

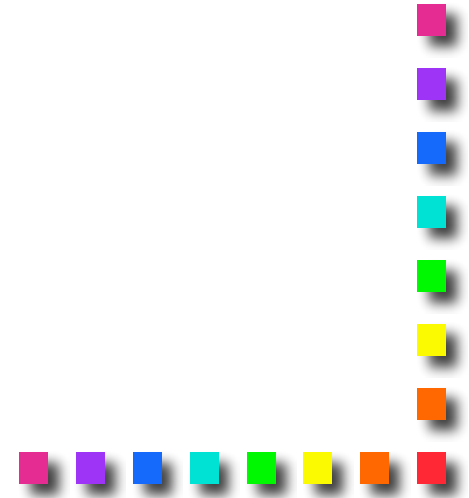
# To Segment or Not: the Challenges of US-International Ethnic O/D Markets

presentation to  
32nd Annual FAA Forecast Conference

Washington DC  
March 16, 2007

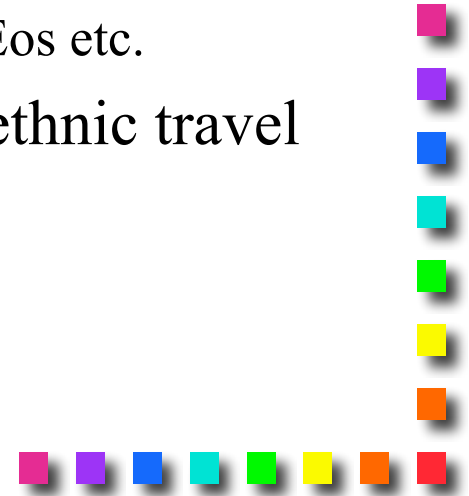
Craig Jenks Ph. D.  
President

*Airline/Aircraft Projects* 



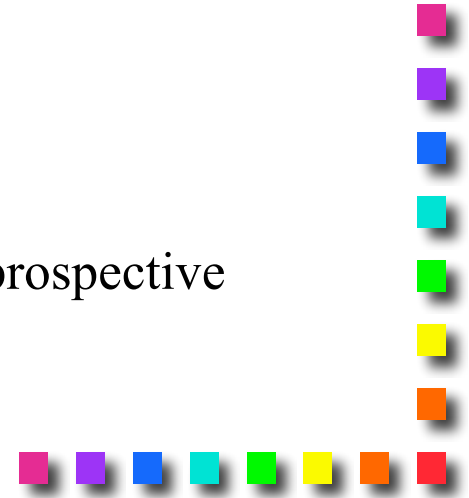
# To segment or not...

- underlying question: when/how to segment a business?
  - adds complexity
  - does it add more revenue than it does complexity-induced cost?
- state-of-the-art airline practice is to *not* segment pax. types
  - segmentation is primarily by price through yield management: any other complexity seen as superfluous distraction
  - concept of leisure versus business traveler largely outmoded
  - exceptions: [1] United [2] EU charters [3] Maxjet, Eos etc.
- state-of-the-art therefore tends to *not* segment ethnic travel
- press perspectives



# Ethnic Travel

- large numbers of post-1965 migrants/families
  - already high
  - growing fast
- distinctive travel characteristics
  - not same as traditional VFR
  - new challenges for carriers
- this presentation...
  - AAP Inc. work in progress
  - 3-fold perspective on segmentation:
    - [1] analytical [2] how carriers *now* segment/not [3] prospective



# Post-1965 versus traditional migrants

- legislation in 1965 substantially liberalized migration
  - removed quota system favoring Europeans
  - allowed total migration to increase to 800,000+ per year
- Hispanic & Asian migration as main beneficiaries
  - extended families [vs. traditional nuclear family migrants]
  - dual citizenship [culturally and legally e.g. India and DR]
- ambitious, socially mobile, with often impressive
  - income: steadily increasing
  - education: 50% of Asian-Americans have a B.A. degree
  - entrepreneurial propensity: 23% venture-backed companies started by immigrants [Business Week]

