



September 2008

Media Owners

JCDecaux: The last few weeks have seen one major announcement. JCDecaux look to be on the point of acquiring News Outdoor Group from Rupert Murdoch's News Corp. News Outdoor are an out-of-home media owner and contractor, with interests in Russia, Eastern Europe and South-East Asia. The geographical footprint of their business aligns well with JCD's ambitions to expand into territories where they have lower market share. However, the real significance of the deal, if it goes through, will be that it will mean that JCDecaux will become the biggest outdoor owner in the world, ahead of Clear Channel, CBS and all the rest.

Closer to home, **JCDecaux Airport** have appointed Catherine Cooper, a former employee who left for a brief spell at Eye Corp, as Associate Director of Product Marketing. This coincides with the news that JCDecaux Airport will be upgrading formats and sites across all 12 of their concessions in the UK, an exercise for which Cooper will be responsible.

Clear Channel: Ever keen to demonstrate their "green credentials", Clear Channel is introducing a new lighting technology for use on their portfolio of backlit billboards. Less costly to maintain due to improved reliability, the new "LED Luminaire" system, installation will start in London in early 2009, on 96-sheets, 48-sheets and mega-6 sheets. Electricity consumption will be reduced by 75%, recycling costs will come down, and quality of presentation should improve with a clearer, crisper display.

In what we believe to be a new development, "naming rights" are being offered to advertisers/sponsors on an in principle basis, for airport terminal buildings. JCDecaux Airport in France, have proposed the newly-opened Terminal 2G, as an appropriate place to start. This is a logical development of the "ownership" and "domination" exercises undertaken by a handful of new advertisers in a few markets.

Airlines

The month of September has seen both bust and (relative) boom for airlines. This uncertainty, which has not been witnessed since post-9/11, has unsettled the industry and called into question the economic profitability and viability of the market. When even the giants of the skies start to sweat, the question becomes; how do you survive when even your most basic needs (fuel & passengers) are part of a global downturn?

There are two solutions: Get out or get in. In the latter group are Flybe, who, having bought BA Connect last year, made a pretax profit of £35.4m for 2007/8, an increase of 77%.

With 60 years of aviation history in its back pocket, Alitalia rolled out the bankruptcy red carpet, with Berlusconi at the helm declaring the country's industries are looming into the 'abyss' after crisis legislation to write off the sinking airlines' debts failed even then to secure survival. However, all is not lost for the sinking airline, it appears the airline may once be saved... a massive buyout may be taking place as this newsletter went to press.

It is not just the old guard which has been hit. Canadian budget airline Zoom has suffered the same fate. It failed to impress its creditors and sunk into a debt puddle of high priced oil. Sadly for the airline, it follows a trend of low cost Canadian carriers being priced out of their own market by a price war with the national carrier, Air Canada. Air India will pick up the London - Toronto route formerly operated by Zoom.



Airlines (continued)

Other airlines who have called time on their fleets are XL, who left 80,000 holiday makers stranded, Olympic, who if rumour has it may be reborn as Pantheon (perhaps staking their name on the endurance of the relic?) and JAT.

So it seems it doesn't matter if you are a national carrier or a budget airline looking for a small piece of the action, the costs of running an airline and the fragility of every economic factor involved in their success means bumpy landings are likely for 2008 /9 . So how do you get in?

If you're O'Leary's Ryanair, you gloss over the cost and reduce ticket prices – while charging for everything else. Ryanair are using a strategy promoted by advertising agencies to jittery clients, i.e. advertising in a downturn. This philosophy taps into consumer trust, gambling that those who maintain a media "presence" in a recession, are the most stable.

Consumer power now calls the shots for airlines, more than ever. Pandering to the passenger (business or leisure) is the best means of keeping load/occupancy up, and costs down.

It has been confirmed that BA's business class only flights from London City to New York commencing in 2009, will be processed for Immigration during the refuelling stop in Ireland. This may be done without passengers having to leave the aircraft. The service is expected to be popular with time poor executives making the most of the fast check in times at London City, whose first long-haul flight this is. It will be seen by some passengers as another reason not to use Heathrow. What is not known yet is at which New York airport the service will land. It is unlikely to be JFK.

Kingfisher of India has upped the ante of luxury travel, with a new route from Bangalore to Heathrow. This service will feature, among other things, in-seat massages and a spectacle cleaning service. Flying in the face of cost cutting, this sends a positive message and brings back the old mantra of enjoying the experience of air travel.

