A new era of personal aviation

How digitization is disrupting the business aviation industry and injecting it with new life
We are pleased to present the results of our study today –
Thanks to everyone who has contributed along the way

Study and participants

More than 30 industry experts participated via interviews

We collected more than 700 individual answers to 10 questions in an online survey

1. Industry associations
2. Ground Suppliers
   - Airports
   - FBOs
   - Services
3. Experts & Media
   - Consultants
   - Leading trade publications
4. Aircraft Operators
   - Aircraft Management Companies
   - Taxi operators
   - Fractional operators
5. Charter broker
   - Traditional brokers
   - Online disruptors
   - Charter market place providers

Source: WINGX; Roland Berger
In a nutshell – We believe that digitization will encourage the emergence of a new segment of 'personal aviation' 

Big 3

- In less than 2 years the supply side of the market should have a seamless chain linking inventory availability to spot charter pricing
- 81% of our surveyed industry experts think a new low-end market segment ‘personal aviation’ will emerge
- 70% of the global charter market will be served by online brokers whose number will consolidate to 5-10 in the long run

Source: Interviews; Online survey on CorporateJetInvestor.com; WINGX; Roland Berger
In addition to executive interviews and an online survey there is evidence in the activity data showing the "digital momentum"

Where is the evidence?

We have conducted interviews and surveys with business aviation industry executives across the supply chain to test our hypotheses with your views.

We have benchmarked the recent adoption of digital platforms in business aviation with prior waves of digital disruption evident in all other mobility sectors.

We have noted the recent growth in business aviation charter market activity and evidence that momentum is being provided by digital disruptors.

Source: WINGX; Roland Berger
In recent years, digitization has transformed industry, challenging traditional business models and creating new competitors.

Business aviation is one of the last undigitized sectors...

Before digital disruption...

Music
- SONY
- UNIVERSAL
- EMI

Media
- BLOCKBUSTER
- FINANCIAL TIMES

Travel
- TUI
- Hilton
- Thomas Cook

Mobility
- TAXI
- SIXT
- DAIMLER

BizAv
- NETJETS
- JETAVIATION
- TEXTRON
- AIR PARTNER

...and after

- Spotify
- MUSIC
- SOUNDCLOUD

- Twitter
- Facebook
- LinkedIn
- NETFLIX

- Airbnb
- Expedia
- KAYAK

- UBER
- zipcar
- CAR2GO
- DriveNow

Which industrial landscape will emerge?

Source: WINGX; Roland Berger
Digital business models are all about connecting dynamic demand and dynamic supply.

Typical value add of digital business models and exemplary companies:

Supply

Digital matchmaking platforms

Demand

- Digital platforms are often matchmakers to better connect a fragmented/dynamic demand side with a fragmented/dynamic supply side.
- For scheduled inventory this is not too challenging and is already quite mature, e.g. airline or hotel e-booking companies.
- For dynamic inventory this is much more challenging – Much later penetration by digital contenders, e.g. Uber within taxi market.
- Private Jet market also characterized by a very dynamic supply – Question is whether it is too challenging.
- So far traditional business models like fractional ownership or charter are still dominant in Private Jet market.

Source: WINGX; Roland Berger
Digital disruption in the travel industry has accelerated in the last 10 years – The race is now on towards fully commoditized mobility

Digital disruption waves in the travel sector

**GDS**
Birth of travel agencies

The **first revolution** started in 1960’s, fueled by the **commercial development of air transportation** under the IATA umbrella. Huge leap, enabling airlines to instantly look up availability throughout their network. Airlines outsourced to Global Distribution System (GDS) and this heralded the golden age of travel agency industry

**Internet**
Birth of internet travel agencies and corporate travel

The **second revolution** started with the rise of the World Wide Web on top of the growing Internet network. The **Online Travel Agency phenomenon** shook up the ecosystem by offering to the traveler the capability to compare and book fares online. These companies understood very quickly that the building up their own supply chain was also key to their offering

**SoLoMo**
Sharing, user generated content, direct booking

The **third revolution** resulted from the expansion of the Internet to **mobile devices** and add to it the **wisdom of the crowd**. Social, Local, and Mobile (SoLoMo) led to creation of companies like TripAdvisor (user ratings), Hotel Tonight (mobile only, last minute hotel booking). It was also the beginning of the sharing economy, a major disruption force, which led to companies like AirBnB and Uber.