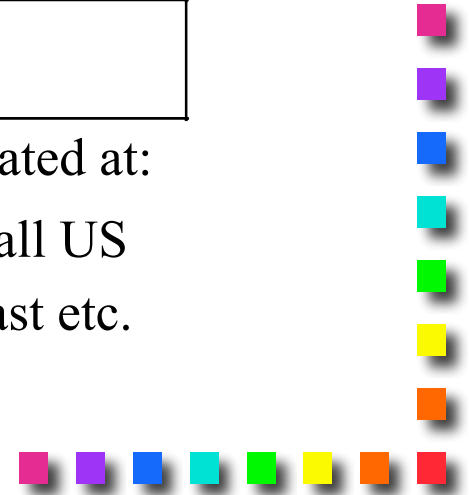
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# 10 largest recent migrant flows

Latin/Carib.	2006 total [million est.]	Asian	2006 total [million est.]
Mexican	27.2	Chinese PRC	3.02
Cuban	1.50	Indian	2.37
Salvadoran	1.26	Filipino	2.27
Dominican	1.1-1.3	Vietnamese	1.36
Jamaican	.89	Korean	1.35

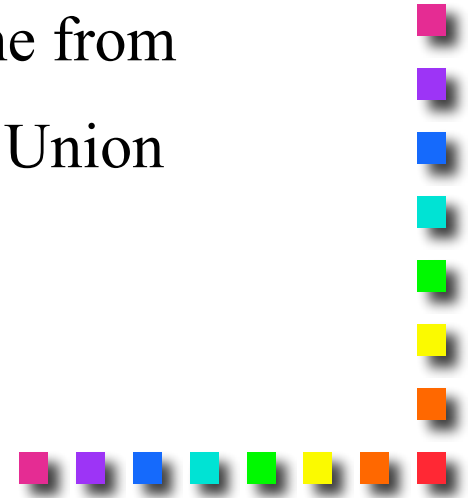
- based on US census ACS 2004 + annual growth, estimated at:  
**4%** Asian      **2.7%** Latin/Carib.      versus **1.1%** all US
- many other large flows: CIS, E. Europe, Africa, MidEast etc.



# Data issues

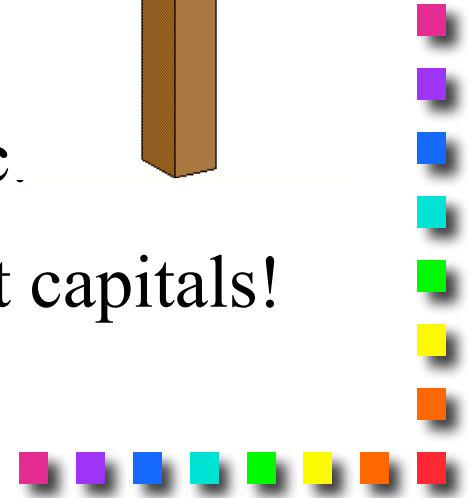
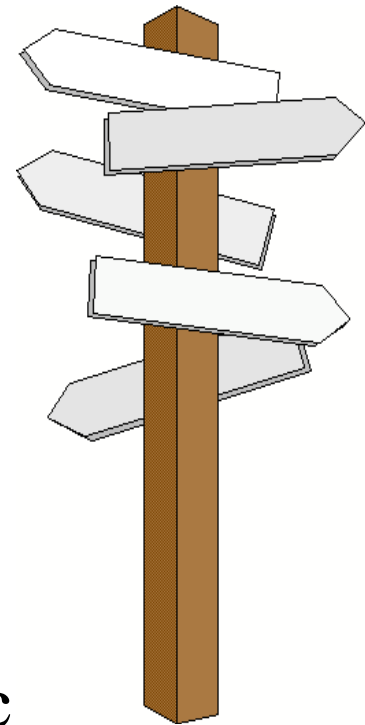
- census intervals are too long
- prime focus is on foreign-born, with only selective focus on US-born [even for recent migrants]
- mixed descent category
- total lack of information on where migrant came from within huge countries like China, India, Soviet Union
- the science or art of projecting growth rates.

