

The
inside
report

AIRASIA

HOW TO
CREATE A
CONNECTED
AIRLINE

Airline Challenges

How cutting-edge tech helps capacity growth

Next-Gen Connectivity

Future-proofing the customer offering

Tony Fernandes

Group CEO of AirAsia on the digital revolution


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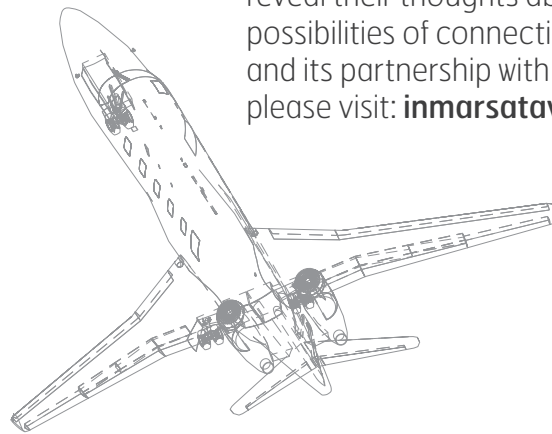


AIRASIA AND CONNECTIVITY

Some airlines just instinctively understand the transformative qualities of high-quality, high-speed inflight connectivity.

AirAsia, propelled by its imaginative CEO **Tony Fernandes**, is one such carrier.

In this exclusive report, Fernandes and his team reveal their thoughts about the game-changing possibilities of connectivity, the company's ambitions and its partnership with Inmarsat. For the full report, please visit: inmarsataviation.com/airasia



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RISING HIGH

In an in-depth interview with AirAsia Group CEO Tony Fernandes he tell us why aviation's digital transformation is enabling him to dream big once more.

Thanks to the long-term planning of its visionary co-founder and group CEO, Tony Fernandes, AirAsia is regarded as one of the most innovative airlines flying today. And for innovative, read 'digitally focused'. Fernandes has long spoken of his dream for AirAsia to evolve into a digital company and every day sees him closer to realising that ambition.

In 2001, he bought the ailing carrier for the nominal sum of RM1 (approx \$0.25) and within two years he had paid off the carrier's RM40m debt (approx. \$9m) and begun the process of transforming it into one of the largest low-cost airlines in the world.

Helping to sustain his goal of digitalisation has been AirAsia's fruitful partnership with Inmarsat. By the end of 2019, Inmarsat's GX Aviation – the world's first inflight connectivity with seamless, reliable high-speed global coverage – will form the backbone of the airline's digital cabin offering.

These transformations come against an exciting backdrop for the wider Asia-Pacific (APAC) region. As passenger numbers grow globally, the region is set to lead the way in terms of flyers and the number of new aircraft put into service to meet this demand. It's forecast that the region will account for 40% of the 37,000 new aircraft that will emerge in the next 20 years. This will naturally have a knock-on effect for airlines looking to offer inflight broadband in the region. Fernandes' long-term strategy is well-placed.

So when he speaks about his digital vision for AirAsia and his hopes for aviation's wider inflight connectivity (IFC)-fuelled revolution, it's always worth listening. In a revealing conversation with Inmarsat's Regional Vice President for Asia Pacific, Chris Rogerson, the pair discuss everything from the challenges involved in embracing Wi-Fi in the sky to connectivity's role as the great enabler.

*“ We cannot
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and I count
Inmarsat as
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great partners ”*



THE DIGITAL REVOLUTION

Innovation, transformation and dreaming big

Since purchasing AirAsia, innovation has been the central pillar of Fernandes' vision for the airline. In recent years, this has meant transforming AirAsia from its low-cost airline roots into a forward-thinking, travel and lifestyle company. In short, to be a tech and digital driven operation that can utilise the industry's ongoing and comprehensive digital revolution.

According to Fernandes, the scope of digitalisation is so broad, no aspect of the business is left untouched.

"The first stage is digitising the airline and using the digital world to make this customer experience better," he explains. "To make working in AirAsia better, to be able to sell better and use the digital knowledge and data to cut cost."