**Mobility**
Live door to door multimodal journey

The **fourth revolution** in the travel industry is about commoditization of the core mobility and travel services offered and their pervasive distribution in all possible digital and physical channels

Source: Skift; WINGX; Roland Berger
The digital disruption of the town taxi market is an interesting benchmark – How to match dynamic demand and supply?

Case study – Uber

Enormous growth of Uber has not just taken share but hugely increased market size. Simple key: make inventory easier to find and easier to pay for

Source: Financial times; WINGX; Roland Berger
Long term trends in business jet deliveries and flight activity indicate an industry still struggling to emerge from a long recession.

Flight activity and aircraft delivery


Remarks & Observations

> Business aviation has still not recovered from the Great Recession. Global sales of new business jets this year are forecast to fall at least 40% short of comparable sales in 2008. Why has this industry not managed to regain its market?

> Few businesses and entrepreneurs would consider using business aviation, considering it an unnecessary luxury, despite knowing very little about it products, pricing or operators. Why are potential users of business aviation not aware of the product?

> In contrast to the constant evolution of cutting-edge technology in business jets, the way in which time on business jets is chartered is still done in much the same way it was 15 years ago. Why is there such a contrast with any other travel sectors, which have been turned upside-down by digitization?

Source: Teal Group; GAMA; company reports; J.P. Morgan estimates
Access to business aviation: compared to renting any other ‘mobility’ service, chartering an aircraft is an inconvenience

Chartering a jet takes ages to review, choose, select and pay for

**Travel Sector experience**

> Instant online mobile access to wide range of travel services
> Comparison of different mobility options for any schedule option
> Open data sources and geo-tracked inventory mean that ‘operators’ can instantly allocate
> Customer can easily compare and contrast all options by any preferred criteria
> Customer can also get peer-review on travel supplier
> Purchase is instant, availability guaranteed,

> Until recently, aircraft options were not visible to end user; dependent on broker intermediation
> Not possible to compare business jet options with other transportation alternatives
> Most operators still scheduling off-line/in-house. Some way from standardized inventory API.
> Customer gets superficial comparison but rarely on guaranteed price and availability
> No meaningful historical customer feedback to refer to. Industry ratings not comparable.
> Availability and transaction negotiated/agreed off-line

Source: WINGX; Roland Berger
Why has business aviation not developed a mature digital market place before now?

Number one underlying problem

Supply fragmentation

(77% of active aircraft in Europe belong to fleets of 5 or fewer)

Source: WINGX; Roland Berger
In the absence of an online market, fractional/card exploited gap between expensive ownership and opaque charter spot-market

Business model development over time

Remarks & Observations

> Full ownership is the traditional model of business jet access but no more than 20k owners worldwide, 50% HNWI, with a market of 500-1000 new ac per year.

> Charter always there, but opacity and unreliability of the spot-market has artificially limited market, perhaps 100,000 users worldwide.

> Fractional ownership successfully exploited the gap for guaranteed price & availability without ownership cost. Cards soaked up excess capacity.

> Post-recession risk aversion to asset-ownership saw large scale exit from Fractional programs.

> Wrong time to win newcomers, but opportunity to build new models around dissatisfied users.

Source: WINGX; Roland Berger

Digital story in the business aviation charter market

| 2005-2008 | Wholesale market for matchmaking operators and brokers disrupted by Avinode, progressively successful in becoming hub for brokers to find operators |
| 2009-2012 | Early efforts to create retail matchmaking platforms for customer and mostly failed. Similarly, numerous air-taxi operators aimed to leverage early ecommerce platforms struggled to get right model & execution, largely swept away by recession. |
| 2012-2017 | A few online charter brokers survived long enough to gain traction in the market. Successful focus on 'hybrid' model: traditional expert concierge, but leveraging digital platform to increase speed & efficiency and get best prices (reverse-auction) |
|  | Not a major concern for traditional brokers: online 'registration forms' easy to emulate, more fundamentally, belief that core charter customer would never buy online |
|  | More recent online brokers start-ups have focused on working out how to provide instant inventory availability and pricing. Various methods include a) integrating into operators’ scheduling platform b) creating pricing engine c) pre-purchasing distressed inventory |
|  | Potential for growth in the charter market has also attracted new operators and innovative business models, with digital platforms at the core of their operating platforms |

Source: WINGX; Roland Berger
The current supply chain for inventory distribution is still mainly offline. Very little evidence of end-to-end digitization.

