

Japan's Leading Tourism and Aviation Weekly

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San-Miyanaga Building, 5-12 Moto-Akasaka 1-chome, Minato-ku, Tokyo 107-0051, Japan
Phone: 81-3-3796-6646, Fax: 81-3-3796-6645
mailto:jwtw@jwing.com , http://jwing.com/e/ (English) , http://jwing.com/ (Japanese)
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****Hankyu has begun studying FIT products for baby boomers***

Hankyu Express International, Director, Managing Executive Officer, Ichiro Namai revealed at an interview with the Wing Travel Weekly, "I think baby boomers tend to prefer individual travel to conventional group travel. We have already begun studying FIT products for baby boomers to meet new demands." At the same time, Hankyu keeps making efforts for further growth of Trapics, the core package tour brand. The travel company will probably create new Trapics products suitable for FIT.



Defining that baby boomers are willing to use money to what they like because they tend to have strong commitments to what they like, Namai pointed out that they would not be satisfied with conventional air & hotel type products, but they would rather look for FIT products with particular interests. Also, Hankyu expects that the baby boomer generation will expand not only the market itself but also the family travel market or the three-generations travel market because they generally value family activities. Namai emphasized that the baby boomer generation would undoubtedly be a core travel market in the near future.

Hankyu does not plan to change its brand strategy, still focusing on the core Trapics and serving Crystal Heart brand for theme-oriented products, Royal Collection brand for the highest-grade products and e-very brand for individual-oriented package tours. Namai said, "Customers choose brands they prefer. Our mission is to create products preferred by customers in terms of contents and prices."

+One million overseas travel customers are an immediate goal

Namai also said, "We hope to achieve one million overseas travel customers as soon as we can." For the goal, Hankyu will leverage the business for China particularly, in addition to Europe, expecting to send 200,000 customers annually to China by 2008, when Olympics takes place in Beijing. Hankyu launched an independent corporation in Beijing in December last year to ensure safe operation, quality control and product development in China.

Hankyu forecasts that it will deal with 110,000 customers approximately for China for FY2005 (April 2005 to March 2006), which account for 60% of the target for China. Expecting tourist demand for China will generally recover from the beginning of FY2006, Hankyu estimates the number of its customers for China may reach around 140,000 in FY2006.

Hankyu marked 11% increase of overseas travel customers and 9% increase of domestic travel customers for the first three quarters of FY2005. The growth trend is expected to continue for the last quarter of FY2005 as well. The customer ratio between overseas travel and domestic travel is now 65 to 35. Hankyu aims to make the ratio equally.

+Internet selling is an effective channel for new and young customers

Hankyu is increasing sales on internet, as it expects that sales on internet for FY2005 will increase by 30% to about 30 billion yen over the previous year. The company's internet selling accounts for approximately 8% of the whole travel dealing. Namai said that internet selling functions as an effective sales channel for exploitation of new and young customers.

The age composition on internet selling is well balanced, as 50's to 70's customers and 10's to 30's customers respectively account for 46% and 38.6% of all customers who reserved products on internet. On the contrary, over 50's customers are overwhelmingly more than 10's to 30's customers on other booking channels than internet.

The Hankyu's internet selling is today linked with online bookings at its major business bases only, however Hankyu will extend the online linkage to all of its retail shops after April this year, when a new system begins functioning. Namai emphasized, "Hankyu will further expand the internet selling services."

***Operating margin on billing marked the highest for the past decade**

Japan Association of Travel Agents (JATA) reported at Business Forum 2006 on February 21 this year that the financial condition of the first-class travel companies for FY2004 improved remarkably as operating margin on billing reached 0.53% on average, which represented the highest for the past decade. The data was based on the travel industry dealing report, which is released every year by the Ministry of Land, Infrastructure and Transport. Effective data came from 567 out of all of 784 first-class travel companies.

