

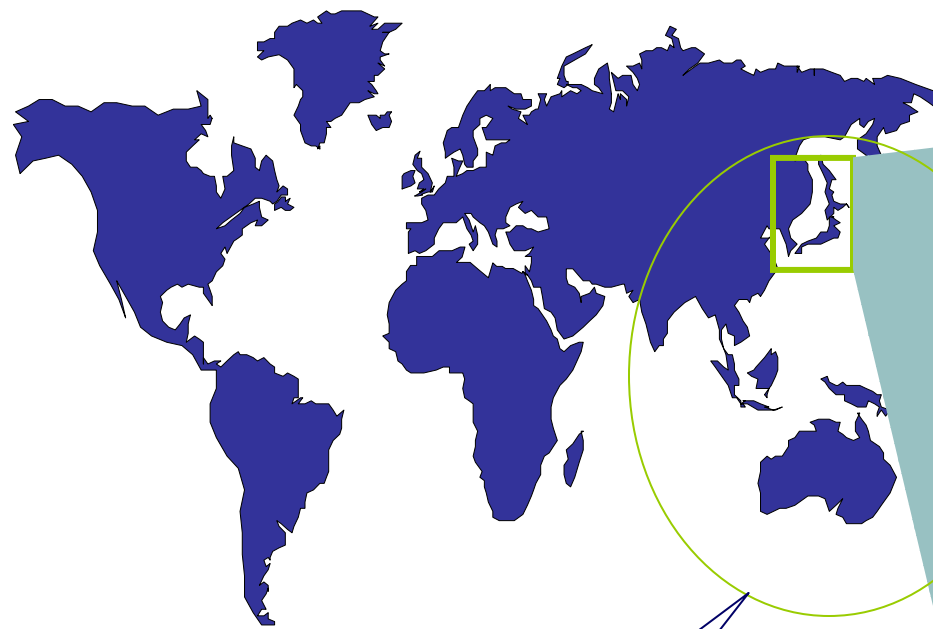
[W201] Re-Emerging Markets: Japan

Wednesday, 23 August 16.15 – 17.15

Compliments of:

Carlson
Wagonlit
Travel®





Asia Pacific Region





- ▶ Land size about 5% of Continental US
- ▶ Population 128 million (43% of US, 9 times the density of Continental US)
- ▶ 3,000 islands, 4 major ones
- ▶ 47 prefectures

Islands

1. Honshu
2. Kyushu
3. Hokkaido
4. Shikoku

Cities

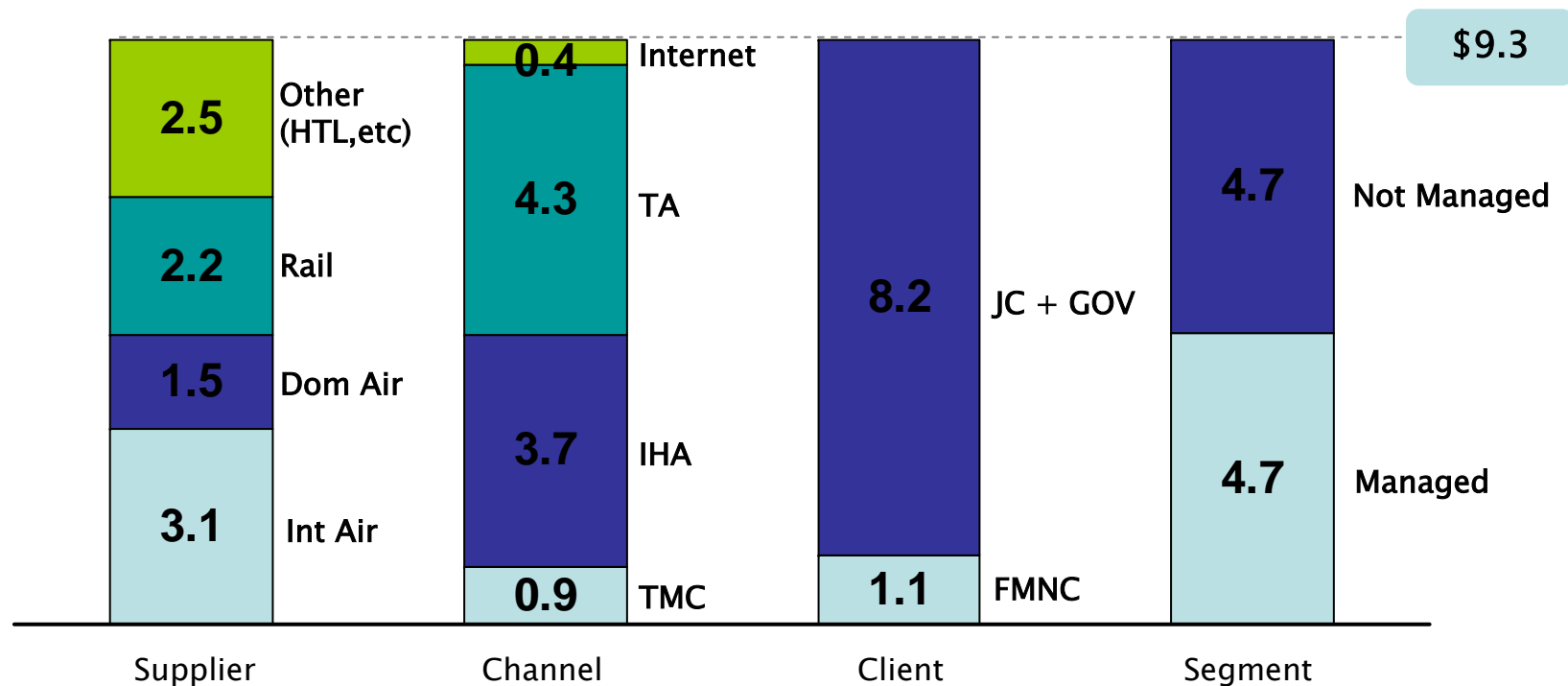
1. Tokyo (incl. Yokohama, Chiba)
2. Osaka
3. Nagoya
4. Sapporo
5. Kyoto
6. Kobe

Japan environment

- Sustained recovery from decade of economic challenges
- Increasing Globalization pushing Major Japanese Corporate's to be more competitive
- Increasing focus on compliance and good governance, Finance, Environment, Information & Data Security...
- Challenging employment situation in shrinking labor market
- Strong recovery in business travel, high demand Asia travel (China)

Market Profile

USD billions

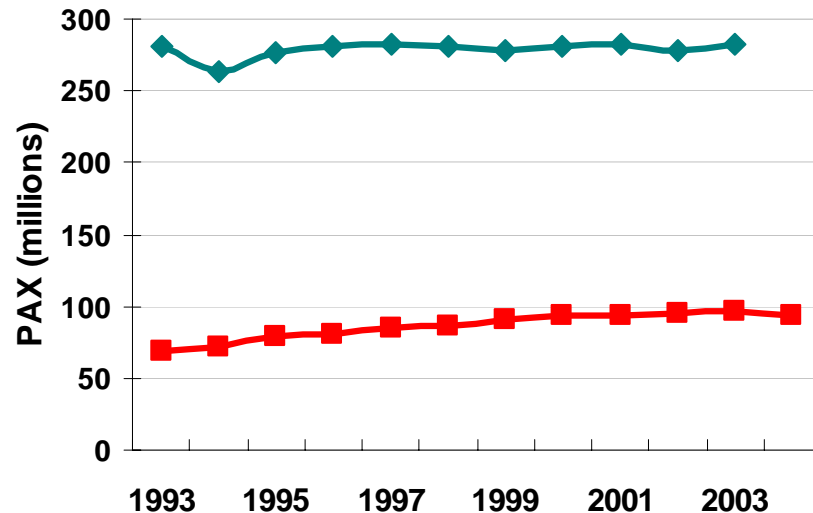


Japan is 2nd largest BSP market after the USA. Travel Management market fragmented with not more than 15% through Travel Management Companies