"The first stage is digitising the airline and using the digital world to make the customer experience better"





Aviation's connectivity revolution has really taken off in Asia-Pacific in recent months. The first thing to mention is that there has been a boom in passenger numbers in the area, with the volume of flyers forecasted to reach 8.2 billion in 2037.

And as passengers begin to see no difference between their digital lives on the ground and in the air, this has translated into a higher propensity for high-quality inflight broadband. Indeed, according to the Inflight Connectivity Survey 2018 conducted by Inmarsat, together with Populus, three quarters of passengers (72%) who had access to inflight Wi-Fi in the past year chose to use it – the highest of any region globally.

Chris Rogerson attributes much of this transformation to the pioneering work done by the 'digitally focused' AirAsia.

"There's a recognition that in any industry, in order to grow you need to innovate," he says. "And connectivity is going to be at the heart of that because data is considered the new oil. AirAsia carries more than 80 million passengers every year (44.44m in 2018, an increase of 14% on 2017). So the value of that data that those passengers are giving from the booking process, during the flight, and after, is a really valuable asset that they can monetise."

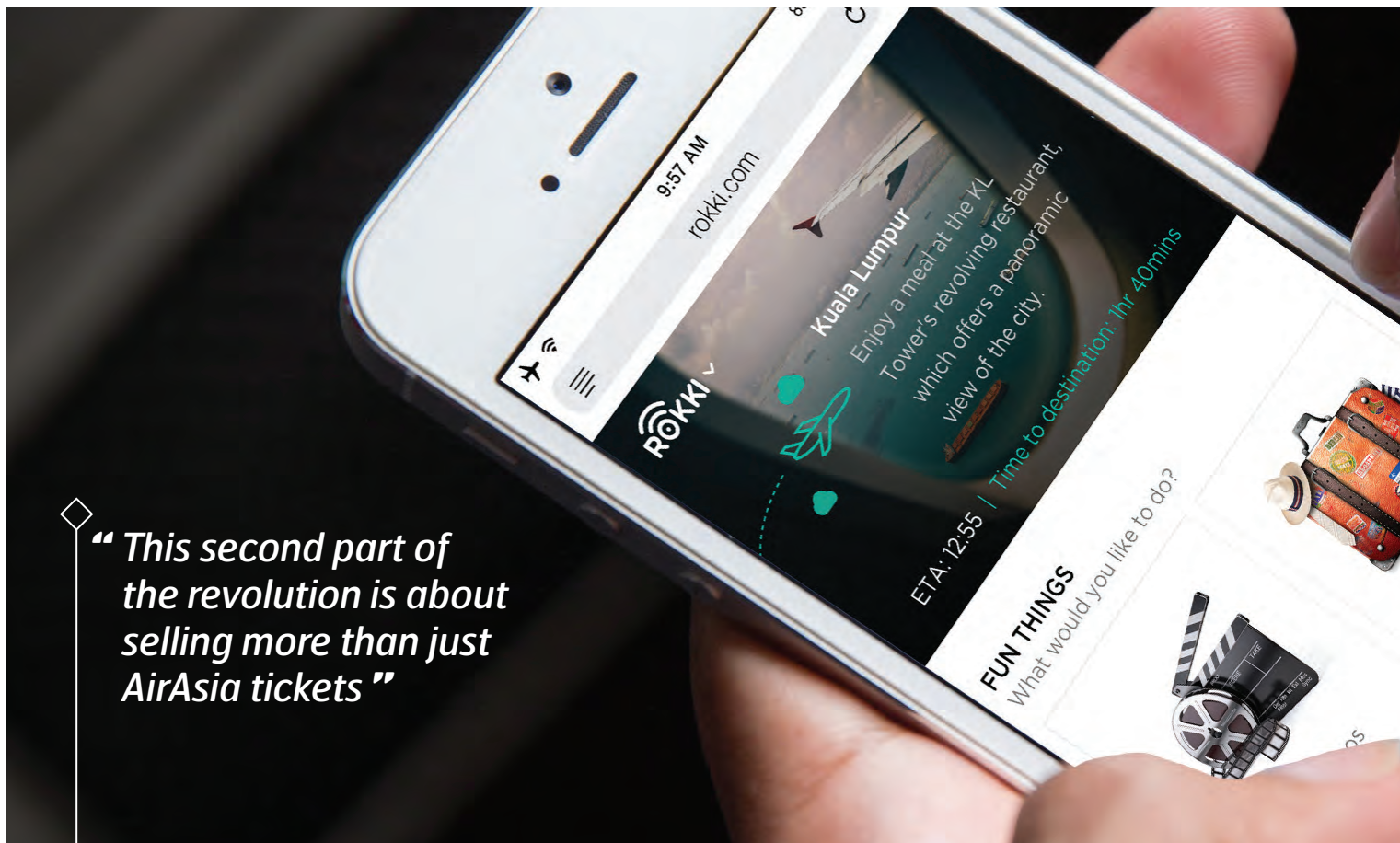
**AIRASIA
CARRIED
44.44 MILLION
PASSENGERS
IN 2018 - 14%
UP ON 2017**

Fernandes has been very vocal about his ambitious digital plans for his award-winning airline. He recently stated that he wanted 60% of AirAsia's profits to come from digital ventures. And in a similar vein to the way that Amazon now sells everything from books to food, Fernandes envisages AirAsia using the very rich and sophisticated data it accrues from its passengers in order to serve them better.

