

Fueling the growth of low-cost airlines in the Southeast Asian market;

By Raphael Bejar, CEO of Airsavings

Southeast Asia, with its attractive destinations, surging population and unique geography, is continuously touted as the next big market for travel and tourism. Explosive growth, however, has been intermittently hampered by macroeconomic factors, natural events, political uncertainty and questionable market penetrability. But during the past two years and now, looking forward to 2008, these trends appear to be reversing and Southeast Asia seems poised once more to realize its potential as a major travel and tourism market.

The confluence of several notable factors has predicated this rise to prominence, including economic booms in regional powers China and India, and strong GDP growth among Emerging East Asia as a whole (as defined by the World Bank, EEA includes China, Indonesia, Malaysia, Philippines, Thailand, Vietnam and some smaller economies along with Newly Industrialized Economies in Hong Kong, Korea, Singapore and Taiwan. GDP for EEA rose by 8.4% in 2007, and is projected to gain another 8% in 2008). But perhaps one of the most important factors influencing the travel growth is the proliferation of low cost airlines throughout the region, providing the burgeoning local population - flush with newly disposable income- with an attractive and realistic outlet for inter-regional mobility.

Another prominent force taking stock in Southeast Asia is the arrival of a business that delivers services specifically tailored to the low cost carrier model: Airsavings, a Paris- based company, opened offices in the booming region in late 2007. The company specializes in facilitating group buying techniques that allow small and mid-sized airlines to achieve the same economies of scale that their outsized competitors enjoy. The company also brings to region's LCCs its proprietary *AirlinePlus platform, a booking engine with extensive ancillary revenue generation capabilities. Airsavings has enjoyed tremendous success on the European continent, which saw an Asia-like explosion of LCCs in the last decade, and has made already inroads toward establishing a solid presence in Southeast Asia and India over the last 18 months. It also recently introduced, in the hotel booking aspect of the AirlinePlus platform, a focus on design, boutique and luxury hotels, reflecting the Asian market's leaning toward those lodging segments.*

According to the World Tourism Organization's annual Tourism Market Trends report for 2006, the Asia Pacific region saw an 8% increase in 2005 to 155 million arrivals, the majority of which originated from source markets of the same region. **This indicates that while the long-haul, transoceanic traveler embarking from the Americas or Europe remains important to the market, the real revenue driver is the interregional passenger, riding a smaller aircraft - more than likely seeking a low cost carrier.** Indeed, the same WTO report estimates that there were 20 million low cost carrier passengers in Asia in 2005, representing a full 12% of the market. In response to this phenomenon, several cities in Southeast Asia witnessed a boom in LCC service; Singapore, which had no LCCs represented at its airport in 2004, had 23 as of April 2006 and continues to attract an industry innovator like Airsavings.



The LCC subset of the overall Asian air travel market is dominated by AirAsia, based in Kuala Lumpur. But as the market continues to ripen, an influx of established European and upstart carriers looms on the horizon. LCCs in this market must compete with state-run airlines as well as international giants. Coupled with rising variable costs on a global scale (fuel, labor), and success hinges on the individual carriers' ability to manage two key aspects of the LCC business model - cost control and ancillary revenue development. It is in these areas that Airsavings hopes to make the most impact within Southeast Asia. And just in time for arrival in the Asian market, the company has just announced a partnership with world leader in travel insurance - AXA Assistance - for the provision of trip insurance, which is one of the "Big Three" ancillary revenue points offered through its booking engine. Furthermore, by having its travel insurance products connected to Airsavings' AirlinePlus ancillary services hub, AXA is make sure that it provides the best conversation rates and the highest possible margins to low cost carriers.

The very act of drawing an industry pioneer and leader like Airsavings indicates that LCC expansion in Asia is only in its infancy. Even as 2008's global economic prospects appear shaky (on an international level- weak US dollar and impending recession possibly limiting arrivals from the Americas), the outlook for Southeast Asian travel and tourism is still rosy. The Beijing Olympics will almost certainly boost regional travel, and the lingering economic jolt from the games will no doubt influence future mobility well beyond the coming year.

While critics previously thought that a region as diverse and large as Southern Asia could not be effectively served by LCCs, in the past year alone, Singapore Airlines spun off a low-cost airline by establishing a European-style AirPass promotion allowing for unlimited travel for a fixed rate, while AirAsia captured nearly 6% of all passengers in the region. What's more, Asian LCCs don't compete with high-speed rail or the Autobahn as European carriers must. In fact, a Southeast Asian LCC is often preferable to and much safer than the outmoded and unreliable bus and rail systems existing in served areas.

Clearly, the future is now, not only for low cost carriers but for Southeast Asian travel and tourism as a whole. With companies like Airsavings providing the support services and structures upon which new and existing LCCs can thrive, more growth can be expected across the globe's largest continent.

