

Small Community Air Service

Re-Focusing The Challenge

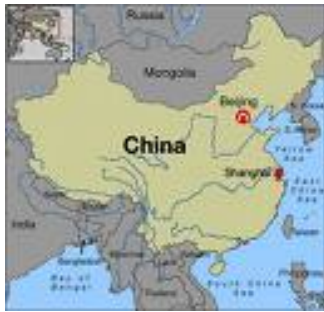
US Senate Commerce Committee
Symposium On Small Community Air Service

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New Air Service Dynamics



Better access to this place creates economic growth - including for smaller communities

- **Airline industry structure:** Comprehensive Network Carriers (“legacies”) are what bring connectivity to small & mid-size markets. Interline schemes are inferior to code-sharing and outright branding
- **“Regional airlines”** – (really just leasing companies) have fleets that are increasingly cost-challenged. They don't sell seats (typically) all they do is lease planes and crews. Those RJs are getting expensive - and being pulled out of fleets
- **It's not volume, anymore.** Traffic “quality” will be more important than just traffic volume. Per-mile revenue generated by IAH-Billings passenger is much higher than an IAH-Orlando passenger. And international traffic feed trumps it all.
- **Access: more important than low-fares.** Jobs are created by economic investment. Vacation passengers to Florida are great, but don't engender new investment from Europe, Asia & China.

Airline Industry Realities



- Jet fuel - near-\$100 oil, combined with refining & logistical issues mean tougher hurdles for small & mid-size airports in competing for airline resources
- Today's profitable markets won't necessarily be so tomorrow, as small jets continue to be pulled from fleets, and existing smaller turboprops get long in tooth
- There are no airliners operating, nor on the drawing board that are well-suited to thin, low-density small communities
- Air Traffic Control system deterioration is continuing, raising costs further, and leading to new bars for small & mid-size community access
- Options: few. Only major airline systems can provide viable air service connectivity. Without that connectivity, the community is cut off
- These issues are pushing the challenge toward mid-size markets, not just small communities

Harbingers of The Future It's Not Just EAS Markets



Airlines Are Re-Thinking Market Metrics

The future is "quality of traffic" - not just volume of traffic.
Demand to Orlando is less important than the traffic capture to
Billings, Spokane, Shreveport, and Shanghai



In the last 12 months, markets that heretofore were viable are slipping below the economic line... a couple of typical examples:



Erie-Atlanta. Delta cut service, even in light of strong 72%+ load factors. Reason: the fare mix v the length of haul v the constrictions in air space and facilities at ATL

Bakersfield-Houston. A pure business market, w/ 83% load factors. Challenge: increasing costs of 50-seat RJ, plus the length of haul, made raising fares very difficult due to proximity to LAX alternatives

Fresno-Denver. Frontier achieved 85% - 90% load factors. The demand mix and yield failed to meet those represented by other applications of the carrier's resources

Source: Airports:USA® Traffic Data

Impending Challenges

- **Economic Shifts** – The costs of providing air service to small and even some mid-size communities are going up - and making service more financially challenging



- **Fleet Shifts** – Aircraft with the right economics are getting fewer and fewer. New-generation smaller, cost-effective turboprops do not exist, per se. The costs of current-generation airliners in this category are going up, raising the bar for smaller communities with thin traffic



"Regional" jets, 37 - 50 seats (which, by the way were never designed specifically for small community air service) are getting economically-challenged. Fleets are declining - 1,200 fewer will be in operation by 2017. (Source: The Boyd Group Global Fleet Forecast 2008 - 2017)



- **Air Service "Rationing"** - Due to deteriorating air traffic control system, and strong demand, major carriers are beginning to review markets for revenue "quality" instead of volume. The result is essentially the start of "rationing" of service based on constricted infrastructure
- **Airline Consolidation** - While most of current stories are gossip, consolidation between major airline systems could happen. Such will reduce air service at small and mid-size communities, and would reduce new options for such communities. Fewer connecting hubsites + less air service. Just ask some airports in Pennsylvania