In short, much like Inmarsat's other forward-thinking clients, such as Lufthansa, Avianca, Air New Zealand, Qatar and Citilink, who all use connectivity to enhance passenger experience, unlock the potential of ancillary revenue and drive customer loyalty, aviation's digital transformation is allowing Fernandes to dream big. He says: "This digital revolution has given me renewed energy to keep going."

CONNECTIVITY AND THE PASSENGER EXPERIENCE

Enabling a better broadband experience for passengers is key



“This second part of the revolution is about selling more than just AirAsia tickets”

ROKKI, AirAsia’s inflight entertainment and connectivity platform, has consistently hailed high-speed broadband as the enabler of aviation’s digital revolution. The agreement to install Inmarsat’s next-generation high-speed broadband service, GX Aviation, is significant for two crucial reasons.

First, it provides AirAsia’s customers with an innovative IFC service. “Inmarsat is the partner to be able to provide this seamless high-speed internet experience across our entire fleet,” Murain Shunmuganathan, Chief Digital Services Officer from ROKKI, notes. This is backed up by Fernandes.

“This second part of the revolution is about selling more than just AirAsia tickets,” he says. “And using the data, and using the ability to communicate with our guests not just on the ground, with

Inmarsat we are now able to do it in the air. And we’re able to use data to better transact with our customers.

“So, we’re on Inmarsat when you are in the sky and you are using the Wi-Fi, traditionally people look at it as just putting content on there, right? We now have the ability to continue the selling experience.”

And with a high number of ultra-connected millennials among its customers, being able to provide a broadband solution in the sky that replicates the service they take for granted on the ground is an absolute must.

“If you’re thinking about a desire for data,” says Chris Rogerson, “the millennials, and even more so Gen Z, will have an even higher desire. They are demanding to be connected at every single point of their journey and that’s becoming the norm.”