Supply chain for distribution of charter inventory from operators to customers

Source: WINGX; Roland Berger
Currently the supply chain is dominated by Avinode in the B2B market, and legacy brokers in the B2C market

Who owns what in the supply chain – Recent past

Source: WINGX; Roland Berger
Things have started to change recently, with operators building direct digital channels, and online brokers digitizing end-end.

Supply chain beginning to shift towards digital channel – Present

Source: WINGX; Roland Berger
Yes a flat market in terms of total activity, but business jet charters have taken off in the last 18 months

Flight activity trends in Europe 2013-2017

Remarks & Observations

> Sharp decline in overall activity end of 2013 affecting both charter and private
> Stable increase since then reaching peak growth recently
> Charter outperformed private missions in terms of growth since 2015
> Charter growth in the last quarter above 10% YTD growth indicating strong shift towards charter business
> Is it a paradigm shift, away from ownership, towards on-demand?
Is there evidence that online brokers are driving growth? Certainly their preferred operators are those with most growth.

Activity comparison between online brokers’ most-used aircraft and other aircraft

### Online broker operators [ca. 250 aircraft]

- Top 10% had 23% growth 2016/2015

### Other operators

- Versus -1% for the rest of the fleet

Note: Darker colors = YTD trend

Source: WINGX; Roland Berger
Certainly seems to be a correlation between JetSmarter shuttle routes and fast-growing European pairs

Selected airport pairs of JetSmarter

<table>
<thead>
<tr>
<th>Departure airport name</th>
<th>Arrival airport name</th>
<th>Flights 2016</th>
<th>2016 vs. 2015</th>
<th>JetSmarter Shuttles Europe</th>
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<tr>
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<td>LFPB-Paris-Le Bourget Airport</td>
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<td>12.5%</td>
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</table>

Source: WINGX; Roland Berger
But are the online brokers bringing newcomers into the industry, or is it just redistribution of market share

Business jet user profiles

The passengers
Who did we fly in Q1?

- 72% of private jet passengers were male
- 41 years old
- 10% of passengers were children (under 16)
- 3.6 Average number of passengers per flight

Average UHNWI that charter business jets

- 96% of UHNWI using private jets are male
- 60 years old
- 81% of UHNWI using private jets are married
- $450M Average Net Worth

Source: PrivateFly, Wealthx, WINGX; Roland Berger
Online disruptors are claiming growth KPIs in significant contrast to the sluggish overall market

Key figures on online disruptors:

**VICTOR**
- Average *time to book reduced* by 38% in 2016
- 945% revenue growth over 4-year period - source: FT 1000
- Flight requests to Ibiza up 441% last year
- Online app contributed to 60% of bookings in 2016
- 15% of all bookings in 2016 were 1st time private jet travelers

**JETSMARTER**
- During 2016 the company became one of the first business aviation ‘unicorns’, valued at more than USD 1 bn
- More than 8,000 members spending average of USD 27k per year
- 200 shuttles per week within and between US, Europe and Middle East

**STRATAJET**
- In Q1 >3 million quotes managed without any operator intermediation
- Staff up from half dozen to 60 in 2 years, rapid expansion in Europe and US markets
- Since US expansion Oct 2016 Stratajet has 300% YOY increase in bookings and achieving a USD 10 m run rate within six months
- 32% of customers are first-time private jet travelers

**PRIVATEFLY**
- Profitable, expanding in Europe and US, CAGR >50% since 2013
- Frequently listed as one of fastest growing companies in UK
- Average spend per booking was up 26% in Q1/2017 YoY
- Time to booking rapidly falling, 1/3 within 48H days, 2/3 within a week
- 33% of searches on mobile

Source: Bloomberg; Crunchbase; Observer; Businessinsider
Online broker appear to be increasing share quickly – But ultimately is the market to play for big enough?

Market shares and addressable market in Europe

Online brokers increasing their share by factor of 5 within 6 years

2013

2016

2019

Source: WINGX; Roland Berger
But there are challenges for the online players, principally their reliance on operators, who may build own B2C channels

Obstacles and limitations to the success of the online brokers

- Most brokers have now recognized that they need an online charter platform. Larger brokers have deep pockets to buy in technology and harness to well-established customer accounts.