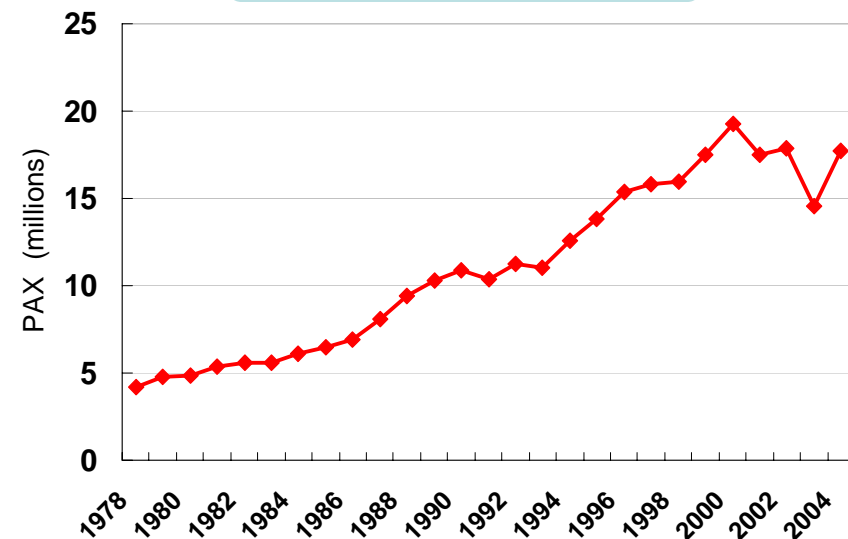
Travelers Domestic > International

◆ Rail (Shinkansen)
■ Air

Domestic



International

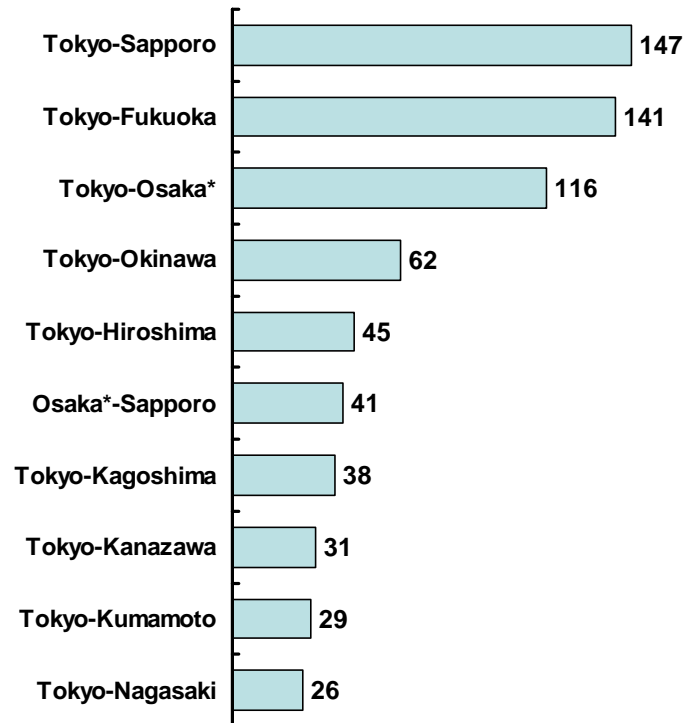


Domestic, and domestic rail more important than anywhere else in the world.
80% of transactions are domestic air/rail, short lead time, low ATP, low and
diminishing commissions, difficult to add value, difficult to track/capture data .
But.., essential element of full travel management offer.

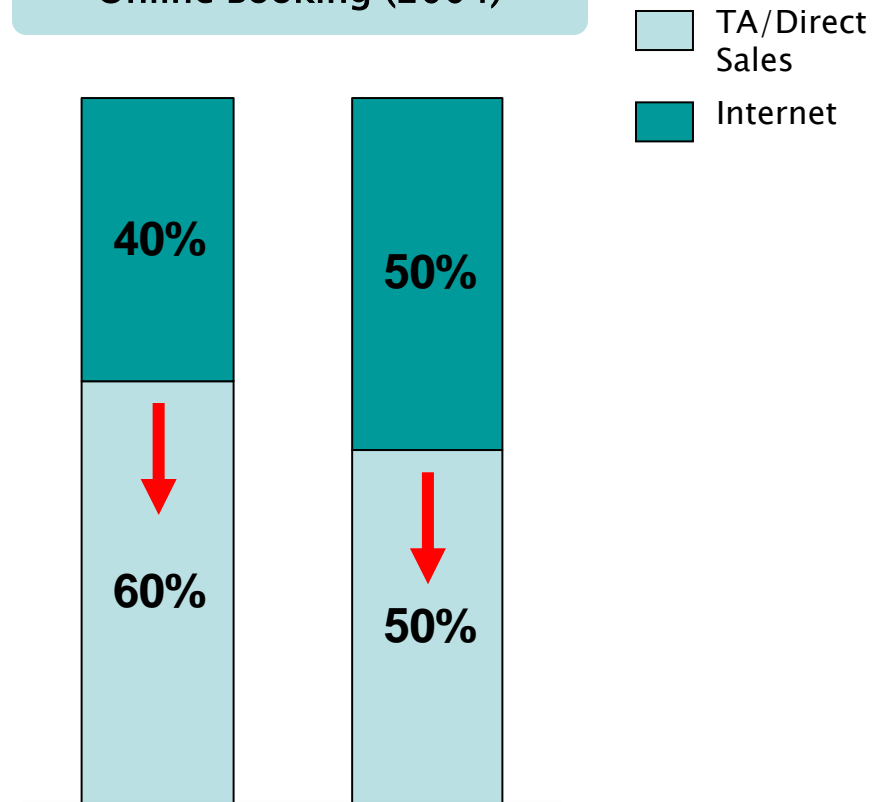
Domestic Air in Japan

Domestic Air Seats Supply TOP10

million



Online Booking (2004)



Although Domestic Air volume is large there are (currently) No corporate contracts/discounts. Public discounts only available through airline Online booking sites

Hotel Programs

- High buy-in FMC managed international travel hotel programs
- High GDS booking capability FMC programs (some challenges!)
- Slow development JMC managed international hotel programs
- TMC as general practice do not handle booking domestic hotels (predominantly, traveler direct, secretary, p.a. or www.)
- JMC international hotel booking largely in the hands of traveler, secretary, p.a. and/or local office, but! Its beginning to change, although slowly.....,