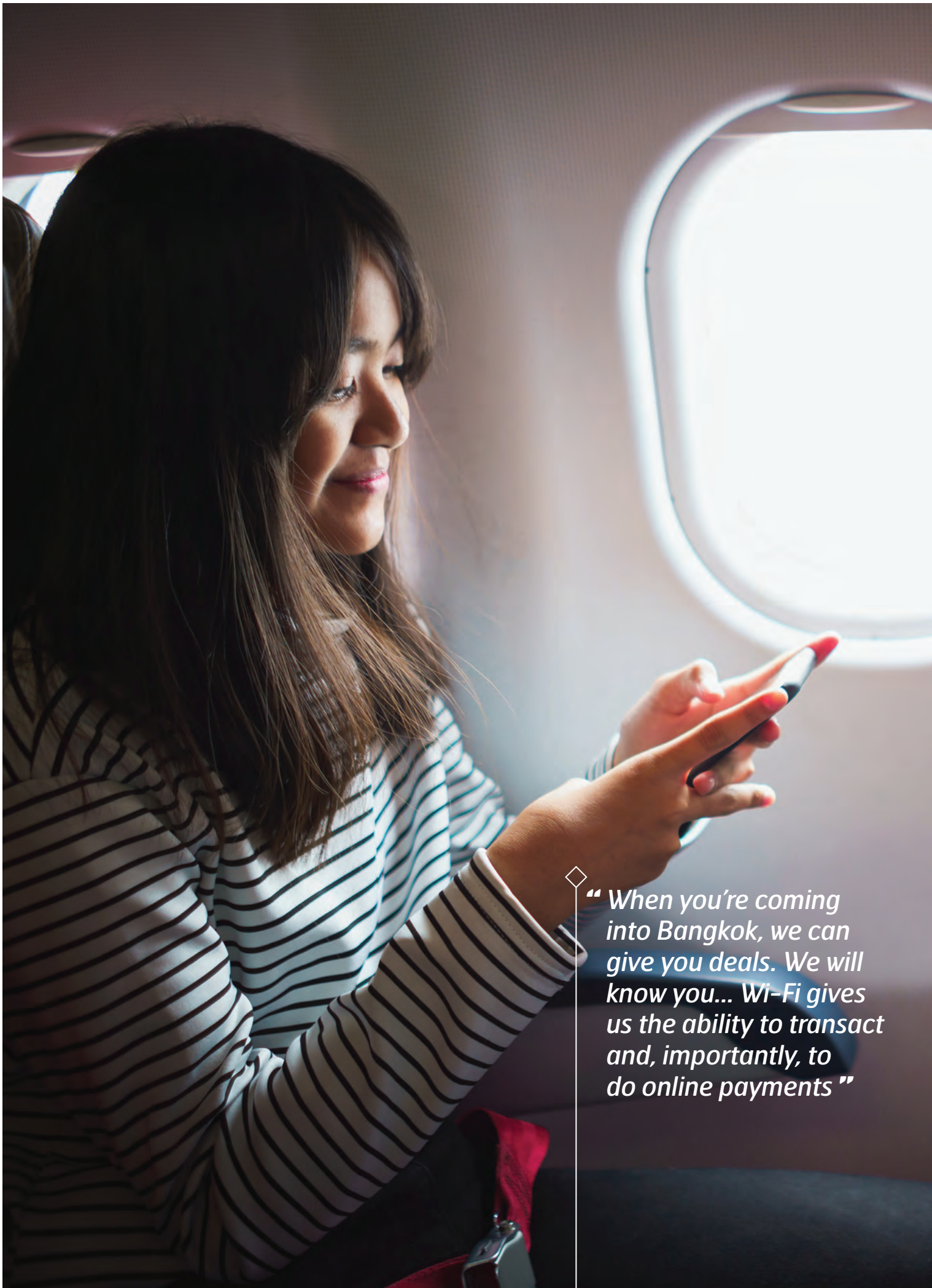


INFLIGHT- ENABLED ANCILLARIES WILL BE WORTH \$30.1bn BY 2035

Moreover, GX enables AirAsia's burgeoning digital ecosystem to flourish. High-speed broadband unlocks ancillary revenue as it supports e-commerce, personalisation, analytics and mobile payments. This brings relevance to its customers, therefore enhancing passenger experience immeasurably.

The first London School of Economics Sky High Economics survey found that the value of inflight broadband enabled ancillaries would be \$30.1bn by 2035. Dr Alexander Grous, the author of Sky High Economics, said that the Asia-Pacific market was set for the biggest global boost. He predicted airlines in the region were set to benefit from a \$10.3bn boost in ancillary revenues.

"This is an exciting time for airlines in the region... there is \$10bn in new revenue streams on the cards for airlines to play for. Interestingly, and reflective of IATA passenger growth forecasts, this figure outstrips those predicted for Europe and North America."



“ When you’re coming into Bangkok, we can give you deals. We will know you... Wi-Fi gives us the ability to transact and, importantly, to do online payments ”



CONNECTIVITY AS A PLATFORM

The opportunity to better understand customers will drive revenue

Much like the number of passengers in the air, customer demand for IFC is only going in one direction: up.