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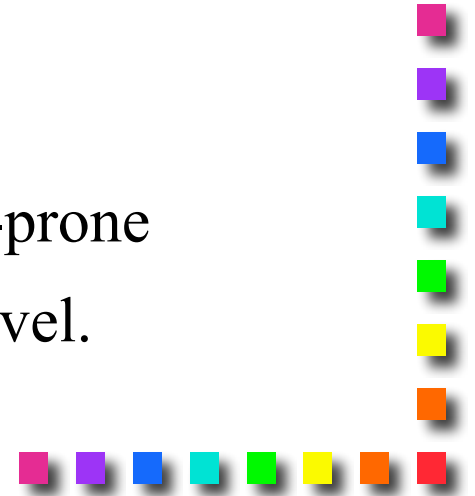
# Ethnic travel attributes summarized...

- High travel propensity
- Distribution: traditional
- Baggage: voluminous
- Transit visa issues
- Seasonality
- Ethnic-specific pax. needs: IFE, food etc.
- Coming from/returning to provinces, not capitals!



# High travel propensity

- continued strong linkage with country of origin
  - extended families
  - dual citizenship [culturally and legally]
  - impact of electronic “staying in touch” vs. occasional letters
  - ethnic entrepreneurs, leveraging links with country of origin
- travel *increases* with increased affordability
  - migrant income growth is above US average
  - compare traditional migrants off a ship!
- what [trendwatching.com](http://trendwatching.com) calls *home trotting*
- demand relatively *inelastic* vs. recession/crisis-prone tourism yet *voluminous* vs. regular business travel.





# High travel propensity [cont.]

## Ethnic entrepreneur linkage

Crain's New York Business, June 12 2006

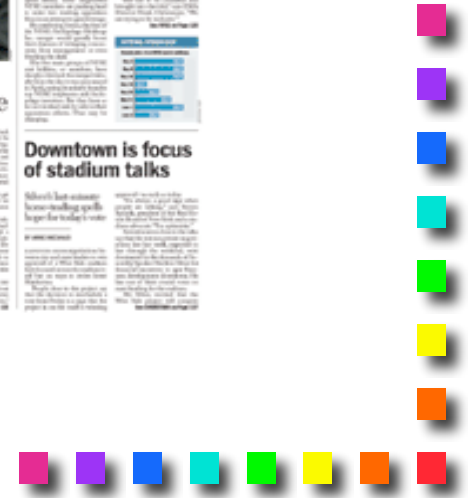
### *Prospering Chinese head home*

*Immigrants plow fortunes made in NY back into huge market*

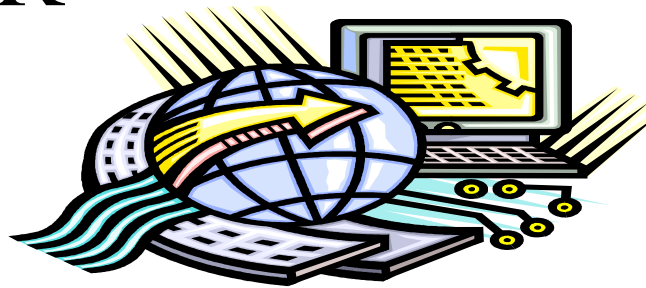
*Examples of start-ups back in China  
by NY-based Chinese entrepreneurs:*

- *a Yangtze river cruise line*
- *retail lighting company*
- *flooring company using feng shui*
- *billboard advertising company*
- *real estate investor.*

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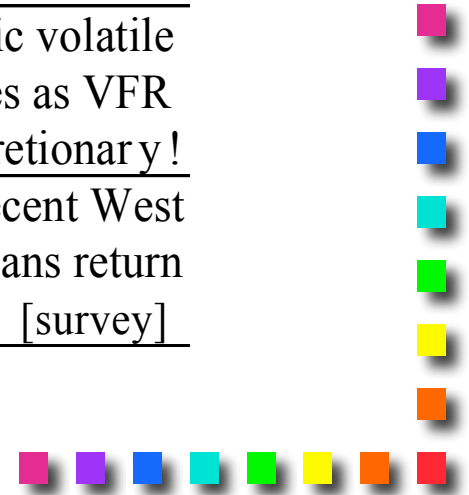