GDS / CRS



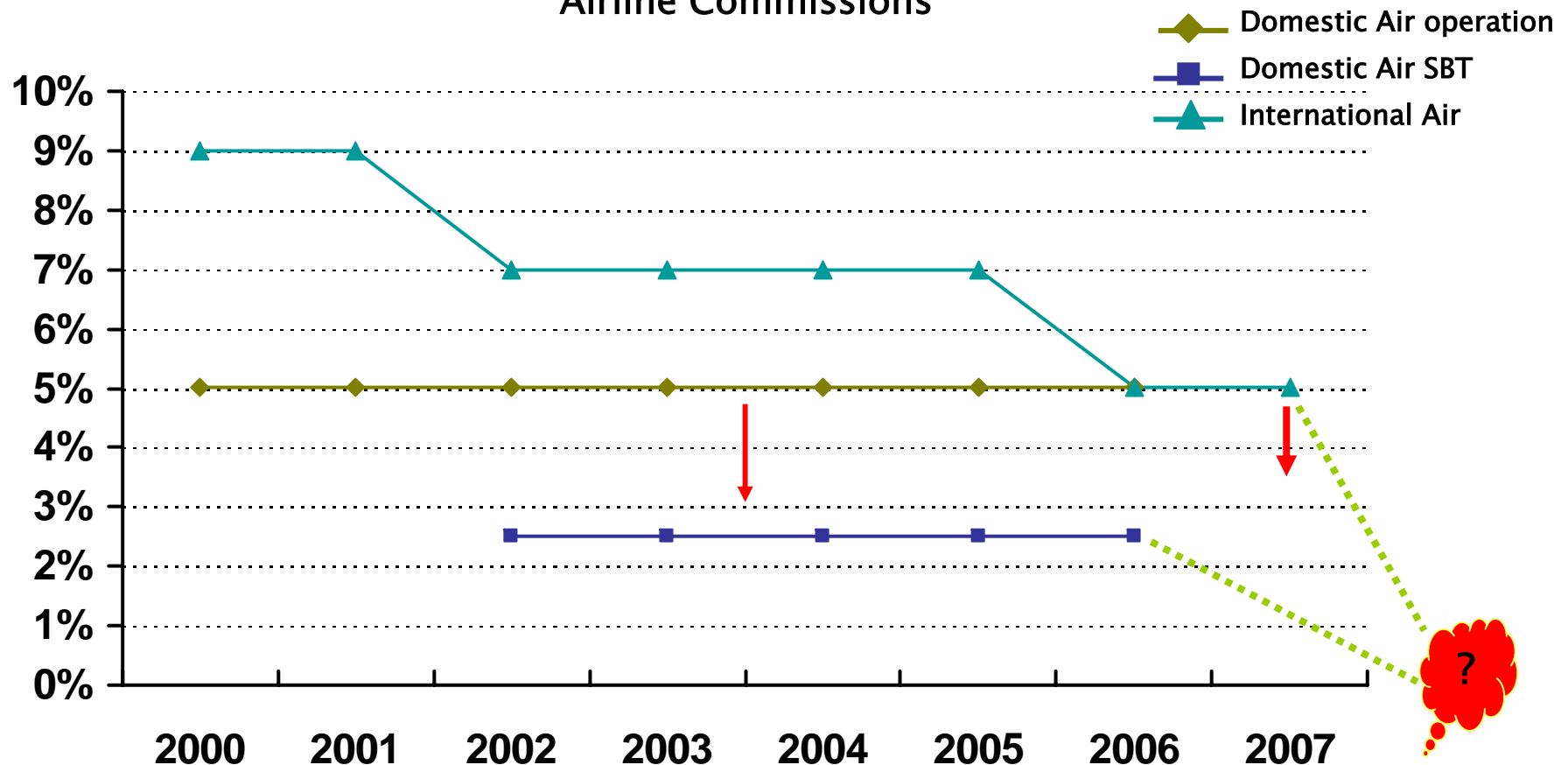
International



Domestic Air & Rail

Multiple GDS/CRS to service ALL requirements, International/Domestic separate GDS/CRS.
2byte environment complicates/restricts data capture, handoff, reporting.

Airline Commissions



Japanese airline industry is 'regulated'. Commissions are dropping 'slowly', No clear indication if and when market will be deregulated, and/if commissions eliminated.

WEST

APAC

JAPAN

**Time
Dimension**

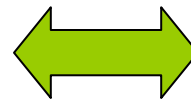
- Short Contract to conclude
- Get it done move to next



- Long relationship to establish
- Give it time stay with situation

In Practice

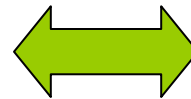
- Follow the agenda
- Pinpoint objective facts
- Fill silence
- Conclude



- No agenda
- Detect subjective values
- Let silence work
- Come back!

Negotiations

- High posture
- Individual career at stake
- Acting
- Analytical
- Purpose: Contract



- Low Posture
- Group w/Variou seniorities
- Reacting
- Intuitive
- Purpose: Relationship

Relationships remain key drivers to any business relationship and success

Japan Market environment

Practice

- Dominantly rebate market – (few true Management Fee agreements), Common practice to use multiple suppliers → Slow change
- Continued high level of cash (billing) payment although card payment options increasing significantly.
- High personalized service culture and tacit service expectation.
- Reluctance to mandate, aversion to confront, difficulty to impose and control
- Increasing focus (opportunity) traveler tracking and risk management capabilities/tools.

Japan Market environment

Travel Industry

- IATA Commission cut from 9% to 7% April 1st 2001. Further cuts October 06: 7% to 5% NW, AA, +, and.... then, when ?
- Net Remit (BSP) limited complex pricing practices with lack of evident transparency.
 - Corporate rebate largely paid Back End
 - Complex to manage allocate to business entity/department
 - Traveler not always aware true cost of travel and LAF
- IIT fares slowly “replaced” by GDS fares (Pex, Apex..)
- Limited number of POS agreements/airline contracts
- Accelerated penetration global GDS – complexities remain
- Strong push www.airline booking sites
- Somewhat reluctant acceptance E-tickets
- Strong Domestic Air direct www.sbt strategy and benefits

Japan Market environment

Technology

- 2 byte environment (Chinese Characters)
- National carriers proprietary GDS/CRS → Multiple GDS/CRS Essential
- Domestic Air own online tool penetration increasing and growing fast
- Domestic Air discounts available through Airline online tools only
- International Air SBT penetration low, change on the way ?
- No Agent manages Domestic Rail on-line (www), new product in 2006
- Heavy investment required in IT products and tools to drive change, language (2byte) capability/functionality key to drive change and adoption.

Moving forward – *Objectives*

- Educate and Push e-ticket acceptance, explain & understand benefits
- Embrace & maximize use of Domestic Airline online tools to deliver direct and indirect savings.
 - E-business 6 discounts
 - E-tickets – eliminate delivery costs
 - Ensure data capture (MI and Risk Management reporting)
- Educate. Explain, Deliver extended e-commerce solutions
 - E-tickets
 - E-Invoice
 - E-Itinerary
 - OBT (International/Domestic) – (overcome current OBT limitations)

Moving forward – *Objectives*

- Use e-solutions and OBT's to achieve higher policy compliance eliminating reluctance to personally confront and mandate
- Lobby and Negotiate with ALL airlines that ALL corporate rebates are available and can be delivered to traveler at POS
- Structure TMC agreements on true fee based pricing models
 - Transaction Fee
 - Management Fee
- Review and define service levels within an agreed SLA to reflect e-commerce solutions and deliverables