According to the average result per company for FY2004, travel billing increased by 5.6% to 10,935 million yen over the previous fiscal year, and operating revenue was slightly up 0.2% to 1,336 million yen over the previous fiscal year. Gross margin rate dropped to 12.16% for FY2004 from 12.81% for FY2003. However, the first-class travel companies successfully reduced operating expenses by 2.3% and personnel expenses by 1.7% on average for FY2004, compared to the previous fiscal year. As a result, operating profit rate and ordinary profit rate each reached 4.3% and 6.9%, both of which were the highest for the last decade.

When it comes to each business scale segment, operating margin on billing was 0.93% in the 51 to 100 employees segment, 0.80% in the 301 to 500 employees segment, 0.73% in the 21 to 50 employees segment and 0.55% in the more than 1,001 employees segment.

Billing per employee, which represents productivity, was up 13.1% to 148.9 million yen for FY2004, compared to the previous fiscal year. Gross profit per employee was also up 7.4% to 12.75 million yen for FY2004, compared to the previous fiscal year. Operating profit per employee reached 552,000 yen for FY2004, 2.48 times more than the previous fiscal year.

In the business type-classified analysis survey, which was effective to 98 travel business-dedicated companies, operating profit rate was high in in-houses with 19.1%, overseas travel retailers with 16.5% and overseas travel distributors with 11.0%.

On the other hand, overseas travel whole sellers still suffered from operating profit rate of minus 5.1%. Major whole sellers marked operating profit rate of 2.2% for FY2004, but it was lower than operating profit rate for FY2003.

Out of the 98 companies effective to the survey, 81 companies successfully resulted in operating profits for FY2004, and the ratio reached 82.7%, which was better than that for FY2000.

+JATA Chairman inspires the industry to develop active business



JATA Chairman Koji Shinmachi emphasized at Business Forum 2006 that the simultaneous development of overseas, domestic and inbound travels contribute to economic growth and diplomatic improvement. "It is exactly 'The Dynamism of Travel.' Expectation to the travel industry must be high." JATA defines "The Dynamism of Travel" as a basic theme for 2006.

Shinmachi reported that he was impressed by serious local efforts to develop tourism when he inspected the Scenic Byway project in Hokkaido under the initiative of the Ministry of Land, Infrastructure and Transport. The Ministry will begin developing the project nationwide from April this year to attract more foreign visitors' interests. Shinmachi said, "The travel industry should actively join the government's effort as well."

**The overseas travel market for baby boomers has already begun growing*

The latest authorized survey finds that the number of 55 to 59 years old Japanese females' departures for the first eleven months of 2005 was up 12.6% to 636,463 over the same period 2004, and also the number of Japanese males' departures in the same age segment increased by 8.1% to 1,013,070 over the same period 2004. The age segment is defined as a baby boomer generation. The growth of males' departures in the age segment maybe resulted from the high business trip demand.

The growth of the female baby boomer generation's departures was larger than 3.1% increase of 50 to 54 years old females' departures and 4.6% increase of 60 to 64 years old females' departures, and it was the 3rd largest growth, following 12.7% increase of over 70 years old females' and 40 to 44 years old females' departures. When it comes to the actual number of departures, the female baby boomer segment marked the 4th, following 980,382 departures by 25 to 29 years old females, 890,054 departures by 30 to 34 years old females and 790,709 departures by 20 to 24 years old females.

The number of the male baby boomer generation's departures was very close to 1,049,172 departures by 40 to 44 years old males and 1,027,468 departures by 35 to 39 years old males.

While the senior market is growing, the number of 25 to 29 years old females' departures for the first eleven months of 2005 was down 3.2% to 687,357 over the same period 2004, and also the same trend was seen in the 25 to 29 years old male segment as the number of departures decreased by 2.4% to 980,382.

+Haneda largely increased Japanese departures

The survey also finds that Haneda Airport largely increased Japanese departures for the first eleven months of 2005 by 46.1% to 319,275 over the same period 2004 due to scheduled flight-like charter flights between Haneda and Gimpo Airport in Seoul. Central Japan International Airport or Centrair also increased Japanese departures by 16% to 1,712,282, which accounted for 10.7% of all Japanese departures nationwide.