# Hi travel propensity [cont.] versus VFR



Migrant type	Travel type	Travel profile	Exemplified by.
US citizen with no specific EU or other “roots”	holiday: tour op. group or independent	domestic preferred to foreign travel by most Americans	survey: 55% would not go abroad soon even if affordable !
specific Europe “roots” but only distant relatives	VFR: visiting friends and/or relatives	visit distant family or heritage: fun, but no need & discretionary	N. Atlantic volatile for airlines as VFR is so discretionary !
Asia/Latin post-1965 Act recent 1 <sup>st</sup> gen. migrant	<b>Ethnic Travel</b>	frequent return home <b>vital</b> : extended family and business reasons	50% of recent West Coast Asians return annually+ [survey]

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# Distribution

- ethnic travel agents
  - still very heavily used: not obsolete
  - payment often in cash [even JetBlue]
- ethnically tailored web-sites
  - AA's new 18 nation-specific Spanish language sites



Lufthansa's dedicated site for 20 ethnic destinations



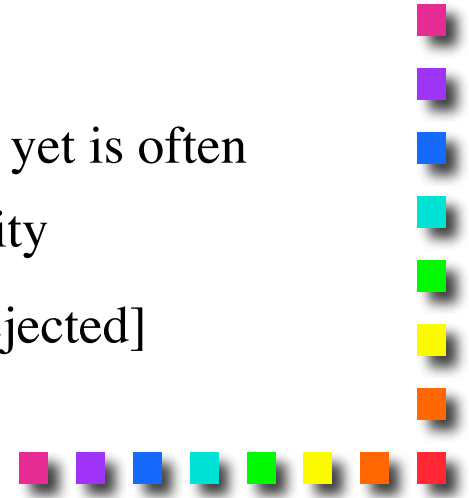
- airlines do cater to ethnic mkt. distribution needs



# Baggage



- excess baggage
  - migrants typically return with gifts for their extended family
  - this is true for every recent migrant group in the US, whether Asian, LATAM, African, CIS, East Europe etc.
  - *vital* like the travel itself, comparable to currency remittances
- impact on carriers...
  - large excess revenue potential for carriers
  - less than widebody capacity is often inadequate, and yet is often involved as designated, reliever or connecting capacity
  - varying carrier solutions [ethnic excess bags often rejected]



# Baggage [cont.]

defying the needs of ethnic passenger extended families...

Ft. Worth, TX June 6 2006- Summer is fast approaching, and American Airlines founding member of the **oneworld**® alliance and its affiliate American Eagle, remind passengers about the box and bag embargo, on certain flights June 10-August 13 [*source: AA press release*]

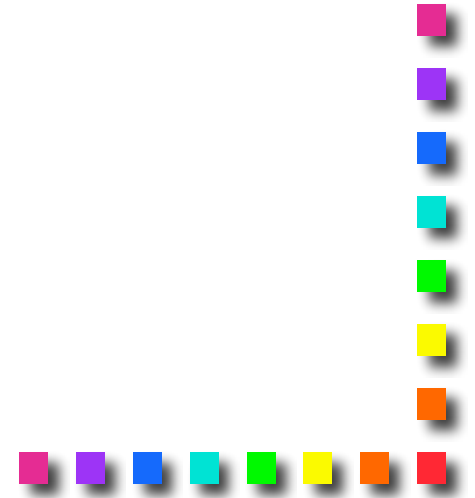
JetBlue allows 2 bags [up to 50 lbs. and 62 inches in sum of dimensions] free of charge for each customer flying to the DR. Sorry, boxes and excess/overweight bags are not accepted [*source: JetBlue.com*]