INDEX

Part 1 Agency Partnership Japan Market

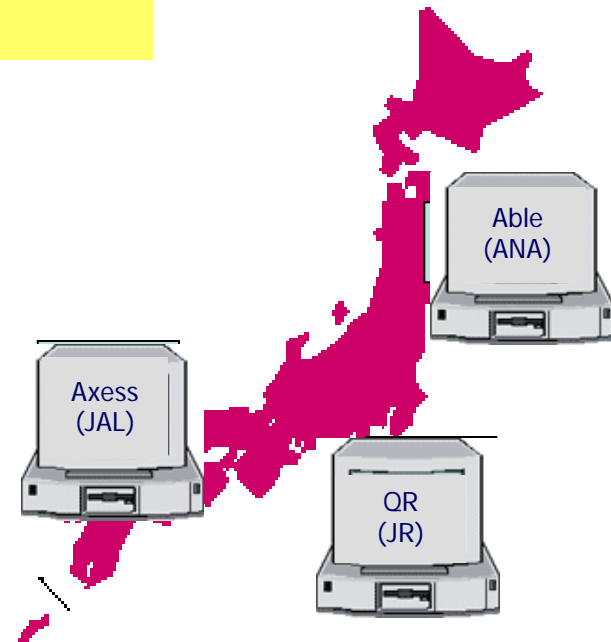
Part 2 Corporate Contracts with E-Solution

Part 3 Japan Uniqueness

■ GDS Overview Japan Market

International:

- Primary GDS are Axess(JAL) and Infini(ANA).
- Both have a Sabre/Abacus tie-up.
- Neither has a functional passenger profile capability.
- Apollo used as a dominant GDS
(90%+ for international reservations)



Domestic:

- Axess(JAL) and Able(ANA) have separate systems for domestic operations.
- Also QR(JR=Japan Rail) for domestic reservations.
- There is no domestic BSP settlement.
- Domestic business normally makes up more than 50% of any Japanese company's transactions however low ATP and commissions.

■ **Agency – How to Maximize Compliance & Saving Opportunities**

Cost Saving

**Consolidating &
Maximizing spend**

Travel Compliance

**Managing
internally & externally**

Safety/Security

**Provision of timely
information**

Key factors when choosing agency partner

- **Data delivery and integrity**
Data cannot be provided by a single GDS so agency partner must have the capability to consolidate multiple data sources and formats (*e.g. O&D)
- **Agency must support travel policy compliance objective**
- **Provide timely safety/security information to corporate & traveler**

■ Travel Policy Compliance Control

Example: Travelers sometimes select airlines/hotels depending their business relationship/preference/FFP.

Clarify Travel Policy both internally and with TMC

- Confirm and enforce the travel policy
- Indicate that the TMC do not have authorization to book out of policy travel (e.g. lowest carrier, preferred air/hotel)

Agency must book ticket with lowest logical fare

- Ticket should be booked with lowest fare and hotel reserved with Corporate rate/special rate (if exists)

If out of Policy (e.g. Non-preferred air/hotel with higher rate)

- Need to have separate travel approval process from management (e.g. head of dept/ CFO) before booking

Agency provide data of lost saving opportunity due out-of policy

- Data provided to management team (e.g. Traveler line manager & CFO) to minimize future exceptions

- 1. Corporate and TMC enforce & control together**
- 2. Use Data to create the solutions**

■ Corporate Contracts – Air & Rail

Government Regulations :

Not able to provide special Rate/Discount to particular person/group or/and corporate

Basically NO corporate contract

International Air

Status

Possible to conclude contract directly with Airlines. However, many Airlines unable to provide front-end discount. Therefore mainly back-end discount to corporate

Possible

Domestic Air

Not Possible

- Advanced Purchase Ticket
- Determine travel pattern & volume and consider using bulk air coupon (Risk)

Japan Rail

Not Possible

Determine travel pattern & volume and consider using bulk rail coupon (Risk)

Using combined international and domestic spend for negotiations not possible

■ E-Solution: International

Implementation E-Ticket mandatory by end of 2007 - Announced by IATA
Domestic Air all e-tickets from August 2006

TMC

No Air Ticket Delivery -> Agency minimize delivery service

Result

Impact/Action

Corporate

1. No prepared Immigration Cards
(Standard service in Japan)



1. Require individual to manage

2. Expected increasing online
booking especially transportation
to local airport



2. Indirect cost/time increase must
reflect in cost saving -> need to
review transaction fee

■ E-Solution : Domestic - Online Capabilities

Domestic Suppliers Online



Japan Rail

- Eki- Net (JR East)
- Tokai Express (JR Central)

Pro: Discount only possible Domestic Air Ticket, not Train Ticket

Con: Need to know & use three different booking systems

Simplify

Evaluate and Select a Preferred Carrier?

Source: Travel Pattern /Volumes from TMC MI Report

Japan Uniqueness

Hotel Programs Domestic Japan

GDS Booking:
Local/Individual Hotel
usually not on GDS,
especially below 3 stars.

**Reason: not
aware potential
business**

Reservation:
Japanese hotels tend
to prefer booking
directly by corporate,
not through Agency

**Reason: Hotel does
not want to pay
agency
commission**

Unlikely to change

Rental Car Japan

Car Program
International/Domestic
travelers rarely use car

**Reason: Most
Destination covered
by efficient public
transportation
system**

Con: Car rental Japan:
1. Car rental companies in
US and Europe not well
established in Japan
2. English Traffic Signs in
capitals and key roads only.
3. Difficulty to find parking
lot and expensive.

Unlikely to change

Corporate Card

Corporate Car Program:
Not aware of the importance
in capturing data of overall
expense to assist in the
analysis and measuring of
cost savings.

Credit card Usability
Not utilized in smaller
retails outlets such as
kiosk and locally based
or non chain hotels

