

Asian *Dynamos*

Uncovering Dynamics of Change

As Asia cements its position as the world's engine room, all eyes look towards how the various industries are adapting and in some cases evolving new models to suit 21st century demands.

Many industries in the Asia region are fundamentally changing to meet the needs of modern consumers and markets in a climate of developing technologies and government de-regulation.

How are the companies within these industries bringing about change? What are the economic consequences of innovation? What is the effect on businesses as the traditional ways of doing business come up against the demands of the electronic age? We find out from the personalities and powerhouses behind the region's phenomenal economic growth just what drivers are at work.

The Asian Dynamos series

The Asian Dynamos series, produced in association with Credit Suisse, will profile these developments and their global implications as they carve out a very different future for Asia. We track down the entrepreneurs whose pioneer spirit, unhampered by unwieldy business models and empowered by new technology, are forging ahead to challenge the status quo. They are nimble, and flexible, producing fresh ideas and new management paradigms to meet whatever the market throws at them.

Be they countries, governments, corporations or individual entrepreneurs, they encapsulate the essence of being Asian Dynamos. They are driving change, creating jobs and devising new strategies in high

growth sectors to invigorate the mature business models.

Over the coming weeks the Asian Dynamos series will delve into a multitude of industries, including property, publishing, commodities, media, logistics, semiconductors, technology, retail, financial and service sectors. The first in the Asian Dynamos series is "Budget Airline Revolution." Ultracompetitive, mould-breaking and adaptable, the budget sector of the airline industry is challenging all aspects of travel.

From seats for US\$15 to property prices in previously under-served hubs, the ripple effect of their unstoppable momentum is reverberating around the region. We look at the industry and the drivers within it.

Budget Airline Revolution

Anna Healy Fenton

"There's a new girl in town. She's twice the fun and half the price," read the copy line in the full-page advertisement in the

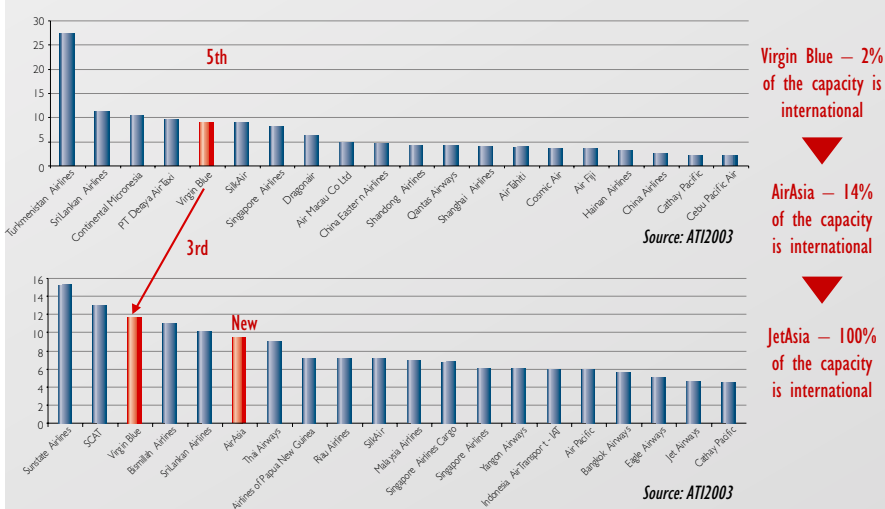


Tony Fernandes exudes energy as he bounds across the apron to shake his passengers by the hand as they leave the aircraft.

Singapore Straits Times. It was a swipe at the famous Singapore Airlines slogan, only this time the girls were four beaming AirAsia flight attendants. To add insult to injury, the background showed the city skyline, but with the landmark Singapore International Airlines building deliberately airbrushed out.

It was budget airline AirAsia founder Tony Fernandes up to his maverick tricks. He's one of the new generation of airline bosses: audacious, pushy and willing to slash through red tape. They're the new breed of dynamic Asian go-getters behind Asia's

The low cost carriers trend in Asia-Pacific is about to take off with growing net margins and a different low cost carriers service profile.



growing flock of no-frills carriers, paring costs to the bone with no airbridges, direct sales, paid-for food, free seating and rapid aircraft turnaround.

