



# SKY HIGH ECONOMICS



**Chapter One:** Quantifying the commercial opportunities of passenger connectivity for the global airline industry

A Strategic Overview



in association with



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### Foreword

Welcome to the first instalment of the 'Sky High Economics' study. This study, conducted by the London School of Economics and Political Science, is the first of its kind to comprehensively model the socio-economic impact of the connectivity revolution on the aviation industry. This will include a later report looking at the potential benefits that connectivity will bring to Operations & Safety and the impact of passenger connectivity on Loyalty & Behaviour within the aviation industry.

This first report looks at the Revenue and Economics of inflight passenger connectivity. The findings point to a future in which airlines will require a high quality, global solution to capitalise on the potential revenue opportunities that exist within the market; the seismic shift to an 'always connected' culture means passenger Wi-Fi is now a necessity rather than a luxury. With this connected network of passengers comes a sizeable revenue opportunity with the power to entirely re-shape the aviation industry.

I am proud to say that Inmarsat Aviation is uniquely positioned as a partner to help meet the growing demands for high quality aviation connectivity, with its wholly owned and operated global satellite networks.

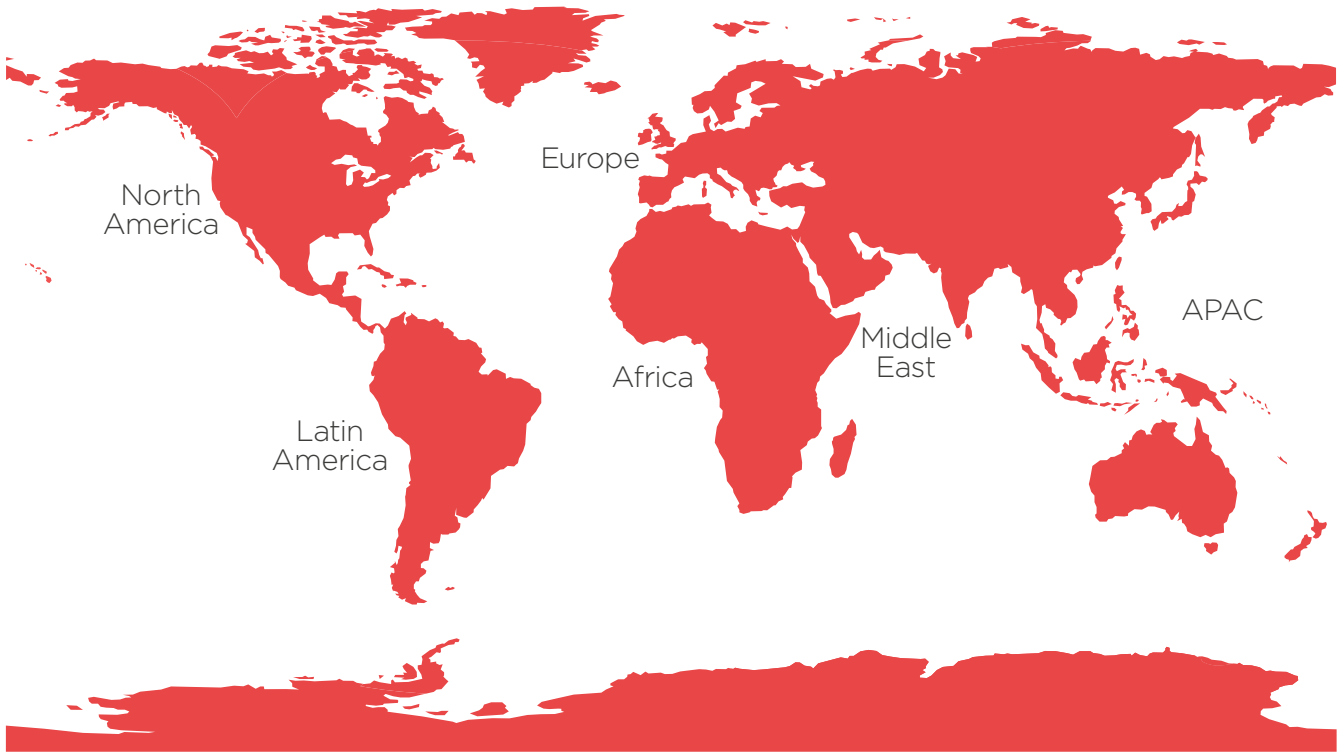
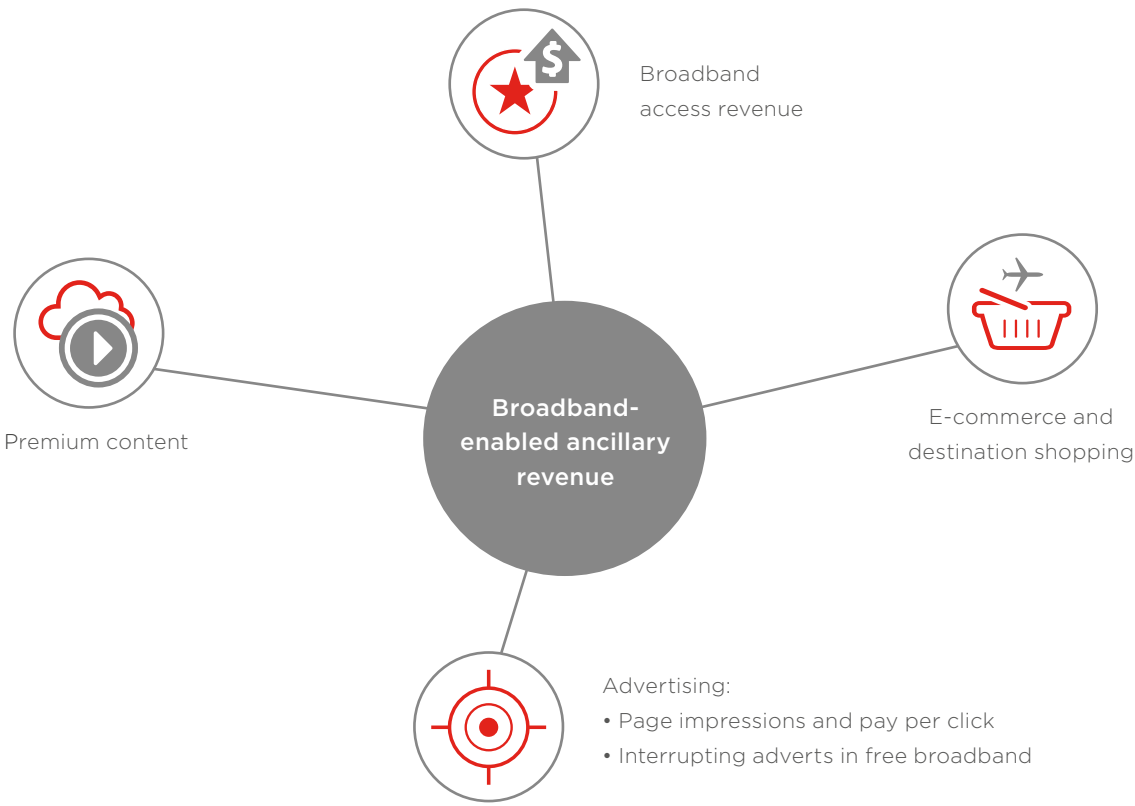
The skies represent the final frontier in the race to connect travellers to high quality broadband connectivity, and this research clearly demonstrates the magnitude of the opportunity at stake.

Bring It On!

Executive Summary

The global airline industry is on the cusp of a connectivity revolution. Currently 3.8 billion passengers fly annually, with only around 25% of planes in the air offering them some form of onboard broadband. This is often of variable quality, with patchy coverage, slow speeds and low data limits. By 2035, it is likely that inflight connectivity will be ubiquitous across the world.

Non-broadband-enabled ‘traditional’ sources such as seat upgrades, onboard duty free and baggage fees are currently worth around \$60 billion to airlines. For the first time, this research study bridges the gap between current market estimates of traditional revenues and the forecasting of incremental revenue from broadband-enabled cabins. Using IATA passenger traffic data and forecasts of growth, including a near doubling of passenger numbers to 7.2 billion annually, this research study forecasts that broadband-enabled ancillary revenue will reach an estimated \$30 billion for airlines by 2035. Overall, a total market of \$130 billion of additional revenues will be created. As well as airlines, this market will include content providers, retail goods suppliers, hotel and car suppliers, airlines and advertisers.