The followings are Japanese departures by airport for the first eleven months of 2005:

Sapporo = 103,610 (up 10.1%)
 Sendai = 90,196 (down 2.4%)
 Niigata = 64,538 (up 3.8%)
 Komatsu = 29,596 (up 23.3%)
 Narita = 8,816,762 (up 1.5%)
 Haneda = 319,275 (up 46.1%)
 Centrair = 1,712,282 (up 16%)
 Kansai International = 3,549,278 (up 3.5%)
 Okayama = 73,579 (up 22.1%)
 Hiroshima = 107,011 (up 24.4%)
 Fukuoka = 717,769 (up 2.4%)

**Centrair achieved the initial passenger goal for the first year*

Central Japan International Airport Co. Senior Executive Vice President Kunikatsu Yamashita reported at a news confer-

ence on February 20 that the new airport achieved the initial passenger goal for the first year after it opened on February 17 2005, as the number of passengers reached a total of about 12.3 million, which were broken down into international flight passengers of about 5.3 million and domestic flight passengers of about 7 million. Also, Yamashita revealed that passenger effects from the Aichi Expo(March 25 to September 25 2005) were approximately 1,000 on international flights a day and 3,000 on domestic flights a day.

Although high convenience for transfer between international and domestic flights is likely to be one of the advantages for Centrair, Yamashita revealed that transfer passengers accounted for just 1% or 2% of all passengers, according to hearing researches to airlines. "It was not sufficient for Centrair that appeals high convenience for flight transfers," Yamashita said. To improve the insufficient situation, the airport company will further seek transfer demands from local cities, such as Sapporo, Sendai, Fukuoka or Kagoshima, by developing advertising campaigns and launching a full-time sales team to exploit the local markets.

Yamashita also mentioned passenger forecast for this year: "I expect that the total number will exceed 12 million." For the target, the airport company hopes to tackle airport sales activities in cooperation with the local economic societies.

In the meantime, the airport company will make efforts to increase non-passenger visitors by launching a marketing planning group and a PR group. Revenue from the non-aviation businesses reached 2.5 to 2.9 billion yen monthly during the Aichi Expo period, but decreased to 2 to 2.2 billion yen monthly after October 2005.

**Narita continued reducing Japanese passengers on international flights*

Narita International Airport Co. (NAA) reported on February 23 that the number of passengers for January this year was down 2% to 2,565,698 over the same month last year. The monthly total was broken down into 2,474,243 international flight passengers, 2% fewer than a year ago, and 91,455 domestic flight passengers, 5% fewer than a year ago.

The number of Japanese passengers on international flights still decreased by 5% to 1,514,598, while the number of foreign passengers on international flights was up 9% to 666,090. Narita also decreased transit passengers for January this year by 8% to 293,555 compared to a year ago.

Narita handled 15,427 take-offs and landings for January this year, 2% fewer than a year ago. The total was divided into 14,411 for international flights (down 1%) and 1,016 for domestic flights (down 5%).

**Kansai decreased international flight passengers for January*

Kansai International Airport Co. recently reported that the number of passengers for January this year totaled 1,308,603, 4% more than a year ago. However, the number of international flight passengers was down 4% to 908,700 compared to a year ago. The total growth resulted from 29% increase of domestic flight passengers to 399,903.

The airport handled a total of 9,181 take-offs and landings for January this year, 8% more than a year ago, broken down into 5,859 for international flights (down 2%) and 3,322 for domestic flights (up 33%). The number of international take-offs and landings consisted of 4,848 for passenger flights (down 1%), 918 for cargo flights (up 1%) and 93 for others (down 47%).

For January this year, the airport handled 29,300 international flight passengers a day (down 4%) on 78.2 passenger flights a day (down 1%) and 12,900 domestic flight passengers a day (up 29%) on 51.3 passenger flights a day (up 33%).