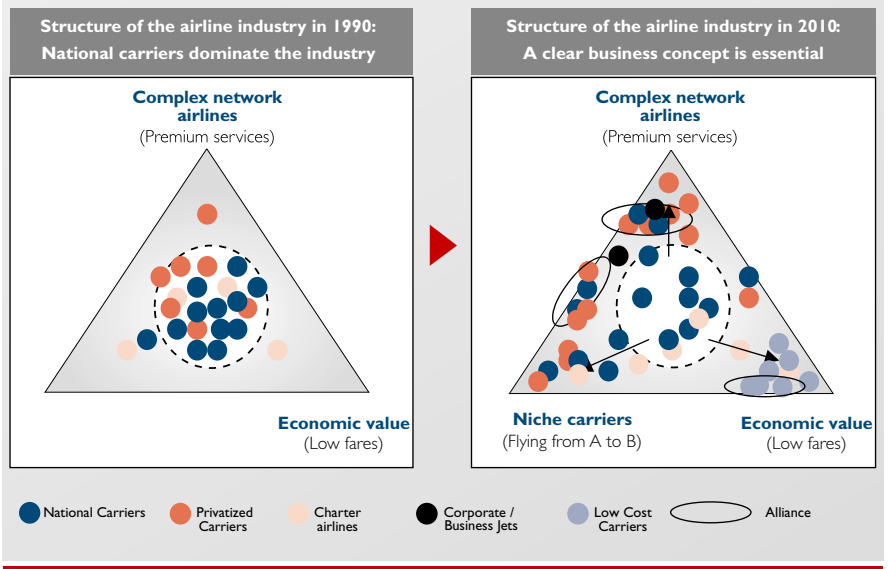
It may be off a small base, but Asia-Pacific's budget airlines are rapidly becoming a force to be reckoned with. Their very existence is fuelling the region's current tourism boom, as people who could never afford to fly before can now take a flight for as little as US\$15. The number of low-cost flights operating to and from Asia has rocketed by a phenomenal 666% since last year. While the number of services remains small, the low-cost business model is catching on fast with over 774 low-cost flights this month against a mere 101 in October 2004.

Even the more mature intra-regional low-cost market this month saw a 31% increase in available flights, according to Fred Seow, VP OAG Asia-Pacific. Thanks to local budget carriers Jetstar Asia and Tiger Airways, one in 10 flights from Singapore is now a low cost carrier. The budget share from Malaysia is nearer 30-40%, driven by the phenomenal success of AirAsia.

Asian countries remain dependent on government and airport support to create an environment where budget airlines can flourish. The attitude of regional hubs is critical: the Civil Aviation



Tomorrow's airlines will serve individual customer expectations with far more differentiated business models and service offers.



Authority of Singapore has embraced the low cost carrier idea and is building a dedicated budget terminal. Hong Kong International Airport has not gone that far, but has announced that it is building five aircraft stands away from the main tower. These allow for rapid turnaround and therefore lower parking costs.

Some established carriers such as Australia's Qantas have seized the new budget opportunities to stretch its model, cut costs and improve margin, while expanding its scope of operation. It has done this via its joint venture with Jetstar Asia. Now, with Jetstar International, Qantas is expanding its international network. The benefits include reduced costs on marginal and loss-making routes and entry to new long haul routes with a built-in efficiency advantage. If you can't beat them, join them, and other traditional carriers such as Thai Airways International have reacted to the industry changes by rapidly spawning low-cost subsidiaries.

Priced out of many regional hubs, budget airlines need secondary airports with low charges, such as Macau. They also rely on first-time fliers catching the air travel bug. It's early days for statistics, but indications are that business travel is increasing

incrementally too, as it becomes more cost effective. Thailand's Nok Air even offers a budget Business Class product, with inflight food and a newspaper. Many expect a surge in property prices in locations newly served by low cost carriers, as has been the case in Europe, but property analysts say it is too soon to confirm this effect in Asia.

Budget air travel may be new, but seems set to redefine the airline industry in Asia. "The legacy carriers in Asia Pacific have not yet fully understood the impact of low cost carriers and defined their response; but with such a high growth rate they better get prepared," says Beijing-based Mario M. Hardy, Commercial Director-Aviation; OAG Worldwide Ltd.

Asian Dynamos is a twelve-part sponsored advertising section series profiling the dynamics of change and changeleaders across Asia, brought to you by Credit Suisse. For more information on Asian Dynamos and its partners, see www.businessweek.com/asiandynamos or www.credit-suisse.com

