3rd ICF and ACI EUROPE Self-connections Symposium

Meeting Report and 2019 Market Outlook

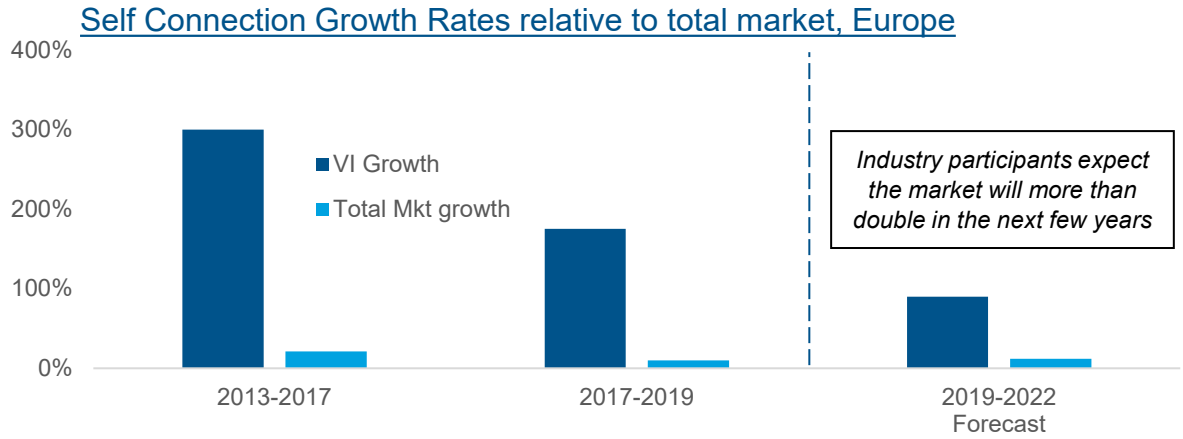
On 8th November 2019 ACI Europe and ICF hosted the third self-connection[1] symposium in Brussels. It included airports, airlines, technology providers and investors to discuss current market performance, different models and future market outlook. As part of the day the industry participants were asked to share their own views on self-connections and what trends are expected to continue to drive this market forward. In this brief paper ICF present the latest market updates and discuss some of the key trends impacting developments.

Market update: rapid growth continues, fuelled by evolving partnerships

The last two years have seen significant developments across airlines, OTAs (online travel agents) and airports in this rapidly emerging market. Partnerships have formed between airlines and airports, between OTAs and airports, and between tech start-ups and established players. In addition, funding from various sources, including private equity, has supported either investments in this market or new start-ups.

The common theme across all these emerging models is one of rapid growth. Kiwi.com for example, has grown very rapidly, from around 300 employees in 2014 to over 3000 employees in 2019, now selling over 35k seats per day; this is equivalent to an airline the size of Finnair (c13mppa) just 6 years after launch. Gatwick's 'Gatwick Connects' offering and its partnership with easyJet/Do-hop have seen virtual interlining volumes increase many-fold as more airlines and booking channels have been brought online; the volumes being generated would now rank as a significant airline in its own right at the airport.

Europe is one of the most developed markets for self-connections, reflecting the relatively high share of LCCs on short haul and more recently long haul markets, alongside the material costs savings offered by these carriers.



Industry view: Recent growth rates averaging around 200% are expected to reduce to around 100% reflecting the now sizeable market baseline on which future growth will be established. This will see the self-connection market continue to take share away from traditional bookings with the potential

[1] In this paper, we use self-connecting and virtual interlining interchangeably, although the concepts can vary in their meaning. In simple terms, it captures a passenger connecting over an airport on two separate tickets, on two unaligned carriers, one of which is usually an LCC.

