

PRESS RELEASE – September 2014

Despite an additional 1 million travellers, airlines may have lost money serving the Brazil World Cup

- Airlines changed their pricing strategy to benefit from the Brazil World Cup demand.
- But, business Class travellers stayed away and bargain-hunting football fans led to airline losses during the World Cup.

15 September, Nice, France - Air Cube (www.air-cube.com), a boutique IT and Business Intelligence Consultancy for the airline and airport industry, today released analysis showing that, despite record numbers of additional passengers travelling to Brazil for the 2014 World Cup, the event may have lost money for airlines.

It is estimated that an additional one million people travelled to Brazil in June to experience the sights, sounds and atmosphere of the 2014 World Cup held in football's spiritual home for the first time since 1950. However, even before the tournament started, LATAM Airlines Chief Executive, Eduardo Ceuto, warned that his airline could lose money during the tournament.

Air Cube analysed data, provided by partners Infare (pricing data) and Milanamos (booking and coupon data), from actual ticket sales on two specific routes - Madrid-São Paulo and Santiago de Chile-São Paulo - to shed light on how one of the world's greatest spectacles could cost airlines money.

Air Cube led a 2 steps analysis. First looking at airlines pricing strategy along the 6 months prior to the World Cup, and then looking at actual volume of bookings and revenues.

The first analysis reveals how airlines' pricing strategy changed between 2013 and 2014: published prices for a direct flight from Madrid to São Paulo departing June 2014 were on average USD 400 more expensive than the previous year; prices were also changed less in response to demand in the World Cup year - they were more "inelastic".

The comparison between 2013 and 2014 nicely illustrated the difference in price between a substitutable product and a non-substitutable product. In 2013 holidaymakers can choose a different destination if air fares are too expensive, whereas in 2014 football fans cannot travel elsewhere to see the World Cup.

"Despite those expected findings, we noticed a few but significant recurring patterns where airlines made special promotions aside from their mainstream pricing strategy," said Jerome Perez, Founder and CEO of Air Cube, "Scheduled promotions? Demand stimulation? We were eager to move to the booking analysis to find out more."

Hence, the second step of the analysis looked at how passenger volume, average ticket price and the share of business class travellers changed between 2013 and 2014 on the chosen routes.

In June 2014, 3,000 more passengers travelled from Madrid to São Paulo compared with a year earlier, an increase of 15%. However, a sharp reduction in business class travel - down by 30% in the World

Cup year - hit airline revenues hard. This brought the total average price paid for air tickets down by 30% in the World Cup year meaning that, despite carrying 15% more passengers, airlines earned 25 % less revenue on the Madrid - São Paulo route in 2014 than they did in the year earlier.

"When we started this analysis, we were fully expecting to find that airlines had enjoyed a windfall taking fans to Brazil to watch the World Cup," said Jerome Perez, "But what we actually found was something more interesting which gives us an insight into the key drivers in the airline business; the effect of the World Cup seems to have been to attract a high number of very price-sensitive customers but, crucially, to dissuade more profitable business customers from travelling at all."

Looking at a different route, Santiago de Chile to São Paulo, we see similar findings albeit slightly better news for airlines. In 2014, over 50%, or 13,000, more passengers travelled to São Paulo. But in this case revenues also grew, by 17%. However, revenue grew a lot less than passenger volume; in that respect it is a similar finding to that on the route from Madrid: average ticket values dropped. Crucially, the number of business class tickets increased slightly helping to maintain growth in overall revenue. In other words, by securing the level of business passengers, airlines secured their overall revenues.

In summary, even if we cannot generalise this analysis to all routes, dates and passenger profiles, it is interesting to see the gap between airlines pricing strategy and actual revenues generated.

Notes

Established in February 2011, Air Cube is a Consulting and Travel Technology company with headquarters in Sophia-Antipolis, France. Our core value relies on our transversal expertise of the aviation industry. For a sustainable development we aim at covering your whole ecosystem, going beyond a sole business activity, a sole industry sector. Air Cube specializes in tailor-made Visual Data Analytics Solutions turning big data into actionable data. Air Cube's founder, Jerome Perez, is a 20 years experience's aviation industry expert.

For more information:

<http://www.air-cube.com/#showcases>

https://m.youtube.com/channel/UCtsXi_rYbE2pEbkUhuyJvJQ

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Data sources:

www.infare.com

www.milanamos.com

Other sources:

<http://blogs.wsj.com/dailyfix/2014/07/15/brazil-welcomes-one-million-world-cup-tourists/>
<http://online.wsj.com/news/articles/SB10001424052702304157204579473903915971312>
<http://www.flightglobal.com/news/articles/iata-latam-will-lose-money-during-world-cup-399914/>

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