# Seasonality

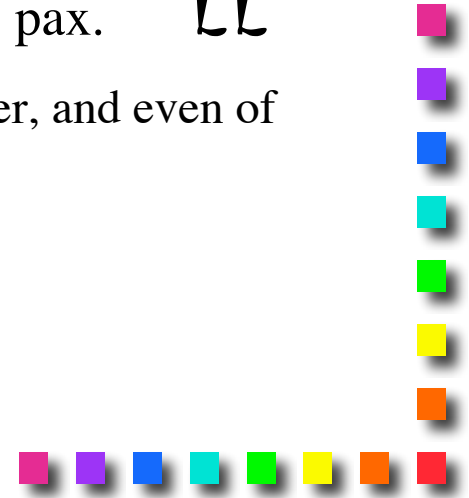
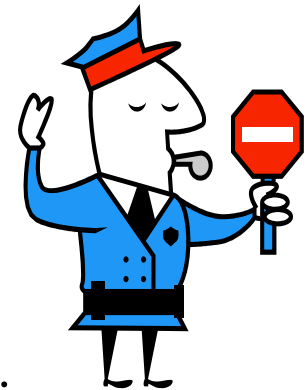
- ethnic market preferences
  - seasonality
  - time of day
- somewhat like other peaking, but also distinctive...
  - distinctive national and/or religious holidays
  - weather at destination

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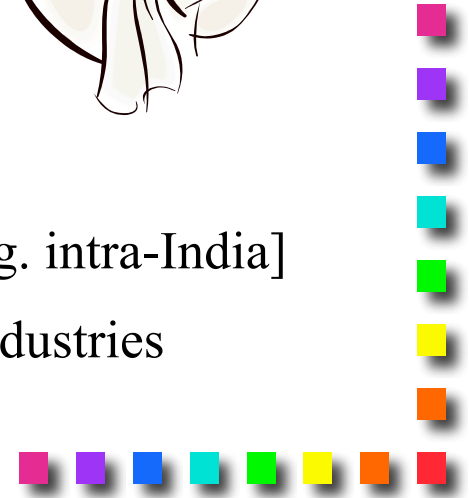
# Transit visa issues

- EU requires certain pax. to obtain transit visa before trip
  - even if the transit does not require entering the country
  - cost can be as high as \$100
- difficult to ascertain where/when visa needed
  - varies by nationality, airport and trip
  - impacts certain % of Asian, African, CIS connecting pax.
  - horror stories of being refused travel at initial travel counter, and even of being forced to fly back to origin at the EU transit airport.



# Distinctive needs [language, food, IFE]

- uncomfortably long flights can be alleviated for ethnic pax. [somewhat akin to offering business passenger amenities]
- global mobility increases... so do ethnically specific needs
  - language
  - food
  - in-flight entertainment
- airlines do to some extent cater to these needs
- but they often fall short
  - no allowance for **important regional variations** [e.g. intra-India]
  - less attention to ethnic needs than evident in other industries





# Migrants usually not from capitals!

- migration to the US is normally from provinces
  - normally driven by regional imbalance *within* the origin country
  - migrants quit provinces for new life in *either* the capital *or* the US

- travel demand to/from US is from these provinces

Fuzhou

Hyderabad

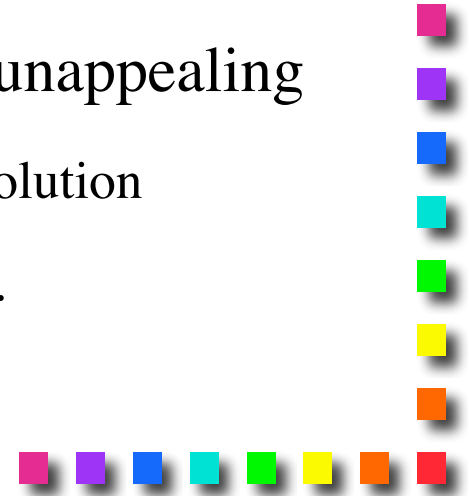
Krakow

Palermo

Porto

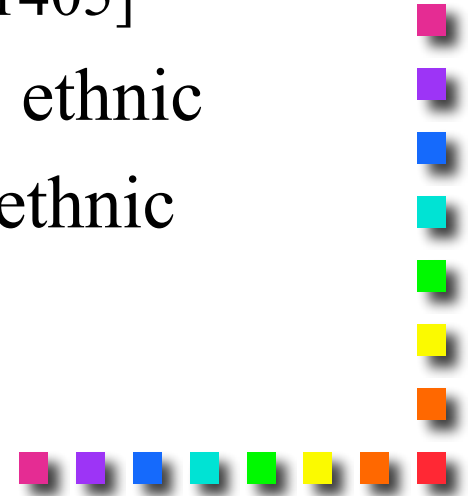
Guadalajara

- connecting airline service via capital city often unappealing
  - in many cases, the inbound flag carrier has no good solution
  - in some cases, it offers services bypassing the capital.