Virgin Atlantic's recent profits have stemmed, in part, from someone else's failure or 'the T5 effect'. Those passengers scared off by negative headlines at BA's new base, migrated in their droves to Virgin Atlantic, on competing routes, as a replacement to BA. Virgin has since reported profits of £60.9 million for the year 2007/2008. Meanwhile, they are losing no time to protest against the BA and American Airlines' proposed merger and their combined 'monopoly' of the US/UK routes. *'No way BA/AA'* is set to be plastered across Branson's fleet as a reaction and will undoubtedly cause some controversy. If this was not enough, the prospect of Gatwick Airport ending up in the hands of an airline consortium headed by Virgin Atlantic is a distinct possibility.

The most aggressive/acquisitive airline at present has to be Lufthansa. In recent months they have targeted a number of floundering airlines with increasing ferocity. The German national carrier has to date made plays for Olympic, Brussels Airlines, Austrian Airways and SAS. So far, the airline has already promised €250 million to the defunct Belgian carrier, Brussels, to increase its fleet size and add premium travellers, taking a 45% stake. It has also opened up new routes, boosting consumer confidence, to eight European cities including the business hotspots, Milan Malpensa and Paris. Next year, they have an option to buy a large chunk of bmi, which would significantly increase their market share, It appears some airlines' cannibalism of the little guys in their sector is taking the attention off Air France's appetite for trains. Air France is looking to start a competitor to Eurostar once time is called on the monopoly of the Cross Channel service. Eurostar has "welcomed" the competition. It remains to be seen if last week's cancellation of entire services will lead to consumers voting with their feet. Extra capacity has been added by easyJet and BA, amongst others, while train timetables have been disrupted.



Not much good news is brimming from the global airport sector, with passenger figures down for August by half a percent and the news that predicted passenger figures are likely to be down for the remaining Q4 on last year. However, this makes Russia's soaring PAX numbers even more impressive, with Moscow Domodedovo's growth of 9% just this month and the smaller Russian airports of Vnukovo and St Petersburg both increasing by over 11% respectively. Frankfurt reported a miserable fall of 4% for August due to industrial action by Lufthansa.

BAA have had a hard time this month, with criticism literally flying at them from all angles. They will have to sell one of the cornerstones of their portfolio, London Gatwick. The company, owned by Spanish giant Ferrovial, pre-empted a statutory fire sale and, with tail between legs, put the airport on the market saying 'Gatwick has long been an important and valuable part of BAA and the decision to sell was not taken lightly'. This leaves the field wide open for a host of investors and consortia to take over. The price is expected to be approx £2 billion.

Virgin has taken an interest in the airport and looks set to place a bid backed by, if rumour is to be believed, Dubai money. This would signal a revolution in airport ownership if the airline is successful.

With Belfast City also sold, BAA has been told by the Competition Commission that they must sell two more of their airports. Stansted and Glasgow look the most likely. BAA has commented that the Competition Commission's view that BAA had an unfair and undeserved monopoly over the airports, was untrue.

There was more bad news for Ferrovial as reports that BAA's seven airports' profits have more than halved in the first half of 2008. Could this be why they are not just selling airports but also selling the land surrounding the real jewel in the crown, Heathrow, along with some hotels? It seems BAA may finally be losing its grip on the aviation industry in the UK... The plot thickens.

On a more positive note Heathrow Terminal 5 has opened a dedicated Business class check-in zone, at long last. Passengers can now take advantage of 16 'fast bag drops' for those with hold luggage only and 16 check-in desks. In Terminal 5 as a whole, more than 7 million people have passed through the building to date, with numbers set to increase to 30 more long haul flights being added.

Catering goliath SSP, who own Starbucks, Caffe Ritazza, Burger King and M&S Food (yes, really), have invested £2 million investigating consumer behaviour, even down to which way most people turn at the top of an escalator. Armed with findings like dwell time landside and airside in airports, SSP have deduced that the time spent by passengers is used differently. Since terrorist attacks, people spend far more time airside as security takes longer. This means that coffee shops, bars and food halls are now more valuable to airside shopping areas, with people discarding their water and drinks at security. An example of how businesses have benefitted is **Upper Crust**, who reported an increase of 90% in their sales when they shifted from landside to airside in Bristol Airport.

We have contacted SSP with a view to getting our hands on some of their research.

More next month... .. .