Inmarsat's fourth annual Inflight Connectivity Survey discovered that of those that feel Wi-Fi is fundamental to daily life, 66% also believe inflight Wi-Fi is an 'absolute necessity'.

**66% OF PASSENGERS
BELIEVE INFLIGHT WI-FI IS AN
"ABSOLUTE NECESSITY"**

In APAC, this is even more acute – 78% of respondents across the region felt IFC was an absolute necessity. According to the Digital in 2018 report by We Are Social and Hootsuite, APAC is now home to over two billion internet users, equating to a penetration rate of 48%.

This presents a huge opportunity for AirAsia. Utilising the rich and sophisticated data that high-speed broadband gives them means it can better serve its passengers.

"When you're coming into Bangkok, we can give you deals," explains Fernandes. "We will know you. We will know what kind of deals you would like. We can give you more hotels to choose from when you're coming in. As well as having some content. Crucially, it can capture the entire experience. Right now we know when they buy from us, we know what they do, we know when they come to the airport, but we lose what they like when they're on the plane. By having our relationship with Inmarsat Wi-Fi, we can get to know our customers better."

This ultimately serves to underpin Fernandes' dream of being more than just an airline.

"I don't want to be known in years to come as an airline," he says. "I want to be seen as a mobility player that also provides more than just moving people from A to B."

PERFECT PARTNERSHIPS

Unlocking the potential of high-speed broadband

Since 2014, Inmarsat and AirAsia's alliance has really developed into a partnership of equals. The airline began by using Inmarsat's SBB solution and thanks to Inmarsat's commercial reliability and excellent track record, adding GX Aviation was a logical step.

Sargunan Seenivasan, CEO of ROKKI, admits that because of Inmarsat's comprehensive coverage, and allied to the creative partnership that has developed between the two companies, it can attract new partners and new advertising models – fulfilling the potential growth of broadband-enabled ancillary services.

"Based on these two qualities of the service," he says, "we believe that there are new partners and new advertising models that we can develop based on GX as the enabler. On top of that, with the strong connectivity and fast internet it goes back to the customer experience of fulfilling their e-commerce experience. So with the fast internet services you can buy products faster and get it delivered on board or to your home much faster than normal."

And despite operating in different time zones, Lalitha Sivanaser, ex-CEO of ROKKI and current CEO of OurShop, heralds the support Inmarsat provides as and when required.

"I don't see us as a transactional relationship," she explains. "We are more on a partnership basis."

This is something Fernandes is happy to confirm: "Your CEO and your management team have been fantastic. I wouldn't be doing this if I didn't believe you were great partners, right? I'm not paying you to do this, and we generally love partnerships."

"We cannot succeed without great partnerships... and I count Inmarsat as one of the great partners for us, in transforming us from just another airline"





MEASURING SUCCESS

Ambition fuelling change

So what does success look like? Fernandes acknowledges that a key metric is the number of users stating they fly with AirAsia because of the strength of its connectivity. He says that he wants a penetration rate of 60-70%. An ambitious target, he concedes, but one that is comparable to any coffee shop.

“You see many restaurants and fast food places... whether it’s Coffee Bean or Starbucks,” he explains. “The vast majority of people sitting down there are using the Wi-Fi.”

Crucially, the consumer is embracing digital behaviour more and more, Shunmuganathan, CDO of ROKKI, points out that in March 2019, customers paying by credit card versus cash was now split 60/40 in favour of credit cards. A year previously this figure had been weighted in the opposite direction.