# Volume?

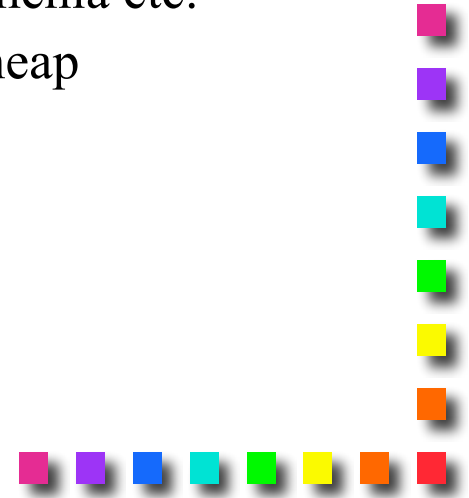
- mostly not segmented and so not measured!
- some indications from US Office of Travel & Tourism Industries [based on 2004 survey]
- of US outbound overseas pax.
  - 37% did not stay in a hotel at the destination
  - 33% paid for their travel in cash [average \$1405]
- much smaller % of the inbound traffic is ethnic
- 25% + of all US-int'l overseas traffic is ethnic



# Yield?



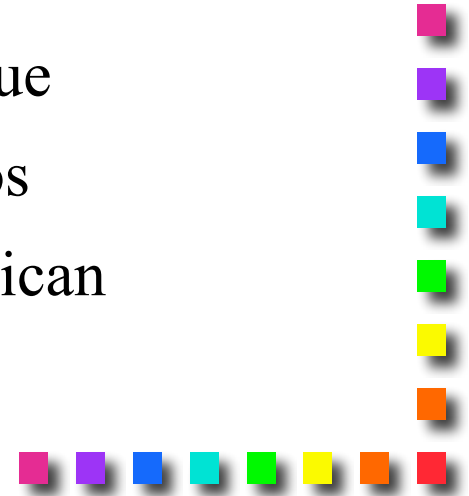
- *should* be higher
  - destination-inelastic
  - entrepreneurial linkage component
  - higher price inelasticity than VFR: non-discretionary trip!
- anecdotal confirmation of high yields
- random confirmation of high yields
  - Expedia for Philippines, India, Nigeria, Guyana, Armenia etc.
  - LH weflyyouhome.com “special deals” are not so cheap
- CRS MIDT actual US-international yield data
  - India-US yield in 2004 was 11.84 cents
  - high yields in certain US-Caribbean markets



# back to Africa and East Europe...

- from demise of Pan Am and Delta's subsequent closure of its FRA hub, no US carrier service to
  - anywhere in East Europe [except Moscow]
  - anywhere in Africa [except TW & briefly DL to Cairo]
- in 2006 and 2007, Delta will have entered
  - Kiev      Bucharest      Budapest      Prague
  - Dakar      Jo'burg      Accra      Lagos

Accra & Lagos also entered by North American



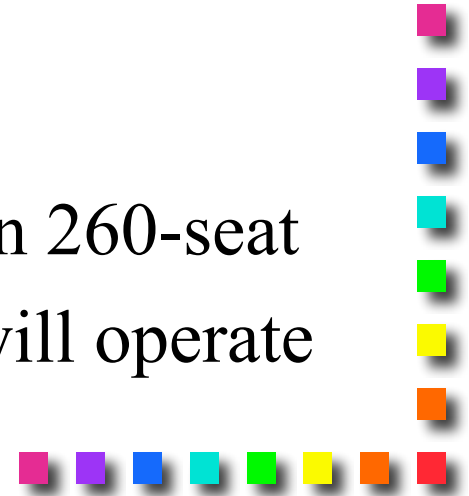
# Asia-US non-stops: aircraft dimension

- new Boeing & Airbus types capable of 15-18 hr. ops.
- passenger advantages
  - substantial time savings: average 3-4 hrs.
  - for India mkts, better timing & avoid EU
- new ICAO transpolar tracks
- carriers with non-stops will gain market share
  - competition between US carriers and versus foreign entrants
  - competition from increased 1-stop options