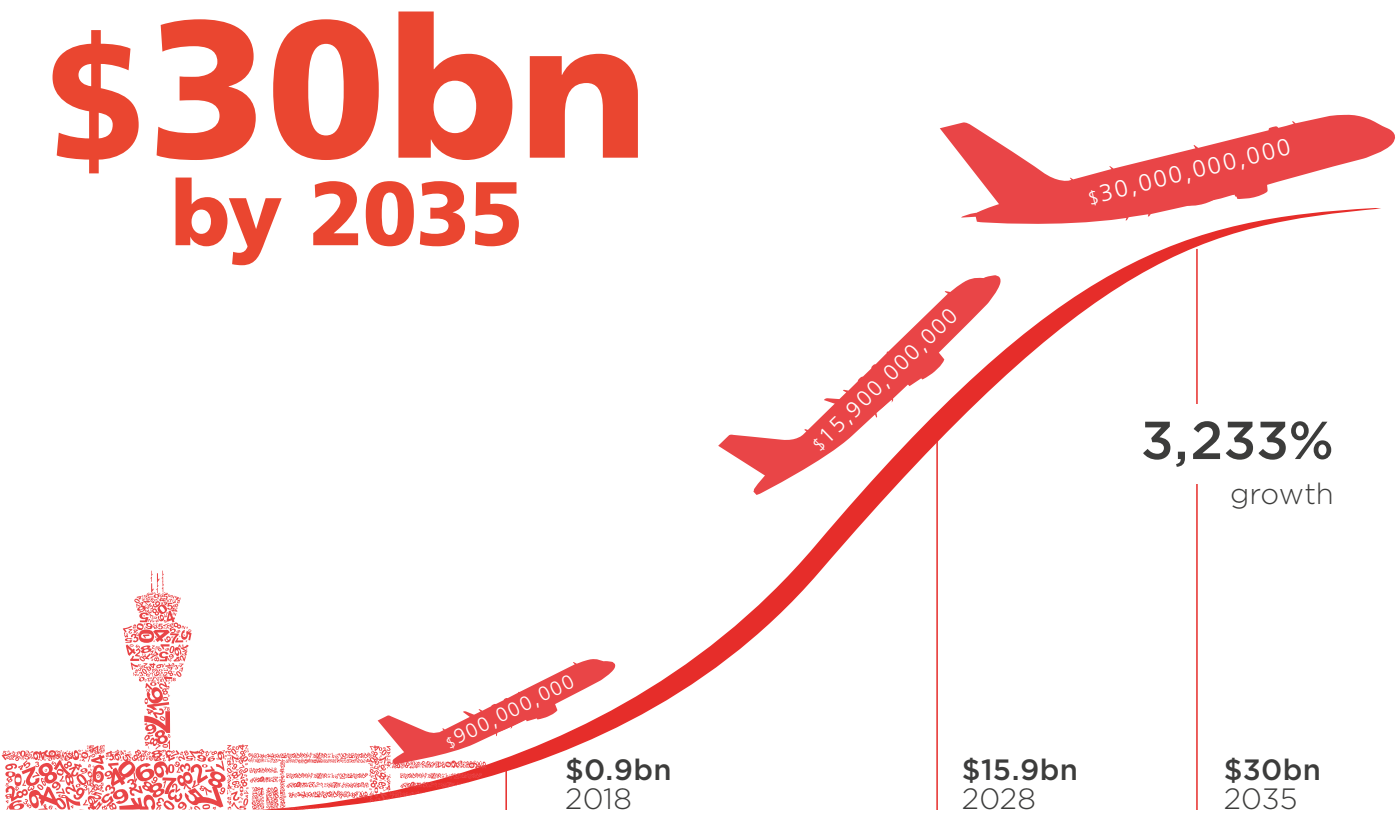


The research looks at six key regions: Asia Pacific, Europe, North America, Africa, Middle East and Latin America analysed using both primary and secondary research, drawing on available data of passenger numbers and of forecasted aircraft growth globally.