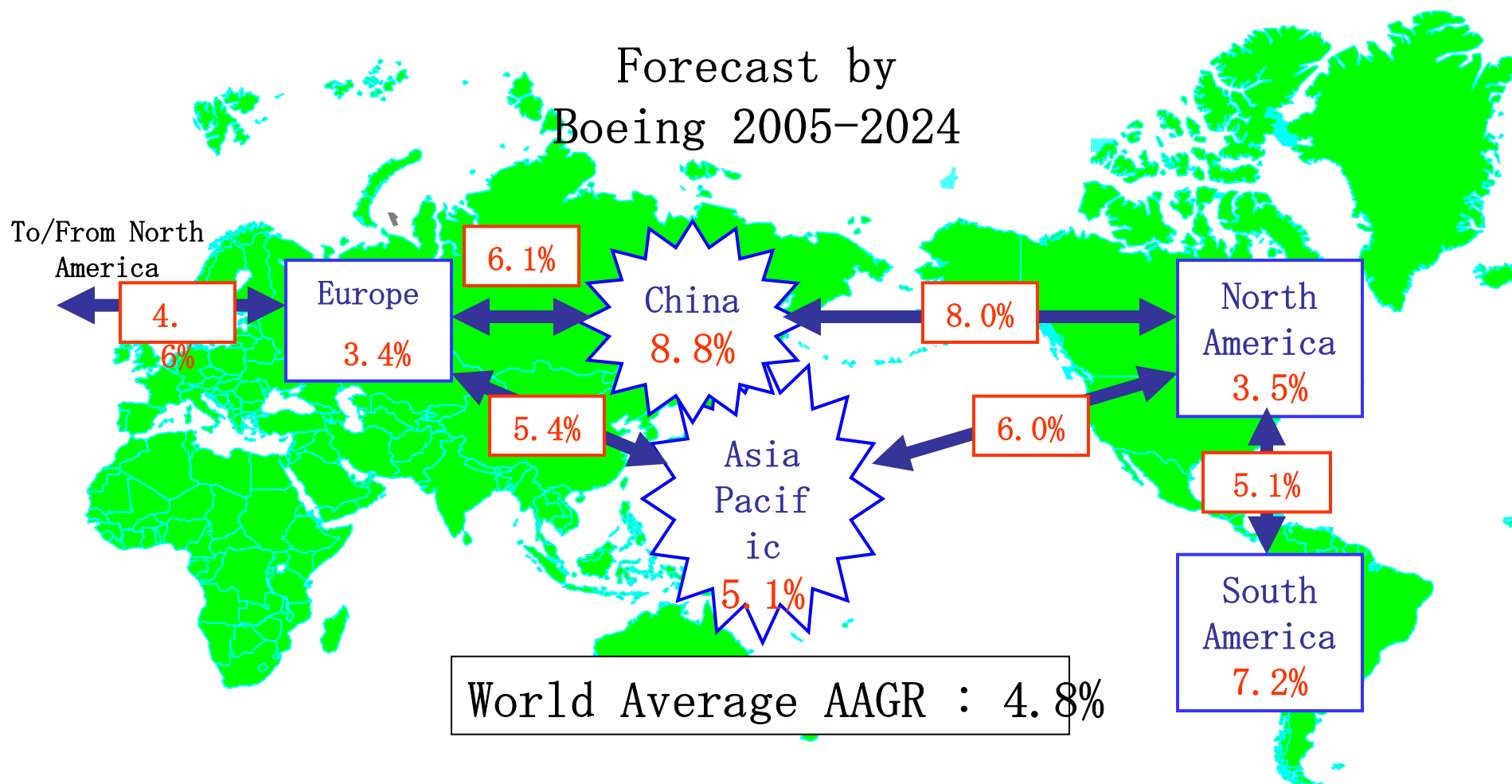
“Slowly” Changed

The Japanese Travel Market “It’s Growth and Opportunities”

Kazuaki Saiga
Vice President, Industry Relations
Japan Airlines International

ACTE Asia-Pacific Regional Education Conference
August 23, 2006

Long-term Passenger Demand Forecast

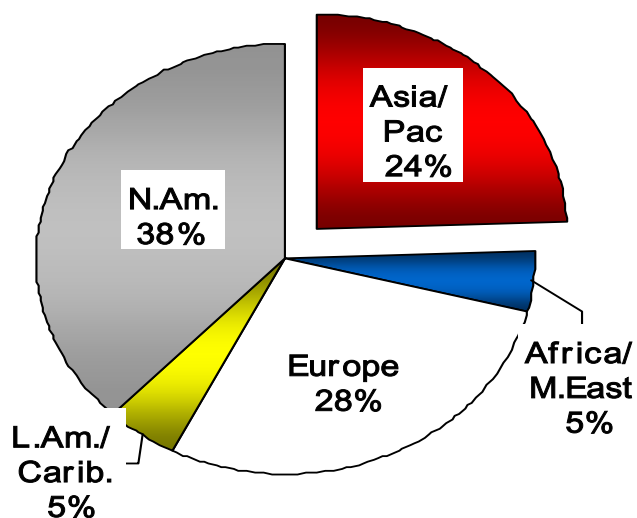


Source : The Boeing Co. Current Market Outlook 2005 (issued in June 2005) Average Annual Growth Rat

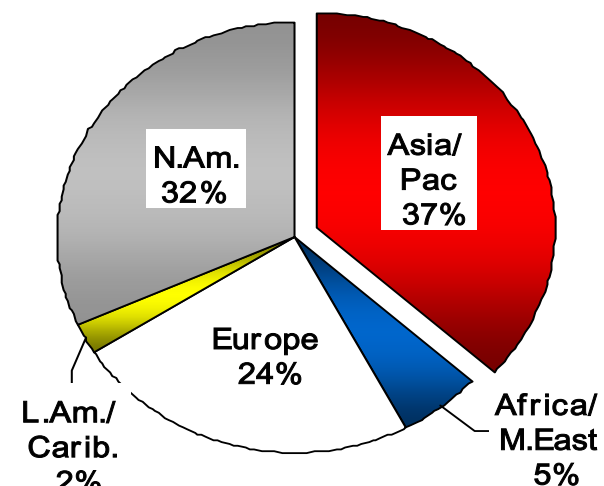
Geographical Market Share

(2004)

Passenger Number (%)



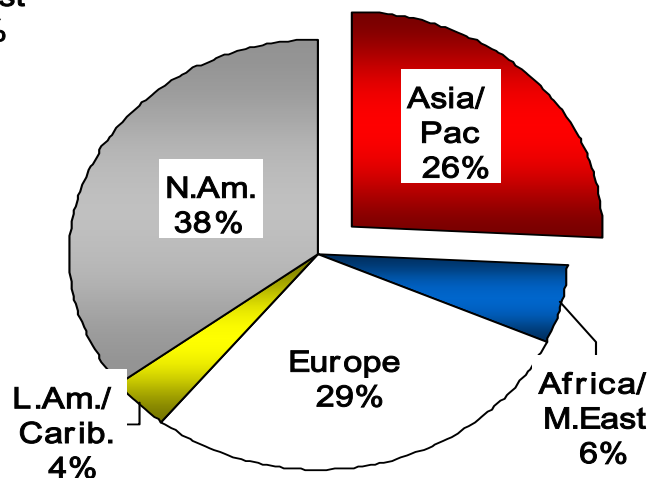
FTK (%)



Domestic + International

Market share of Asia/Pacific region will grow faster than other major areas.

RPK (%)