- Many in the industry still believe business aviation will never go fully online; part of its appeal is that it’s high-touch business where customers get benefit of personal concierge service.

- Clever platform is one thing, but as OTAs discovered, content is king; online brokers need to harness the supply side. Maybe less easy to do in an up-cycle.

- More coherent, consolidated supply-side needed. Lux & Gama have aggregated <10% of the market, and their fleets largely owner-focused. Can owner-approval be fully automated?

- Owned & Operated fleets will focus on maximizing branded B2C channels. These are typically the taxi-jet operators which have provided online brokers with strong growth to-date.

- Entry-point to industry may be dominated by newcomer hybrid airlines (JS, Surf); they will look to retain control over same customers as they step up to full aircraft charter.

Source: WINGX, Roland Berger
Roughly 30 interviews with industry experts and cross-section of senior managers conducted to test our assumptions and analysis.

Interviewees of major European stakeholders in business aviation.

Questions:
1. What is the current state of the charter market?
2. What are the main charter products and why?
3. How have online brokers changed the industry?
4. Will digital platforms transform charter?
5. What other factors needed to grow the market?

Industry interviews:
1. Industry associations
2. Ground Suppliers
   - Airports
   - FBOs
   - Services
3. Experts & Media
   - Consultants
   - Leading trade publications
4. Aircraft Operators
   - Aircraft Management Companies
   - Taxi operators
   - Fractional operators
5. Charter broker
   - Traditional brokers
   - Online disruptors
   - Charter market place providers

Main insights:
1. Market has been stagnant for several years
2. Industry needs to overhaul its charter products
3. Online brokers have taken market share
4. They will be one factor in growing the market
5. Supply side consolidation is most important

Source: WINGX; Roland Berger
Fairly broad consensus that business aviation still suffers from fragmentation, image problems, opaque access…

Interview feedback – Current state of the charter market

Many established market leaders have a **vested interest** in maintaining brand that business aviation is ‘largely unaffordable’

Wider market still relatively uneducated about business aviation, which means luxury stigma lives on

Charter relatively expensive in Europe due to more limited infrastructure and cumbersome regulation

Business Aviation is still far from reaching its full potential, especially in Europe

Aircraft ownership is atrophying and market is over-supplied, which is boosting charter as a low-cost alternative

We’ve seen some consolidation but much more is required to make this market transparent and efficient

Source: WINGX; Roland Berger

Business jet industry exhibits a lot of small entities with their own customer base; no common distribution system

Wider market still relatively uneducated about business aviation, which means luxury stigma lives on

Charter relatively expensive in Europe due to more limited infrastructure and cumbersome regulation

We’ve been relying on the same small number of HN customers for years

Aircraft ownership is atrophying and market is over-supplied, which is boosting charter as a low-cost alternative

We’ve seen some consolidation but much more is required to make this market transparent and efficient

Complexity of organizing business aviation charters has made it very difficult to automate online

10 years ago Avinode were revolutionizing the industry, but they stopped half way, pooling the supply but not the demand.

Business jet industry still 20-30 years behind airlines in digitizing inventory

Industry puts out schizophrenic marketing – Is charter about luxury or is it a business tool

Customers have been giving up on private aviation because it’s just too complex
Digital access platforms are starting to have an impact: smarter tools, educated customers. But are they profitable…

Interview feedback – Impact of digital business

- Aiming to sell charters on a Challenger for a dollar per seat per mile is not going to work out financially.
- Problem is limited go-to inventory. Most aircraft release requires owner approval offline.
- Current platforms are not fully digital. Still need costly customer service staffing, more marketing platforms than digital matchmakers.
- Disruption in the Business Aviation is not as disruptive as in other industries. It’s a hospitality service industry.
- Important differences between current online brokers – is it just an online registration form, or does it offer transparent selection of products?
- The membership platforms are picking up customers who wouldn’t otherwise afford business aviation. That’s not sustainable.
- Online brokers can’t change the game until OEMs start producing much cheaper aircraft.
- Main challenge for online brokers is unsophisticated scheduling and quotation system within the airlines.
- 10 years ago booking a flight was complex and traditional brokers used that to justify their position in the chain. Now it’s different because the customer is more educated.
- Challenge with BizJet booking is that the customers have a high-end expectation for the customer journey. Dozens of touch points. Needs high-touch service.