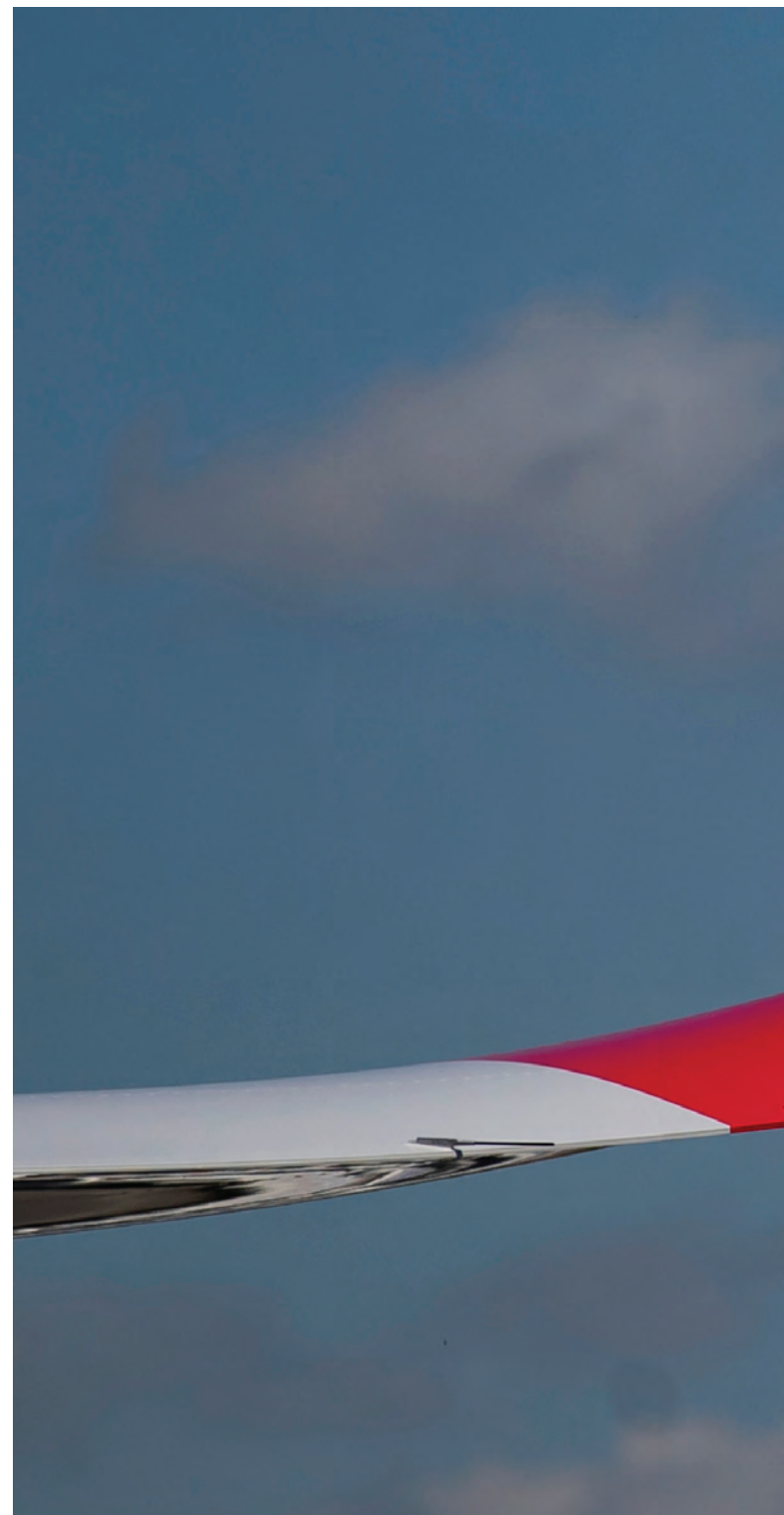
Change, quite clearly, is happening rapidly.

AIRLINE CHALLENGES

Encouragement, education and engagement

Despite what some historians might try and tell you, revolutions don't happen overnight. Consumer behaviour doesn't radically change in the blink of an eye. Initial adoption of a new technology can be slow and cautious. However, once a critical mass is reached and the tipping point of wider, mainstream recognition is reached, then acceptance can be rapid – as we are currently seeing.

AirAsia has faced a number of challenges as it continues on its digital journey. It hasn't been a case of just 'install it and they will use it'. People have had to be persuaded. This is where the partnership with Inmarsat has paid dividends. When AirAsia realised that a degree of education to the end user was required, it sat down with Inmarsat and rebuilt its business model. And once engagement was there and passengers got used to the idea of being seamlessly connected in the sky, adoption has been enthusiastic.