“ Passenger connectivity in aircraft is transforming the aviation industry. Fast, consistent and reliable broadband for passengers is now a reality and, in our always-connected culture, this service is now a necessity rather than a luxury. In the longer term, the connectivity revolution will change the on board retail offering. Nimblere technology and faster broadband connectivity means that advertisers can offer richer online shopping experiences that could see us say goodbye to the traditional inflight trolley. ”

M. Franci, SVP, European Sales & Revenue and Inflight Services, Inmarsat

The airline value of broadband-enabled ancillary revenue



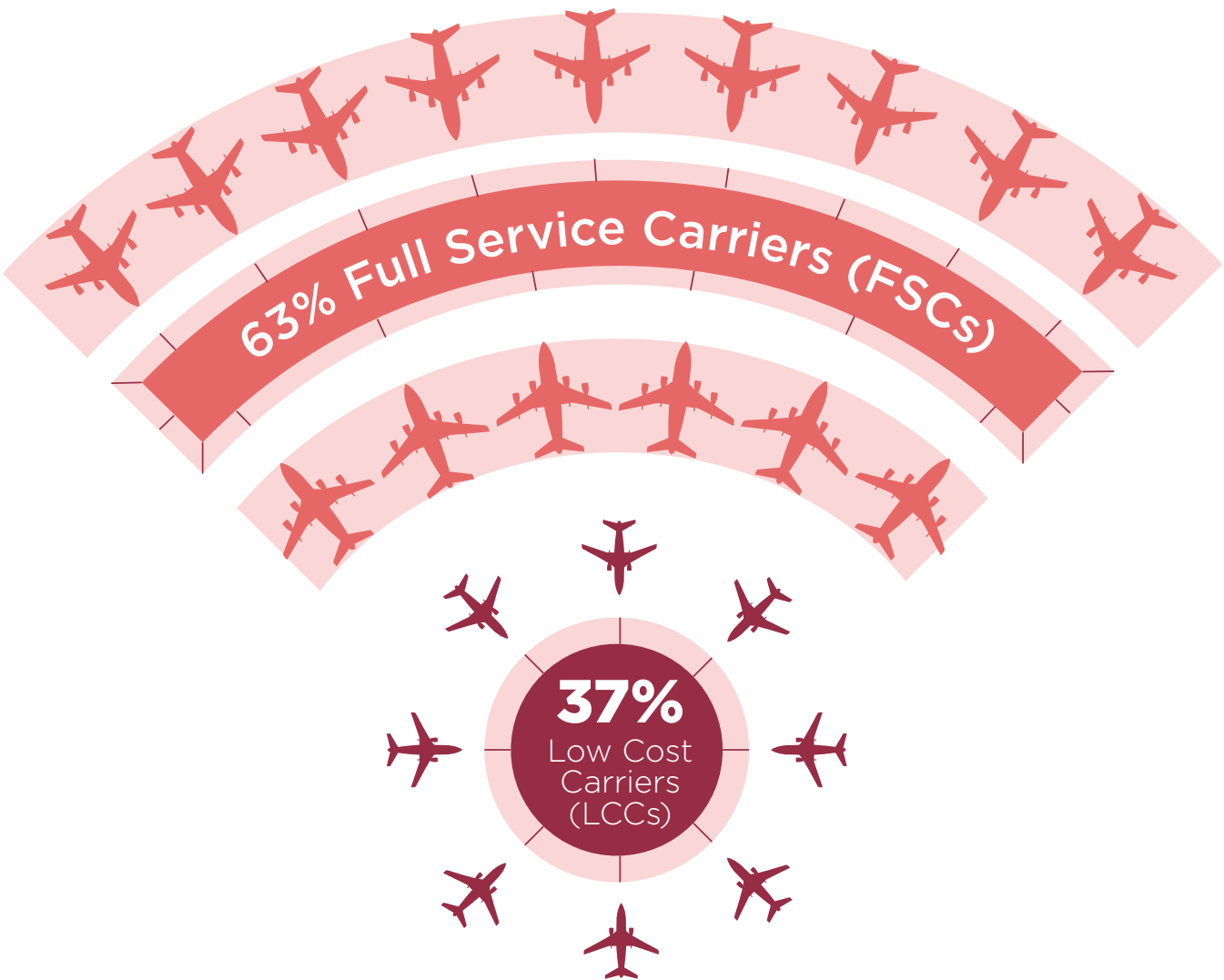
Growth in broadband enabled ancillary revenue will be driven by the introduction of new generation satellites. These address the key requirements sought by passengers that have been lacking to date in many cases, most importantly high bandwidth and continuous connectivity. Passenger surveys continue to confirm that these are integral components of quality, which remains the primary driver of broadband take-up, and that passengers are willing to pay more for high quality onboard connectivity.