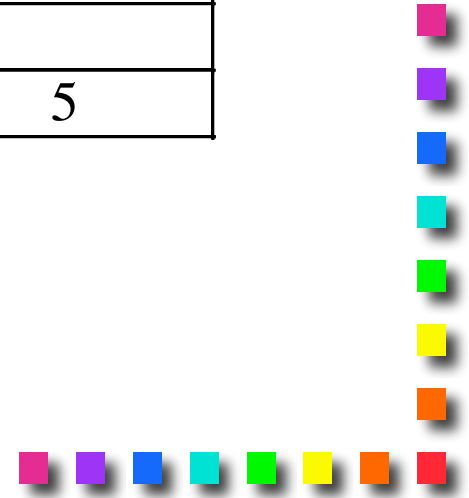
# India non-stop: emerging great game!

- 4.3 million pax. in 2005
- growing at 20% per annum
- US/India Open Skies agreed 2005
- Indians in US gravitate back to regional
  - HYD, BLR, MAA, ATQ, AMD
  - much more than to BOM & DEL!
- if by early 2011 **50%** of pax. are carried on 260-seat non-stops, then about 19 daily non-stops will operate



# Orders relevant to India non-stop

	<b>777-200LR/300ER</b>	<b>787-8/9</b>	<b>A340-500</b>
Continental		20	
Delta	5		
Northwest		18	
Air-India	23	27	
Jet Airways	10	10	
Air Canada	18	14	
Kingfisher			5



# Ultra-long haul Asia non-stops

US/Canada-Asia non-stops 7250+ miles [excludes discontinued]

From	To	Carrier	Launch	Miles	Block time outbound/return	Type
Newark	Hong Kong	CO	June 2001	8065	16:00 15:45	B777-200
LAX	Singapore	SQ	Feb. 2004	8770	18:30 15:00	A340-500
Newark	Singapore	SQ	June 2004	9537	18:10 18:00	A340-500
JFK	Hong Kong	CX	July 2004	8072	16:20 15:50	A340-600
Toronto	Hong Kong	AC	Aug. 2004	7810	15:50 15:10	A340-500
Newark	Delhi	CO	Nov. 2005	7324	13:55 15:50	B777-200
Chicago	Delhi	AA	Nov. 2005	7484	14:35 15:35	B777-200
JFK	Shanghai	MU	Nov. 2006	7392	15:20 14:15	A340-600
JFK	Mumbai	DL	Nov. 2006	7799	15:30 16:25	B777-200
IAH	Dubai	EK	Dec. 2007	8168	15:10 17:05	B777-LR
Atlanta	Shanghai	DL	tentative	7659	TBD TBD	B777-LR
Newark	Mumbai	CO	Nov. 2007	7799	15:30 16:25	B777-200
JFK	Mumbai	AI	TBD	7799	15:30 16:25	B777-LR

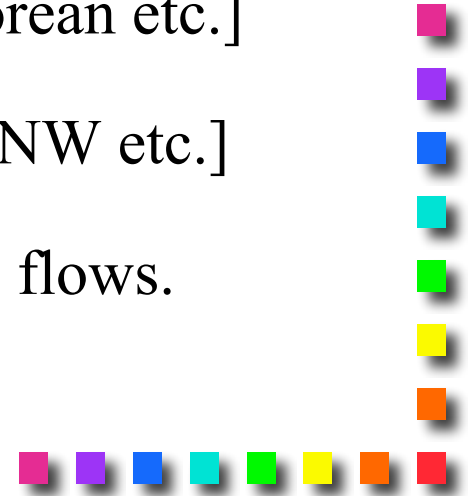
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# 787 orders: what % for ethnic markets?

- 366 B787s have been sold to specified airline customers
- 70 units will go to 7 carriers whose traffic will be at least 90% ethnic [Air-India, Ethiopian, RAM, Vietnam etc.]
- another 73 units will go to 8 carriers whose traffic will be at least 50% ethnic [Air China, Air Canada, Korean etc.]
- assume 10% ethnic on other carriers [QF, CO, NW etc.]
- = 33% of airline-specified 787s to target ethnic flows.



Thanks for your attention!

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