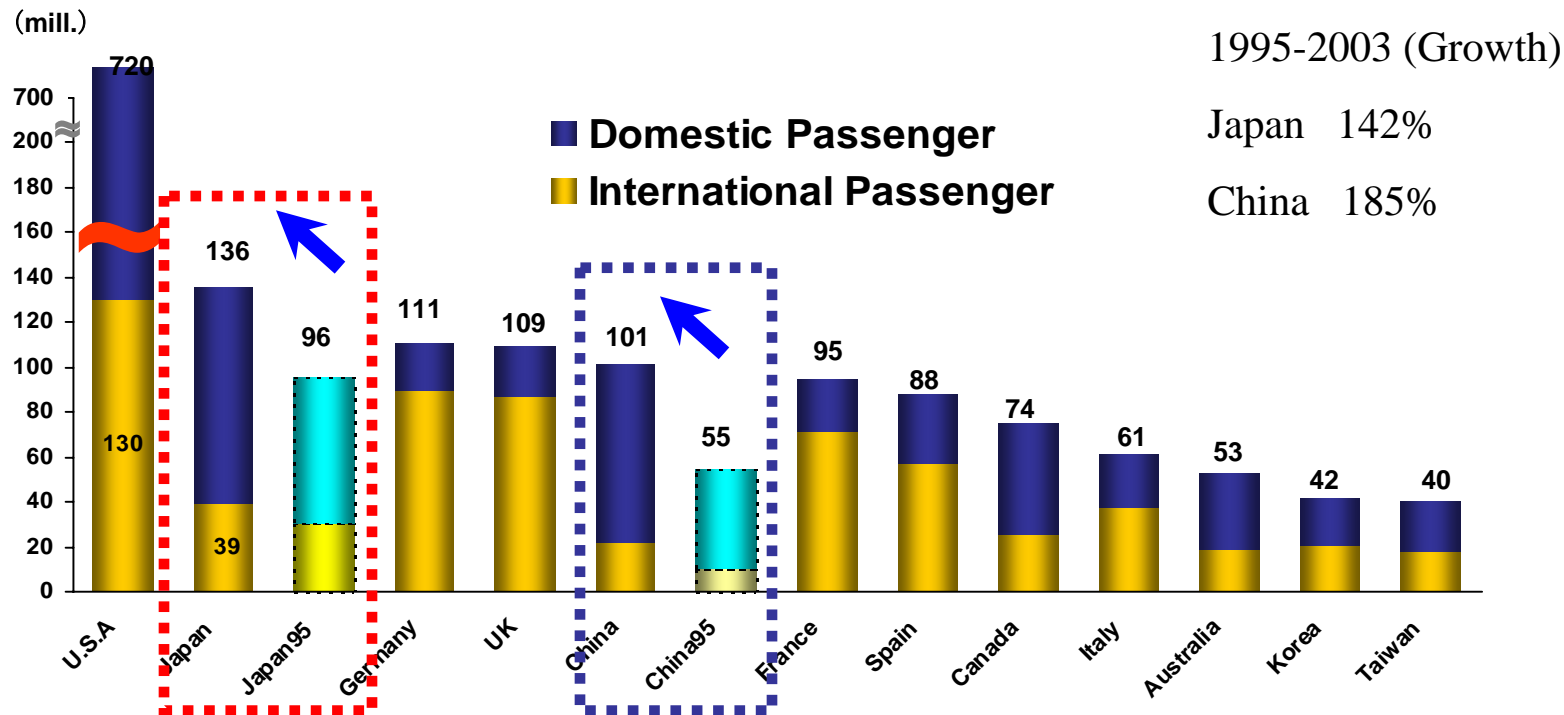
Note: RPK=Revenue Passenger-Kms

FTK=Freight Tonne-Kms

Comparison of Aviation Market Size (2003)

(Passenger number)

Size of world aviation market = 1.6 billion passengers annually (*cf. 1.88 billion in 2004*)
USA is the biggest, second is Japan, China will overtake Japan in several years.



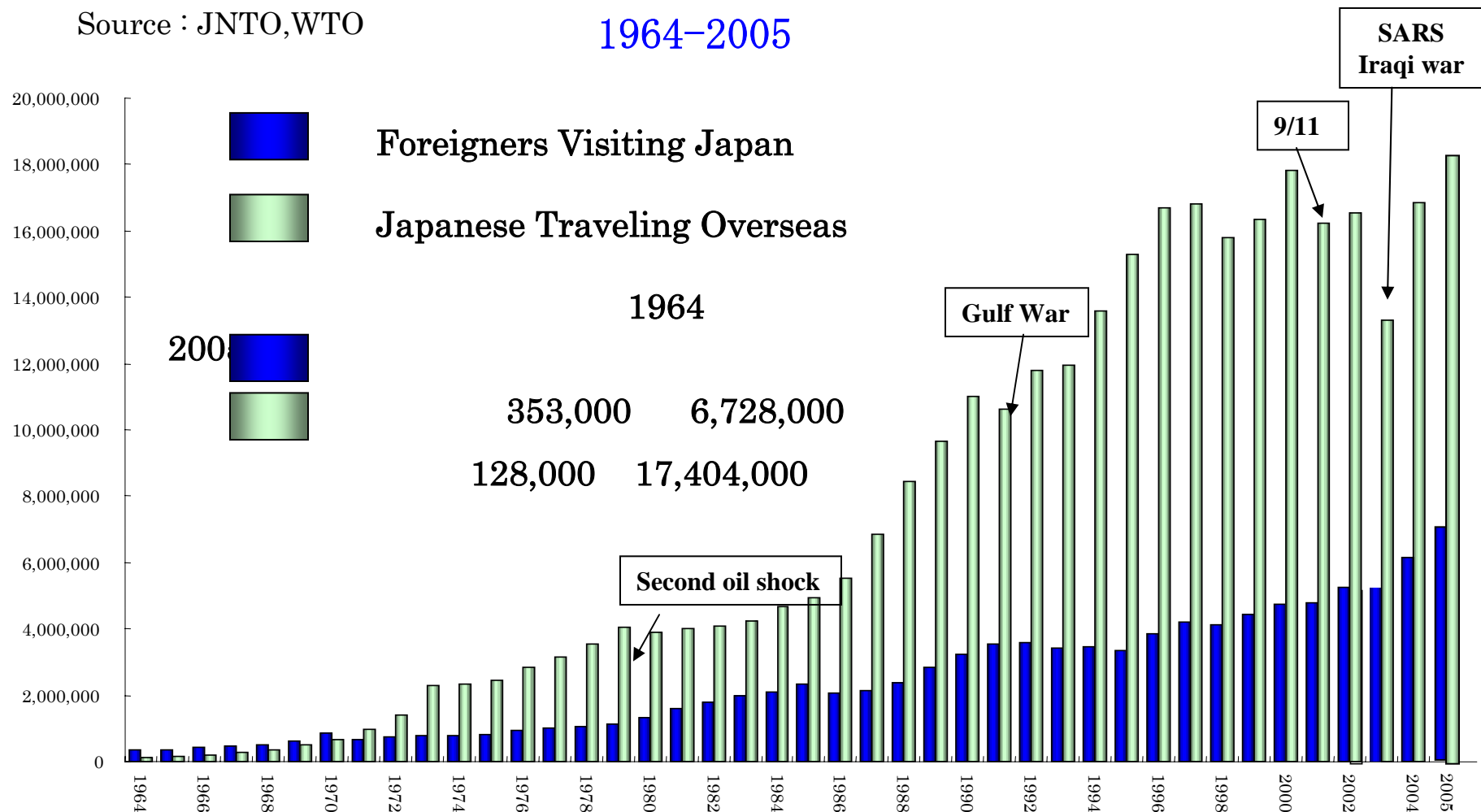
Source: IATA CY2003, Country's statistics for Australia, Taiwan, Korea for CY03 domestic results.

Note(1) Domestic passenger results of Canada and Italy are for 2002. (2) Hong Kong is not included in China's statistics.

Trend of Inbound and Outbound Travelers in Japan (Huge Imbalance)

Source : JNTO, WTO

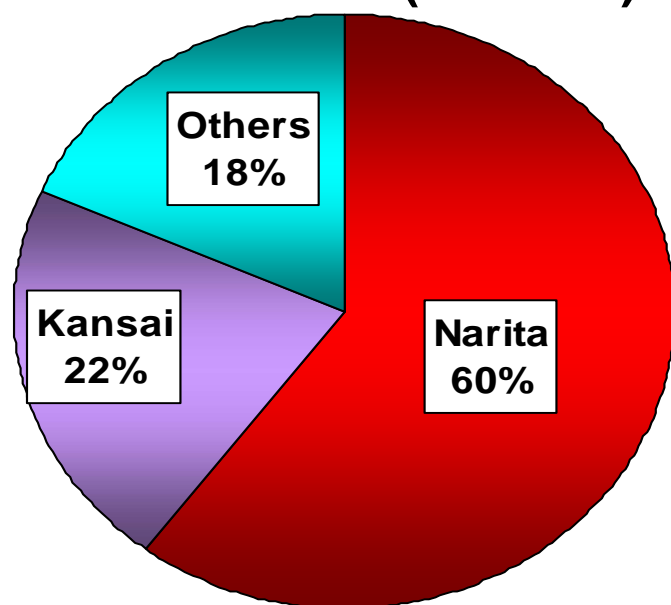
1964-2005



Passenger Concentration at HND, NRT, KIX, ITM

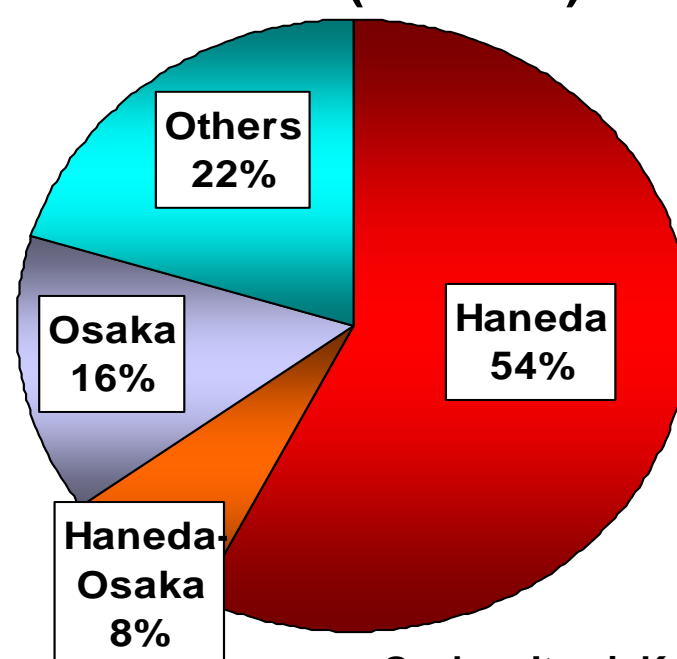
International Passenger Number

51.9 mil (FY 2004)