“ At Lufthansa we always want to be at the forefront of technology, and that includes offering the newest digital passenger services. We are proud to announce that many of our short and medium haul routes will soon offer the opportunity to browse online and stream video, giving passengers total control to consume the entertainment they really want. Inflight connectivity allows us to offer truly enhanced individual experiences like never before, giving us the ability to improve the passenger experience and also expand ancillary revenue streams. ”

E. Rowley, Ancillary Services Category Management, Retailing/Duty Free & FlyNet, Lufthansa

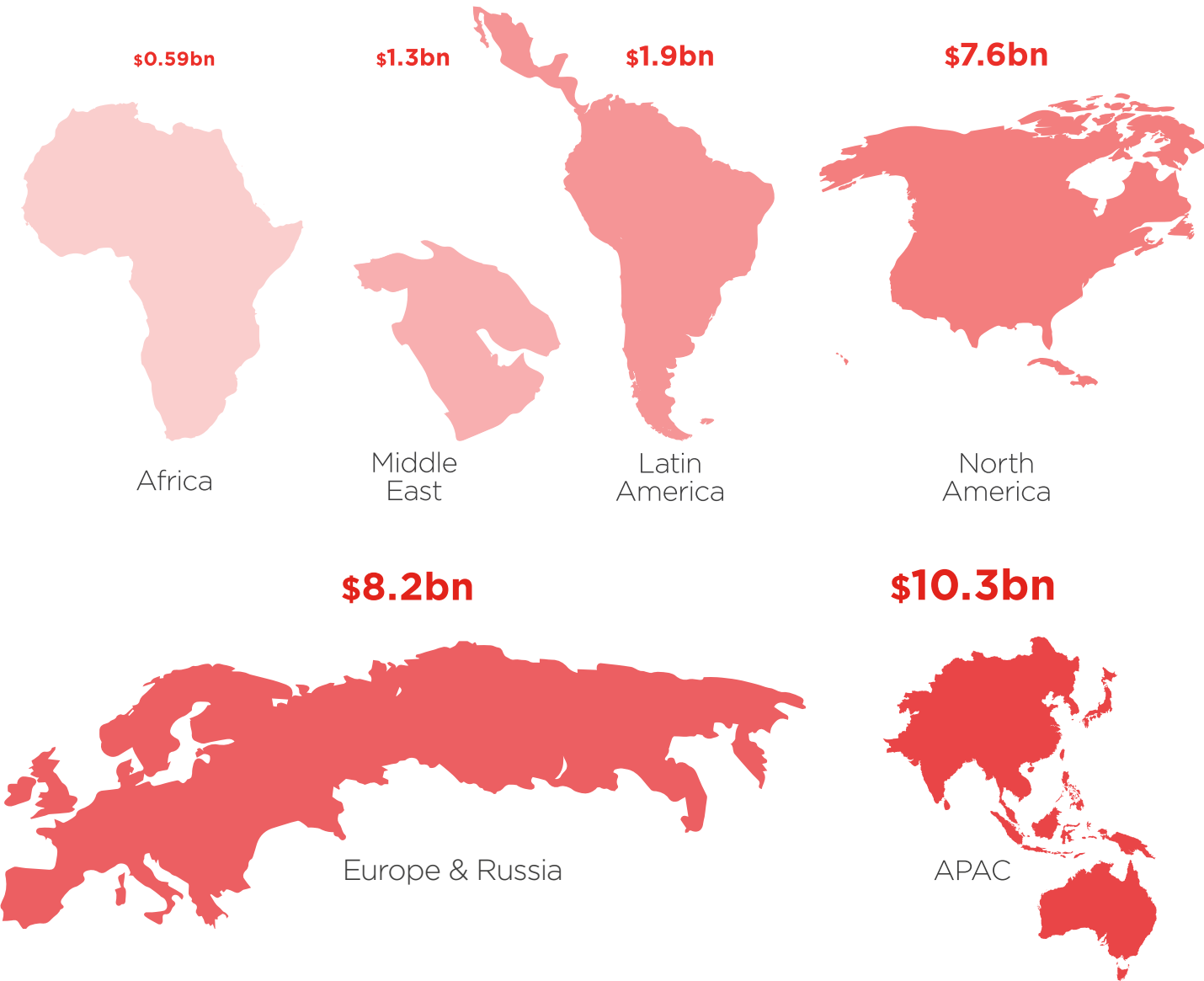
Connected ancillary revenue by carrier business model