The Coming Fleet Crunch

- **Declining Fleets For Rural Air Service** – The existing fleets of small turboprops (50 seats and under) are declining – and there are no new-generation replacements in the pipeline
- **Forget “Regional Jets”** – First, these were never designed for small community air service. The “regional” in regional jet referred to the regional airlines for which these aircraft were intended as expansion vehicles to migrate to larger markets. Today, 50-seaters are being replaced with larger airliners, simply because their economics are getting dicey. Furthermore, the smaller RJs – 37 – 44 seats are even worse – they have 50-seat costs with fewer seats



There are no – zero – new-generation small jets on the drawing board.

- **The New Floor – 70 Seats** – 50-seat RJs are being replaced to some degree by larger CRJs in the 70 to 90 seat category, again raising the economic bar for small airport service. More ominously, the new demand will be for 75 – 125 seat “mainline cabin” jets, such as the Embraer E-Jets
- **No Real Alternatives** – Except in specific and limited circumstances, smaller airliners such as Cessna Caravans and piston-engined Cessna 402s are not viable as rural air service vehicles

Other Ominous Dynamics



- **Air Traffic Control** – There is the accepted delusion that just having FAA Reauthorization passed will open the floodgates toward a new and efficient air traffic control system. The fact is that the FAA has proven that it cannot get anything across the finish line. The track record is dismal, and there is nothing in the cards to change that.

Therefore, rural air service planning must be done within the context of a continuing deterioration of the ATC system. That means more service contraction, pointing to more regionalization of service into fewer airports.

- **Airline Consolidation** – The whole intent behind the concept of airline consolidation is to provide less service, not more. That points to fewer connecting hubs, and less service to mid-size and smaller airports.

The failed attempt by US Airways to take over Delta, for example, would have immediately resulted in at least half a dozen communities in the Deep South losing all airline competition. Other mega-carrier combinations, regardless of any paid-for advocacy studies to the contrary, will be detrimental to rural service as well.

Imperative: Redefining The Challenge

The purpose of air service is connectivity to the rest of the world.

Having a couple of 19-seaters flying into a non-connecting hub airport isn't air service.

The Purpose of Air Service Is Access

Provide access to the community and the region from the rest of the world. The focus and the qualitative definition of air service must be the levels to which the community can be accessed.

Definition of Real-World Air Service

Scheduled air transportation of a nature that:

- Provides access to the national and international air transport systems;
- Does so with service levels that consumers can reasonably use, including frequency, fare access, and connectivity;
- Is such that consumers will find as an adequate alternative to other air service options – i.e. driving to another airport

Point: The whole approach must be re-defined.

Defining The Needs

Access

Air service to a connecting hub, operated preferably under the brand of the carrier operating the hub. Minimal requirement: under a code-share of the carrier operating the hub.

Not viable: non-branded independent service

Not viable: service into a non-airline hub. Using FAA definition of "hub" is not viable.

Service Levels

The service is not viable without the above, plus at least three weekday nonstops between the community and the airline hubsite

Reliability at least at the levels of the hubbing carrier system

Service quality (aircraft type, fares, frequency) must be at a level to capture consumers

Litmus Test:

Is the service such that Mr. Jones would find it reasonably convenient to get to town from Los Angeles to do a site search for his new plant? How about Mr. Nakamura from Tokyo?

Hard Reality: Just tossing a couple of 1900s into a market is not, by itself, "air service"

Hard EAS Realities

Trying To Preserve The Current EAS Approach Will Not Work
Triage Is Necessary...

Priority One: Potentially Air Service Blighted Regions

Examples:

- New York State North Country
- Western Kansas
- Eastern Montana

The goal must be to get connectivity to a major airline hubsite - not multi-stop flights, not to an FAA-defined "medium hub" - but to Denver or DFW or SLC, etc

Priority Two: Communities With Strong Potential For Service Establishment.