Lalitha Sivanaser, Ex-CEO of ROKKI and current CEO of OurShop, says that today the business is fundamentally driven by e-commerce, advertising, connectivity and an entertainment platform that is fuelled by this connectivity. It's also learning a lot about its customers through the data it accrues and this has led to new ways of personalising messages or targeted adverts to these passengers.

"To summarise," Tony Fernandes says, "connectivity is our enabler to many, many other services."

And not only is GX Aviation built from the ground up – specifically for aviation – it's future-proofed too.



“Connectivity is our enabler to many, many other services”

“If you think about our future ambitions in terms of the network evolution, every single capacity that we’ve put up now will be perfectly suited and built for the aviation market,” says Inmarsat’s Rogerson. “So we can now be confident when we talk to the airlines that not only are they going to be connected now globally where they go, but in 5-10-15 years’ time, as their networks and as their passengers grow and demand more data, our network is going to be suited to that demand.”

As demand grows, so will capacity. Inmarsat recently signed a deal with Airbus to develop its GX network to power GX Aviation for airlines through Inmarsat’s newest fleet of satellites, breaking new

ground for inflight connectivity. As part of the deal, the three satellites - GX7, 8 & 9 - which are scheduled to launch from 2023, will enable airline and business aviation customers to benefit from the satellites’ real-time mobility and thousands of dynamically formed beams that can direct capacity with laser-like precision over high-demand areas.



THE FUTURE OF CONNECTIVITY

Looking ahead to 5G, AI and the power of blockchain

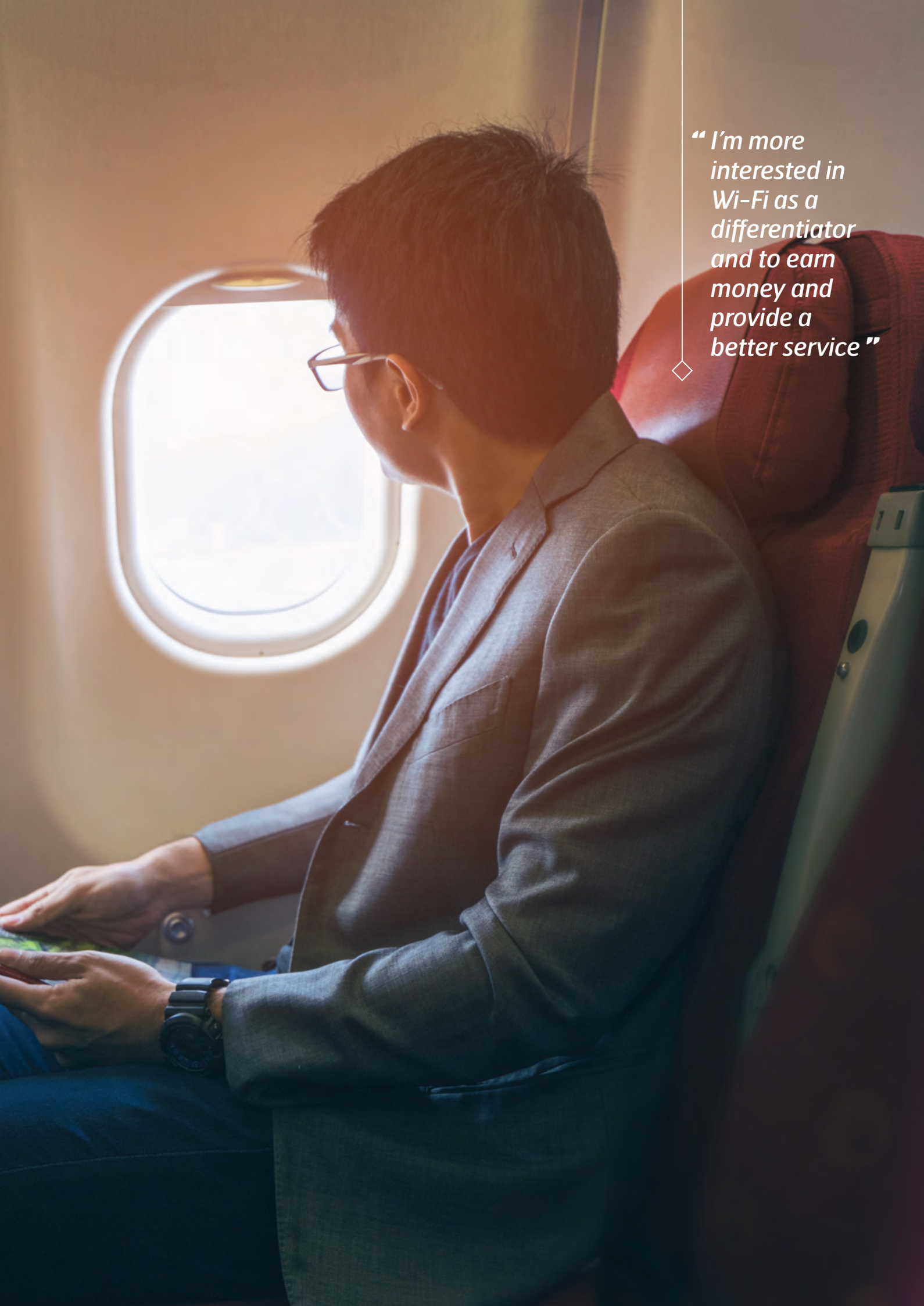
Predicting the future can be a thankless task, but Fernandes has a few ideas regarding what connectivity will look like in the years to come. Unsurprisingly, the backbone of IFC is the enabling qualities connectivity brings. To that end, Fernandes doesn't predict making vast sums of money from Wi-Fi. Broadband is already a utility.