When combined with a well-developed ecosystem of content, products and services, this can spur the development of related ancillary revenues from both leisure and business passengers on Low Cost Carriers and Full Service Carriers. Globally, Low Cost Carriers (LCCs) are forecast to account for around \$11 billion revenues, and Full Service Carriers (FSC) around \$19 billion. The capitalisation of opportunities presented by a connected cabin with high quality continuous coverage will depend on the degree that airlines are willing to engage with third party suppliers, retailers, destination companies, content providers and others.



The research study forecasts that by 2035, from the estimated \$30 billion airline share of the total broadband-enabled revenue of \$130 billion, Asia Pacific has the highest figure at \$10.3 billion, followed by Europe with \$8.2 billion, North America with \$7.6 billion, Latin America with \$1.9 billion, Middle East at \$1.3 billion and Africa with \$0.58 billion.

The value of connected ancillary revenue by region



The opportunity for revenue growth from broadband enabled services is dependent on airlines commercialising passenger data to a much greater degree than occurs currently. Today, only 11% of existing airline schemes offer personalised rewards based on purchase history or location data. More loyal customers can generate a 23% premium in profitability and revenue to airlines. Airlines today have failed to fully develop the potential opportunities offered by passenger data. Airlines are in the driver’s seat for realising a massive opportunity. By bringing together right technological, retail, advertising and content partners, airlines will be able to offer passengers the services they are asking for, whilst improving the bottom line. With the number of passengers currently flying every day forecast to almost double by 2035 this is a ‘sky high’ multibillion dollar opportunity for the global airline industry.

Fast Facts

- ✈ Sky High Economics is a three-part research study. It is the first research study of its kind to comprehensively model the socio-economic impact the connectivity revolution is set to have on the aviation industry. Chapter One explores the global value of broadband enabled ancillary revenues to the airline industry
- ✈ This research study will also include a later report looking at the potential benefits that connectivity will bring to Operations & Safety and the impact of passenger connectivity on Loyalty & Behaviour within the aviation industry
- ✈ The research study has found that connected ancillary revenue will be worth \$130 billion by 2035
- ✈ Next year the connected ancillary market is set to be worth \$3.8 billion, or approximately ten A380 aircraft
- ✈ For airlines, connected ancillary revenue will be worth \$30 billion in 2035. That’s more than IATA is projecting for the profitability of the global airline industry in 2017
- ✈ Fuelled by growing passenger numbers, APAC airlines will be the biggest beneficiary of this market, earning \$10.3 billion in 2035. They will be followed by Europe (\$8.2 billion), North America (\$7.6 billion), LATAM (\$1.9 billion), Middle East (\$1.3 billion) and Africa (\$0.59 billion)
- ✈ The global average for connected ancillary revenue per passenger in 2035 will be just over \$4. That’s a 1,717% increase on the projected 2018 figure
- ✈ Today, airlines earn \$17 per passenger from ‘traditional’ ancillaries such as duty free purchases and inflight food and drink, so connected ancillaries will add nearly a quarter to that figure (24.6%)
- ✈ The main source of revenue in this market will come from broadband access. In 2035 this will be worth \$15.9 billion to airlines. E-commerce (\$6.8 billion), advertising (\$6 billion) and premium content (\$1.4 billion) will make up the rest of the revenue
- ✈ Full Service Carriers will gain the lion’s share of the market, earning 63% of the revenue. Low Cost Carriers will also experience the benefits of the connected ancillary market earning 37%

This research represents forecasts and analysis undertaken through both primary and secondary investigation. The data are provided to illustrate potential market growth and are underpinned by assumptions and estimations. Any reliance on the information occurs at the risk and discretion of the user. No responsibility is taken for the use of information, with users encouraged to undertake their own analysis to validate any decisions.

