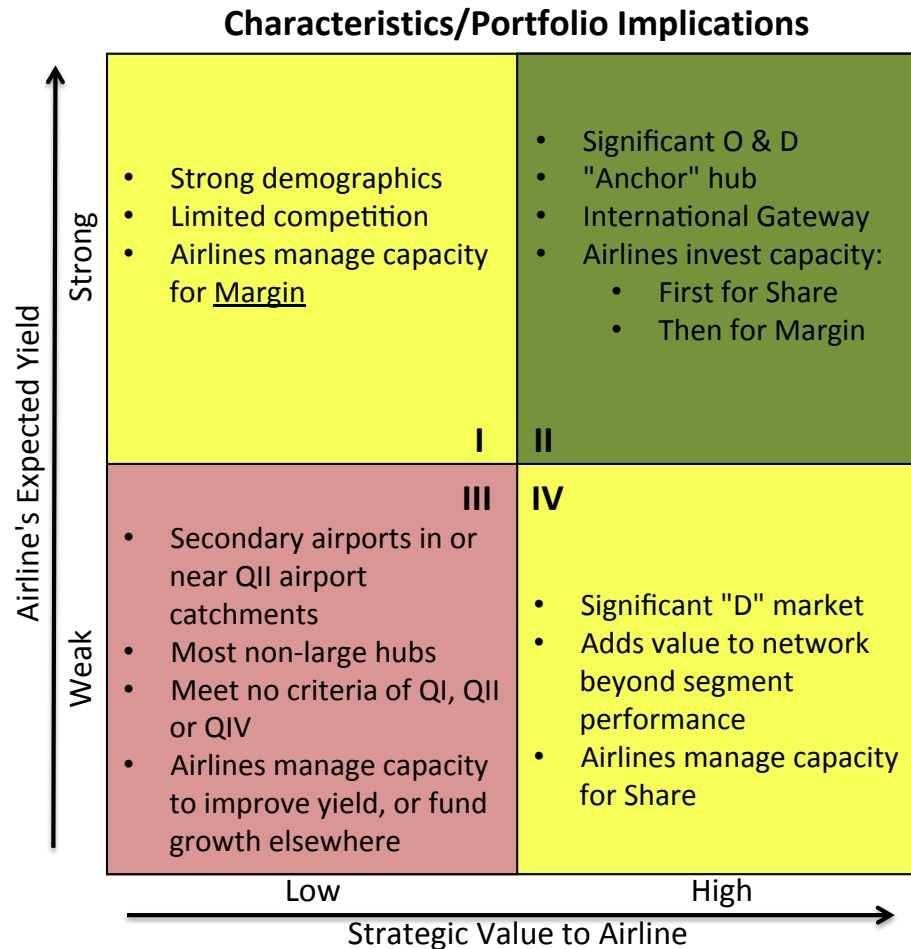


- Can incentives do this?
- Can anything do this?
- Who else is a customer?
- What do they want?