Source: WINGX, Roland Berger
Consensus that B2C channel will go fully digital in the near future – but it will require deep pockets and good execution

Interview feedback – Expectations for the future

- Challenge for online brokers is how to consolidate a virtual fleet of reliable inventory.

- Will require very deep pockets and the right model to build a consumer brand.

- Satellite-based navigation and other ATM innovation will open up small airports, essential facilitator for growth of charter market.

- At EUR 400 per seat per sector a charter model could take serious share from premium airlines.

- Can aircraft owners afford to rent out much higher utilization of their aircraft, without damaging resale value?

- Digital platform not enough. They need not just access to product but control of inventory.

- Expect to see legacy brokers shift to complex trips. Online brokers will dominate A-B charters.

- The infrastructure (e.g. FBOs, pilots) is insufficient to manage a big increase in users.

- Problem could be the ceiling on max utilization of current inventory in the market.

- The real value is in capturing a direct channel to HNWI for any service, not just jet charters.

- Uber-like opportunity won’t come from traditional jet fleet, needs low-cost inventory, likely to be props.

- End-game will satisfy a person booking a trip from point A to point B who does not care about how the trip exactly looks like (e.g. car, helicopter, business jet, commercial aircraft).

- Could well be an industry outsider that takes this opportunity (Jet Blue, Google, Tesla, etc.)

Source: WINGX; Roland Berger
Changing expectations of business jet user may be the biggest factor in encouraging digital solutions

Survey: What do we need to unlock growth besides digital

Question: Which of the following factors will be most important in your view in growing the size of the charter market in the next few years?

- A new and younger generation of business jet customers: 23%
- Automated pricing: 15%
- Smarter charter products (like seat sharing): 13%
- Growth of floating "taxi" fleets: 10%
- Operator consolidation: 7%
- Charter access to turboprop and piston aircraft: 7%
- Fleet optimization platforms: 15%
- Liberalization of operational regulations: 2%

1) Sample includes 700 individual answers on a total of 10 questions. Percentage indicates how often a specific answer has been given by the respondents.

Source: WINGX; Roland Berger
Vast majority see a new space opening up for ‘low-cost’ charter – 59% reckon charter could capture up to 25% of Premium traffic

Survey – Can business aviation steal share from airlines?

In-between traditional business aviation and airline services

Realistic 81%
Conceivable 46%
No 19%

First time flyers on business aviation charter in 2017

<10% 10%
<5% 17%
5-10% 45%
>10% 28%

Business class customers that can be captured by business aviation charter by 2020

<3% 25%
3-25% 59%
>25% 16%

1) Sample includes 700 individual answers on a total of 10 questions. Percentage indicates how often a specific answer has been given by the respondents

Source: Online survey on CorporateJetInvestor.com; WINGX; Roland Berger
We believe digital disruption will be one of the motors for the creation of a new user-space in aviation

Position of the expected new segment

Remarks & Observations

> Business aviation has been restricted to an artificially small market because of its inefficiency and opacity
> Innovators are developing digital platforms which are starting to create a functional B2C market place
> Within the next 2 years we expect to see customer access on a browse-review-purchase basis
> The market will also be unlocked by actual & virtual consolidation on the supply side
> Including new operators using digital platform to promote new charter business models to a much bigger market
> This market could operate in distinctly different way to traditional ‘private jet service’ providers.
A 'true' digital platform for business aviation will bring transparency and simplicity in the customer experience

Future value chain – Mid term

Source: WINGX; Roland Berger
Our long term vision is a fully integrated digital mobility platform with business aviation at its core and other mobility services attached.

Future value chain – Long term

Source: WINGX; Roland Berger
Conclusions …

1. Business aviation has been stagnant for years; the industry is still trying to recover from the Recession. No help from an uncertain macroeconomic climate.

2. To stay relevant, the industry has to adapt. It’s been slow to do so. But we’re now seeing growth in the charter market which suggests successful innovation.

3. Access to business aviation is changing. It used to be a silo. Access through personal relationships only. And an opaque, inefficient charter market.

4. Now digital tools are finally creating the conditions for an online market place. Initially, an automatic reverse-auction. But now getting easier to find and pay immediately.

5. No more argument: brokers need a digital channel. Not all will adapt in time. Expect disruption and a few big winners.

6. But there’s a challenge. Without access to inventory, online brokers will struggle. Owner and operated fleets may bypass them with their own digital channels.

Source: WINGX; Roland Berger
50 YEARS

navigating complexity