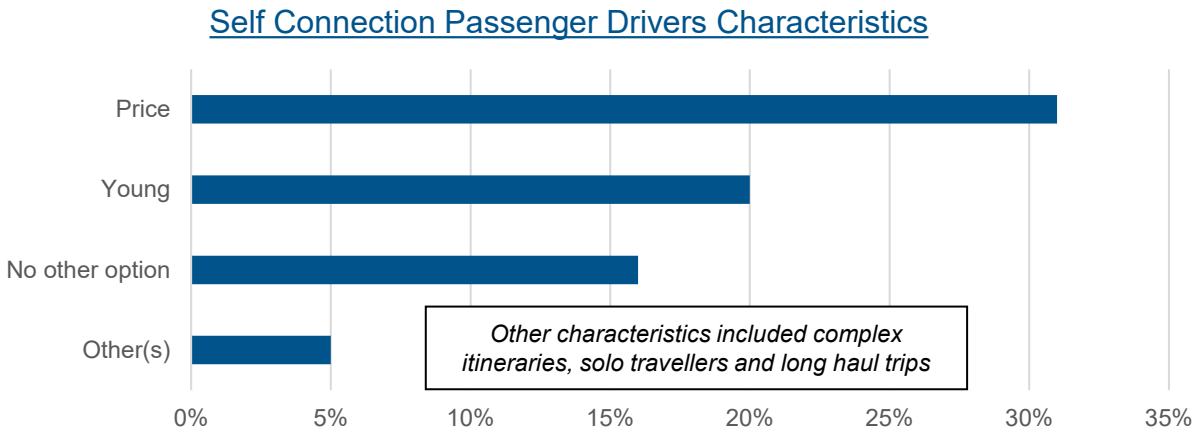
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for self-connections to achieve a share of 15-20% of global connections, equivalent to over 200m passengers per year.

The Passenger Profile

Whilst there is no 'typical' self-connection passenger there are some common characteristics identified by the industry participants. These findings are in line with surveys undertaken by ICF and by others in this space. The key characteristics of self-connecting passengers are identified as follows.

- **Price sensitive**: Self-connection options can lead to material cost savings, benefiting from LCCs' lower operating costs and significantly cheaper prices, especially closer to departure.
- **Young**: This market is known for a relatively high share of young, tech savvy travellers who understand the concept of self-connections. They are happy to accept the increased perceived risks (of missed connections), alongside typically longer journey times for cost savings and flexibility.
- **Lack of options**: Another key driver relates to the high LCC penetration across Europe's airports. In some cases, markets have better LCC connections than traditional full-service carrier options, whilst some markets lack viable traditional connections altogether. Airports where LCC shares are above 50% provide significant self-connection feed into larger airports.



Note: % relates to share of respondents ranking as one of top 3 drivers.
Other % refers to average of 7 options

The Bags Issue

Pricing strategies of LCCs have already driven significant behavioural trends for passengers to travel without any luggage; as such, the share of passengers self-connecting on short haul itineraries with bags is typically under 30%.
Nevertheless, in order to be truly competitive, the baggage issue needs to be solved, allowing through-checked bags to be offered. There are numerous options in development, undergoing trial, or being rolled out on a limited scale with limited airline pairings. These may include a role for the airport or ground handler, passengers to self-tag or other solutions (e.g. courier services).

Industry view: 90% of participants believe that a baggage solution will be in place by 2025, with a third believing it will be solved within a couple of years.

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Different Models Emerging

Today significant volumes still 'self-connect' without any assistance at all at booking or travel. At the same time, substantial demand has already switched to or been stimulated by the new models emerging, as these make it easier to find, to book and to execute trips where connections on two or more unaligned airlines take place.

Examples:



The original airport model (e.g. Gatwick Connects) has now evolved so that the technology providers behind it (do-hop) now partner directly with some of the largest LCCs (easyJet, Transavia, Eurowings with others due to come on line in the next year). This is similar to the Value Alliance model – powered by Air Blackbox - established in Asia which provides the first 'LCC carrier alliance' comprising six Asia Pacific airlines.

The OTA model (e.g. kiwi.com) has now developed many airport partnerships which can provide further passenger benefits including wayfinding, terminal reconfiguration (e.g. air side transfer) and reduced MCTs (minimum connection times). Through these partnerships, there is scope to collaborate on operational issues too, including bag transfers, which Kiwi.com and Stansted in the UK have recently publicised.

Industry view: There is strong consensus that the already established models would co-exist and that other players would continue to enter the market. In the medium term the majority of participants predicted that a larger OTA would also enter the market.

The future presents further opportunity

Looking to 2020 and beyond we believe this market will continue to present airports, airlines, distribution companies and investors opportunity for further reward whilst providing the travelling public the opportunity for increased global connectivity at lower prices.

Whilst still a relatively 'niche' market, as a share of total passenger volumes, it has grown significantly in a short space of time and now firmly occupies its own place in the market. At many airports, volumes already reach hundreds of thousands of passengers a year.

We believe that more OTAs, tech, airlines and content will continue to drive this market forward, raising passenger awareness and acceptance. With the baggage challenges set to be solved and the concept continuing to gain wider acceptance there is a long way to go before the market reaches maturity.

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