What Your “Customers” Want

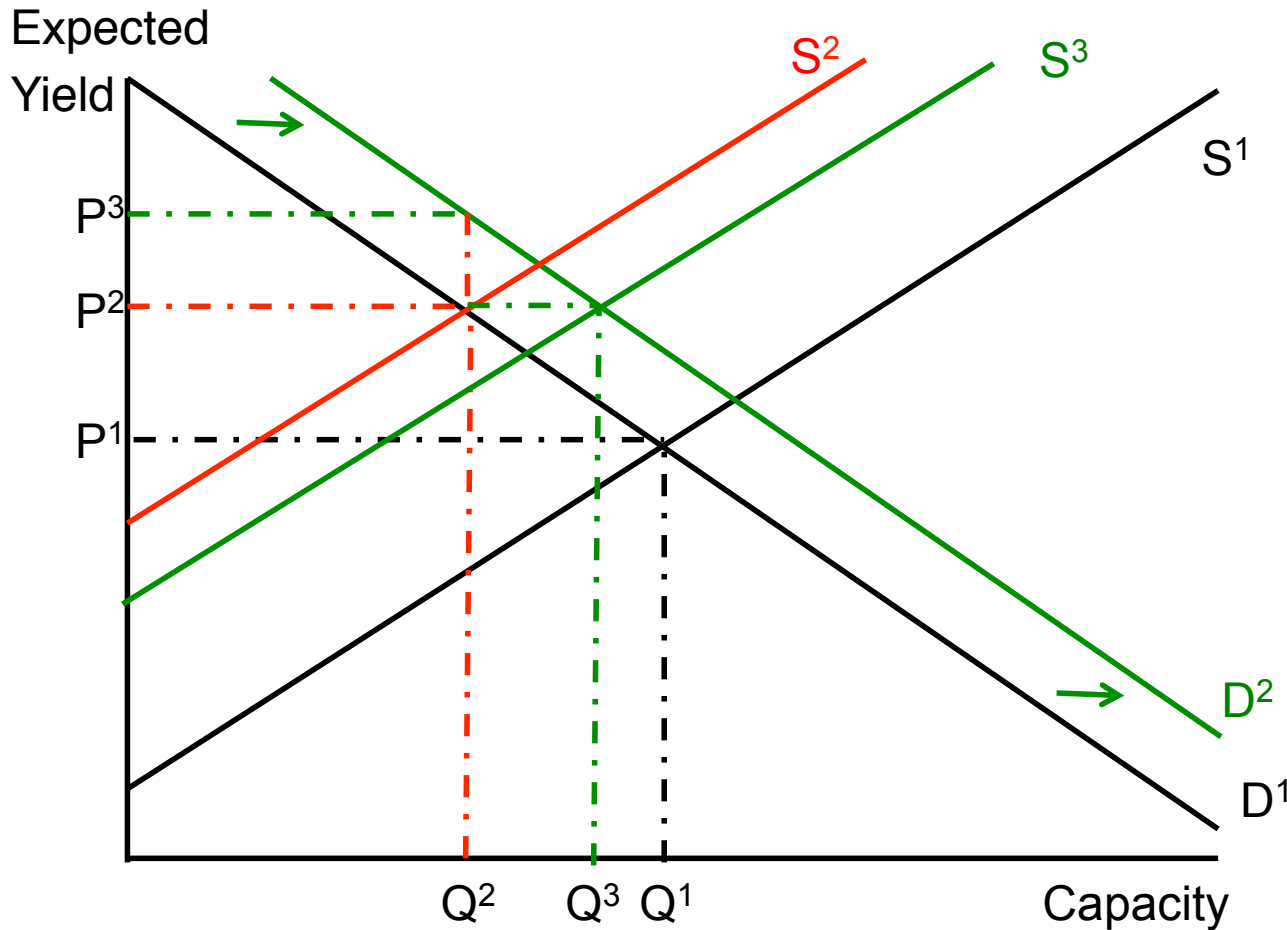
(Musical Interlude)

Airline Network Strategy Meta-Matrix™



- Most medium and small hubs in QIII
- What to do?
- Get the #\$\$%^@! out of QIII
- How?
 - Can you make yourself strategic?
 - If not, aim for QI

Something For Both “Customers”



Increase demand (D²) for the brand from consumers

Leading to increased “demand” (S³) for the brand from airlines (capacity)

Case Study – “ZYG”

Airport situation: Secondary airport in multi-airport catchment

Market situation: Large metro with strong O&D base; ZYG has weakest PSA

Post-2007 enplanements: Fallen >20%

Root Cause Analysis

1. Significant barriers to entry for new competition
2. Low customer demand compared to other local airports
3. Low airline demand because of regional strategies and RCA 2