**Transport Minister is concerned about the JAL's confusion*

The Minister of Land, Infrastructure and Transport Kazuo Kitagawa said at a news conference on February 21, "I am in no position to make a comment on JAL's management. However, I hope that JAL will solve the management confusion as soon as possible." The Minister is concerned about safe management rather than business management, as he said, "JAL must not endanger the safe operation system under the confusing management. For safety reason, we are preparing corporate inspection anytime." The Minister just carried out a surprise inspection to JAL.

He continued, "There is a strong relation between safe air transport and stable business management. It is important for

JAL to establish a stable management base from midterm or long-term point of view. I believe the JAL management is seriously thinking about it.”

JAL Group has decided to release its new midterm corporate plan from FY2006 to FY2010 on March 2 this year. Although it was originally scheduled to release it on February 24 this year, the management trouble has delayed it. The new midterm corporate plan may include new cost-reduction plans, such as wage cut effort. A focal point is whether or not the labor unions accept the request from the management.

**JAL still decreased domestic passengers for January*

The Minister of Land, Infrastructure and Transport recently reported that the number of domestic flight passengers for January 2006 was slightly down 0.9% to 6,911,849 over the same month last year. The report finds that JAL expanded the monthly reduction rate to 4.6%, resulting in reductions for seven consecutive months since July last year. Although the total number of passengers on trunk routes increased by 0.4% for January this year, JAL suffered from 4.2% reduction of passengers on its trunk routes. ANA also decreased a total number of domestic passengers for January by 0.3% to 3,262,100, however it increased passengers on its trunk routes by 3.8% compared to a year ago.

The followings are monthly passenger results by airline:

JAL = 2,864,815 (down 4.6%), comprising 1,458,055 on trunk routes (down 4.2%) and 1,406,760 on local routes (down 5.0%)

ANA = 3,262,100 (down 0.3%), comprising 1,376,140 on trunk routes (up 3.8%) and 1,885,960 on local routes (down 3.1%)

Japan Transocean Air = 218,964 (up 3.7%), comprising 19,227 on trunk routes (down 2.8%) and 199,737 on local routes (up 4.4%)

Japan Air Commuter = 107,433 on local routes (up 2.8%)

JAL Express = 95,570 on local routes (up 13.9%)

Skymark Airlines = 154,779 (down 0.3%), comprising 107,987 on trunk routes (up 16.7%) and 46,792 on local routes (down 23.7%)

Hokkaido International Airlines = 155,455 (up 33.2%), comprising 108,495 on trunk routes (up 10.9%) and 40,690 on local routes (up 148.9%)

Skynet Asia Airways = 82,733 on local routes (up 37.7%)

**J-Air marked 30% increase of passengers at Nagoya Airport*

J-Air, one of the JAL Group based on Nagoya Airport, recently reported that the number of passengers from/to Nagoya Airport for the first year (February 17 2005 to February 16 2006) after the airport restarted as a local airport was up 29.4% to 294,243 over the same period in the previous year. J-Air moved its operation base to Nagoya when Nagoya Airport restarted as a local airport managed by Aichi Prefecture after Central Japan International Airport opened on February 17 last year.

Despite the increase of passengers, the airline slightly dropped the average load factor to 57.9% from previously 57.4%, as it provided 507,800 seats by the CRJ200 fleet through the year, 30.4% more than the same period previously.

The followings are results by business route:

Obihiro = 27,362 passengers (up 23.1%), 75.8% L/F (up 13.4 points)

Akita = 57,215 passengers (up 49.2%), 62.2% L/F (up 8.5 points)

Yamagata = 25,117 passengers (up 3.3%), 56.1% L/F (up 9.5 points)

Niigata = 57,215 passengers (up 145.1%), 56.1% L/F (down 8.5 points)

Kochi = 61,716 passengers (up 19.3%), 59.3% L/F (up 3.5 points)

Matsuyama = 51,158 passengers (up 281.5%), 49% L/F (down 2.1 points)

Kumamoto (new route) = 10,304 passengers, 48.5% L/F

Nagasaki (new route) = 3,810 passengers, 34.2% L/F

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