No Priority: Communities With Viable Alternatives Must Be Cut:

Brookings (gone), Hagerstown (gone), Pueblo (should be gone)

Point: Nobody was using the service, anyway. Pueblo: 34% load factors

Restructuring EAS

Priorities

Re-define the qualifications. Another airport w/in 90 minutes should be reviewed as a viable alternative. Issues: access to connecting hubs, frequency, potential to scuttle local air service demand.

Re-define service levels. It must be to a connecting hubsite with, at minimum a code-share agreement with the hubbing carrier. It must be at least three weekday frequencies. Short of this, it fails to be consumer & business viable.

Re-define local need. In the event the service is not used, the hard reality must be investigated that the community simply does not need the service.

Political Considerations

Congress needs to be fully educated on the realities of air service economics.

Funding

Time to touch the transportation third rail. If long-haul passenger rail service (a 19th century transportation mode) is worth \$1 billion or more, to run trains in the middle of the night through the Dakotas, certainly air service - a 21st century mode - is worth at least that much.

Small Community Air Service Grant Program

A Wild Success - In Its First Years

Point: It was never conceived to be a program where every grant would be a success. It was intended to incubate service with innovative (sometimes nearly-crackpot ?) initiatives. Therefore, it is a *non-sequitur* that many of the grants weren't spent, or that some that were granted didn't work. The fact is that the DOT administered the program in a manner that has resulted in many examples of much improved air service. The program achieved its goals. The DOT staff are fully responsible for this success and should be recognized.

Under-Funded

Congress has no problem tossing hundreds of millions at Amtrak for long-haul passenger service, but cut the SCASD program to less than \$10 million. That is clearly poor priority planning.

The Program Now Appears To Be Near-Dead, However

The program, unfortunately, appears to be essentially brain-dead now. We must be blunt. In the first years, the DOT worked tirelessly to adjust and modify grants after the award to result in air service. If the grant intended for AA to DFW turned into one that was shifted to CO to IAH, that was OK. The residual dollars from the SHV-DTW revenue guarantee were shifted to build new capacity to Memphis. The clear intent was to use the money to improve air service.

Today, it appears that there is a trend to look for ways not to spend the money. In the last year, grants have been lost or not acted up based on what are clearly technicalities that in prior years would not have applied. At least three communities have lost awards simply due to alleged failure to file paperwork properly. One was denied the grant because the access to the connecting hub that had service which satisfied the intent of the grant was in the wrong direction.



- Entering our 25th year, a leader in futurist aviation research, strategic planning & forecasting
- All of our principals have hands-on airline management & planning assistance. But they also have hands-on experience in successfully assisting our aviation clients achieve a wide range of goals
- An unrivaled track record for achieving air service results
- The Boyd Group has assisted communities in winning almost 25% of Small Community Air Service Grant funds – more than any other consultant
- We have provided testimony to Congress in key aviation and air service issues – including hearings scheduled for November 30
- Relied upon by aircraft & engine manufacturers... The Boyd Group assisted Embraer in feasibility studies for regional jets and for the new generation E-Jets
- Airline CEOs call us... And they take our calls

- **Jackson, Mississippi – Prepared strategy to successfully recruit Southwest Airlines, outlining how JAN was a strong “waypoint” – a new approach for Southwest. Also assisted in recruiting first-ever service to New York, via Continental EWR hub**
- **New Orleans – Working with airport to restore pre-Katrina air service. Facilitated meetings with Southwest CEO to restore service levels, including flights to Birmingham**
- **Bloomington/Normal, IL – prepared long-term strategic blueprint that moved enplanements from 50,000 to 240,000 in five years, by identifying key domestic & international traffic flows**
- **Bangor, ME – Identified strong Florida-originating traffic, resulting in Continental service to Newark hub, as well as Allegiant nonstops to Orlando**
- **Durango, CO – Recruited Delta service to SLC hub by demonstrating strong oil & gas related traffic flows in the Four Corners region of Colorado**
- **Sarasota Bradenton, FL – Assisted in recruiting AirTran, jetBlue and American, with net results being a 600,000 increase in local annual passengers**

Thank You

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