Domestic Passenger Number

94.8mil (FY 2004)



Osaka = Itami + Kansai

International cargo and domestic cargo is also concentrated at Narita and Haneda respectively.

Source : MLIT (Ministry of Land, Infrastructure and Transport)

FY2004: Apr '04-Mar '05

World Top 11 City-pairs

The Asia Pacific region has 10 city-pairs in the world's top 11 city-pairs.

☆ : Indication of city-pairs in Asia Pacific regions *Japanese city-pairs in italic and red.*

Rank	City-pair		Pax (million)	Period
☆ 1	<i>Haneda</i>	— <i>Sapporo</i>	9.51	2002
☆ 2	<i>Haneda</i>	— <i>Fukuoka</i>	8.28	2002
☆ 3	<i>Haneda</i>	— <i>*Osaka (ITM+KIX)</i>	7.32	2002
☆ 4	Hong Kong	— Taipei	5.46	(2001. 4– 2002. 3)
☆ 5	Seoul	— Busan	5.39	2002
☆ 6	Sydney	— Melbourne	5.35	(2002. 7–2003. 6)
☆ 7	Seoul	— Jeju Island	4.91	2002
☆ 8	<i>Haneda</i>	— <i>Okinawa</i>	4.33	2002
9	London	— New York	3.90	(2000. 4– 2001. 3)
☆ 10	Sydney	— Brisbane	3.50	(2002. 7– 2003. 6)
☆ 11	Taipei	— Kaohsiung	3.46	2002

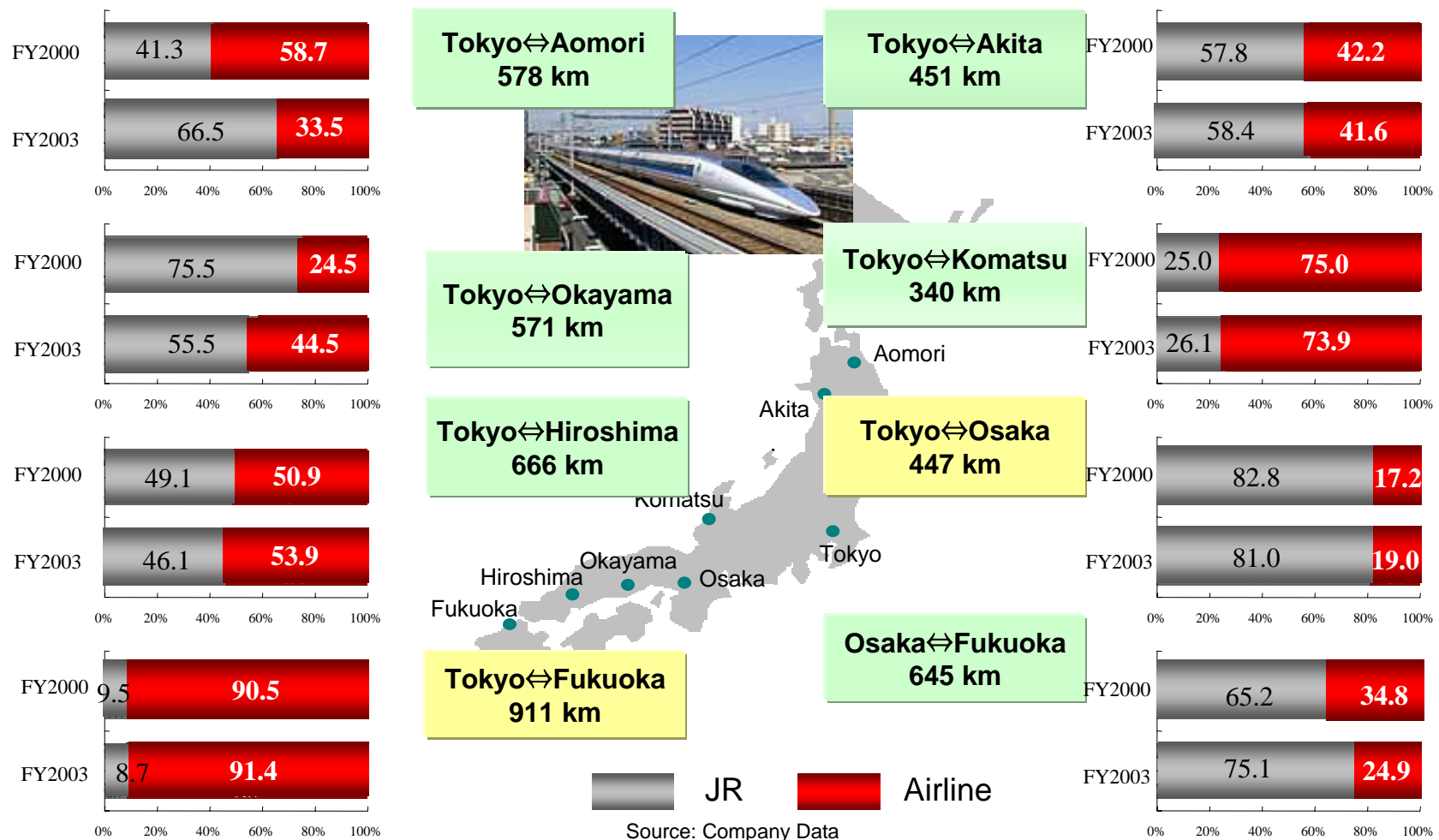
Sources : Governmental Statistics of each country, ICAO, AAPA

Note (1) Osaka includes both Itami (ITM) and Kansai (KIX)

(2) In general, transfer passengers have not been included in the above figures, but may have been included in some cases.

(3) All airports in a city (ex. FRA, LGA and EWR) have been combined.