"I don't anticipate making any money from Wi-Fi in the long run," he reiterates. "This is because it's become a commodity. I'm more interested in the content that we provide and obviously the service that you (Inmarsat) provide on the reliability to make it a differentiator and to earn money and provide a better service through that."

As the opening two chapters of the LSE's Sky High Economics survey demonstrate, IFC has the ability to both deliver extra revenue and reduce operational costs. Future benefits will come from the advent of 5G technology, Artificial Intelligence (AI) and blockchain technology.

The outlook for Asia-Pacific is particularly positive. According to the first Sky High Economics survey, connected ancillary revenue will generate a total market worth \$130 billion in 2035. Fuelled by growing passenger numbers, airlines in Asia Pacific will benefit from a \$10.3 billion boost in ancillary revenues, making this region the largest single market for broadband enabled services globally in the next two decades. ➡

**THE BIG BOOST:
AIRLINES IN
ASIA-PACIFIC
WILL BENEFIT
FROM A \$10.3bn
INCREASE IN
ANCILLARY
REVENUES**



“ I’m more interested in Wi-Fi as a differentiator and to earn money and provide a better service ”

THE FUTURE OF CONNECTIVITY

The third and final chapter of the Sky High Economics also points to ways in which airlines can capitalise on changing passenger demographics and behaviour. It indicates that by 2028 the next generational cohort – Generation Z – will account for 1.2bn passengers flying each year. These digital natives are less interested in airline loyalty schemes than high-quality inflight connectivity. They don't wish for inflight broadband; they expect it.

As such, one of the most significant takeaways from Sky High Economics 3 is that an annual \$33bn market is waiting to be secured by airlines that are willing to offer the Wi-Fi experience these passengers want. All this will have implications for Fernandes, AirAsia and the wider aviation sector in the coming years. As one of the most digitally innovative and forward-thinking carriers, by acting now AirAsia can anticipate a generous slice of this \$33bn pie.

With that in mind, Fernandes looks forward to the day when people say his decision to transform AirAsia into 'more than just an airline' was clearly the right one. And that Inmarsat remains a trusted and valued partner at every stage.

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SEAMLESS BROADBAND.
WHAT WILL IT DO FOR
PASSENGER EXPERIENCE?

BRING IT  ON



Reliable, high-speed inflight Wi-Fi lets data-hungry passengers stream, chat and browse in the air just like they do at home.

But seamless passenger connectivity means more than just social media. For airlines it's a platform to launch service innovations like personalised IFE – new ways to create brand engagement that drive loyalty and market share.

Set a new benchmark for passenger experience with the world's first truly worldwide inflight broadband.

Find out more about GX Aviation at
inmarsataviation.com/paxex



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