LexVolo Recommendation

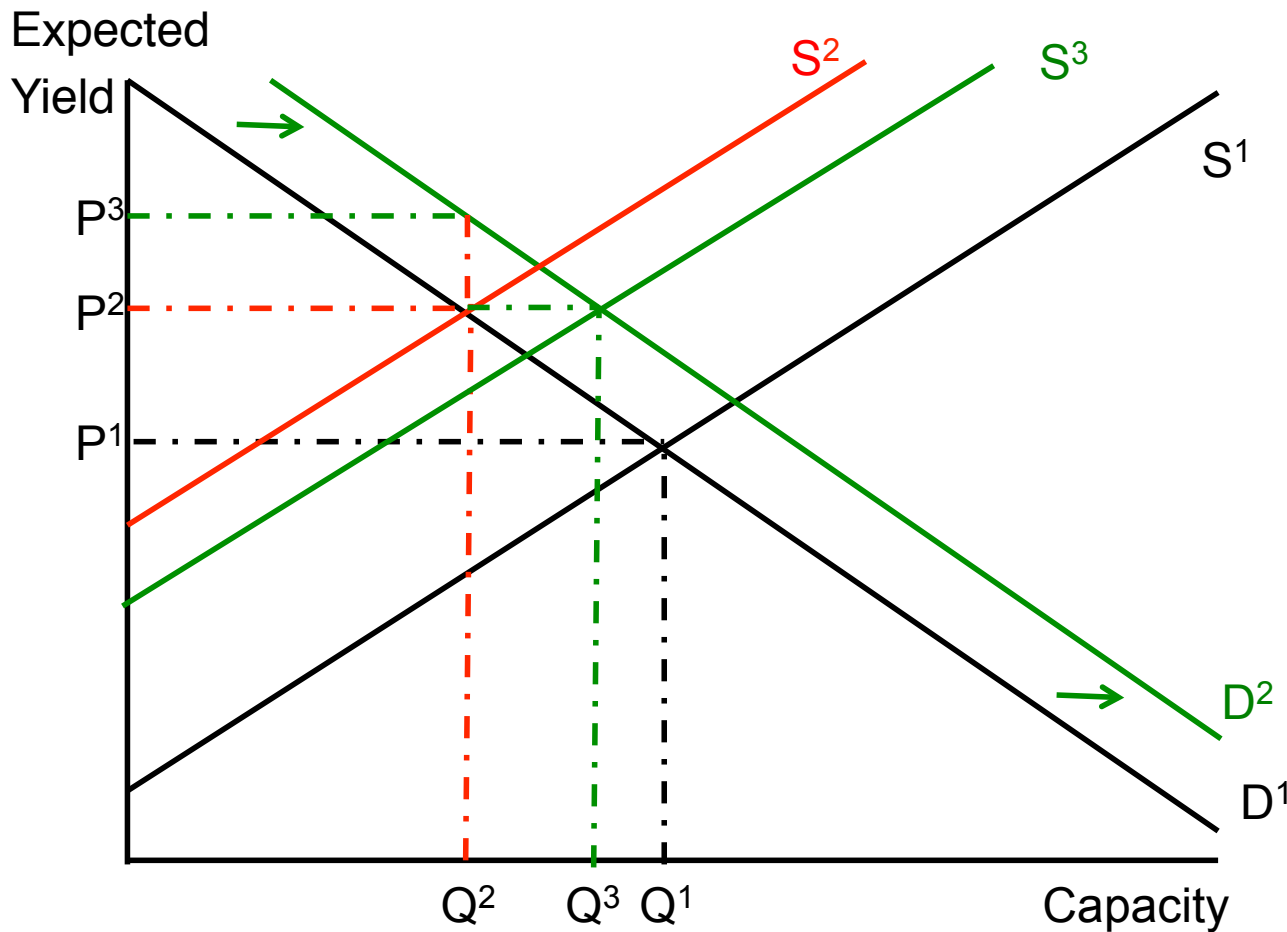
- Vision - Be the preferred short/medium haul airport for customers with choice
- Strategy - Give customers more of what they value in an alternate airport
 1. Short term - Lower barriers to airline entry
 2. Medium term - Increase customer demand from swingzones
 3. Long term - Increase airline demand by increasing expected yield



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Other Real-life Examples

Challenge	Vision	Strategy
International	Connection Preference	Connecting Customer Experience
Loss of CNX	Destination Preference	Integrated Out-market Campaign
Low Capture Rate	Origination Preference	Originating Customer Experience

- A place for incentives in each...as part of a larger strategy
- Differing circumstances call for different programs



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The Appropriate Role For Incentives

Eight-Step Process for Effective Change Leadership From “Our Iceberg Is Melting” by John Kotter

1. Establish a sense of urgency
2. Create the guiding coalition
3. Develop a change vision
4. Communicate the vision for buy-in
5. Empower broad-based action
6. Generate short-term wins
7. Never let up
8. Incorporate changes into the Culture

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