Competition between Air and Rail



FY: April-March

Domestic Corporate Market Concept

→ Convenient and Speedy

**1. Compliance
of Aviation Law**

→ Restricted to only offer fares
which have received prior
government approval

**3. Implementation of
Corporate Sales System**

→ Collaboration with Travel
Agents, Credit Card companies,
and Corporate in house
settlement systems

2. I T Application

→ e-ticket
→ Booking/Check-in by PC/Mobile
→ Expansion of IC card/Mobile Usage

**4. Cooperation with
other domestic airlines**

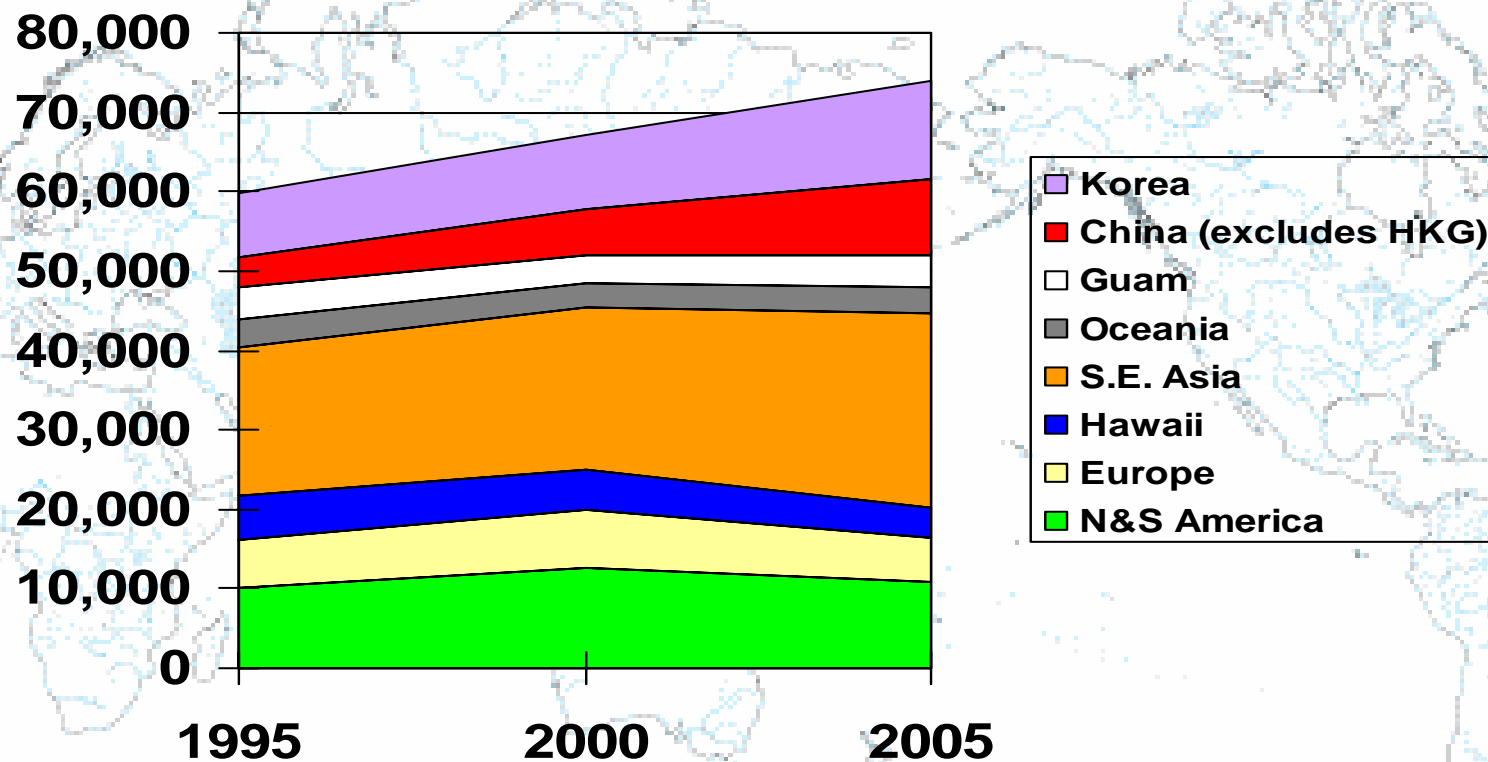
→ Shuttle flights

Booking/Check-in

Security

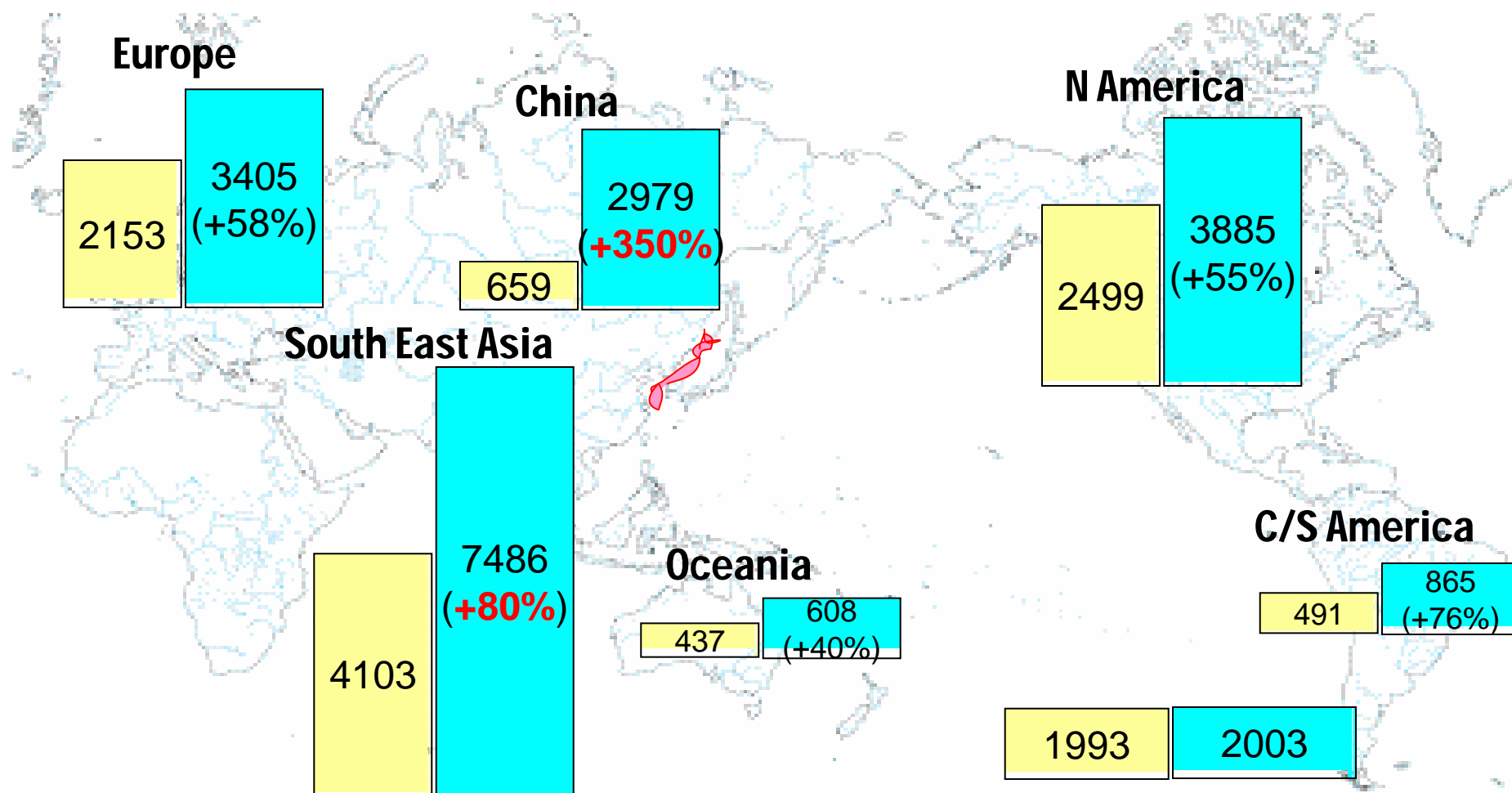
Gate

International Capacity to/from Japan

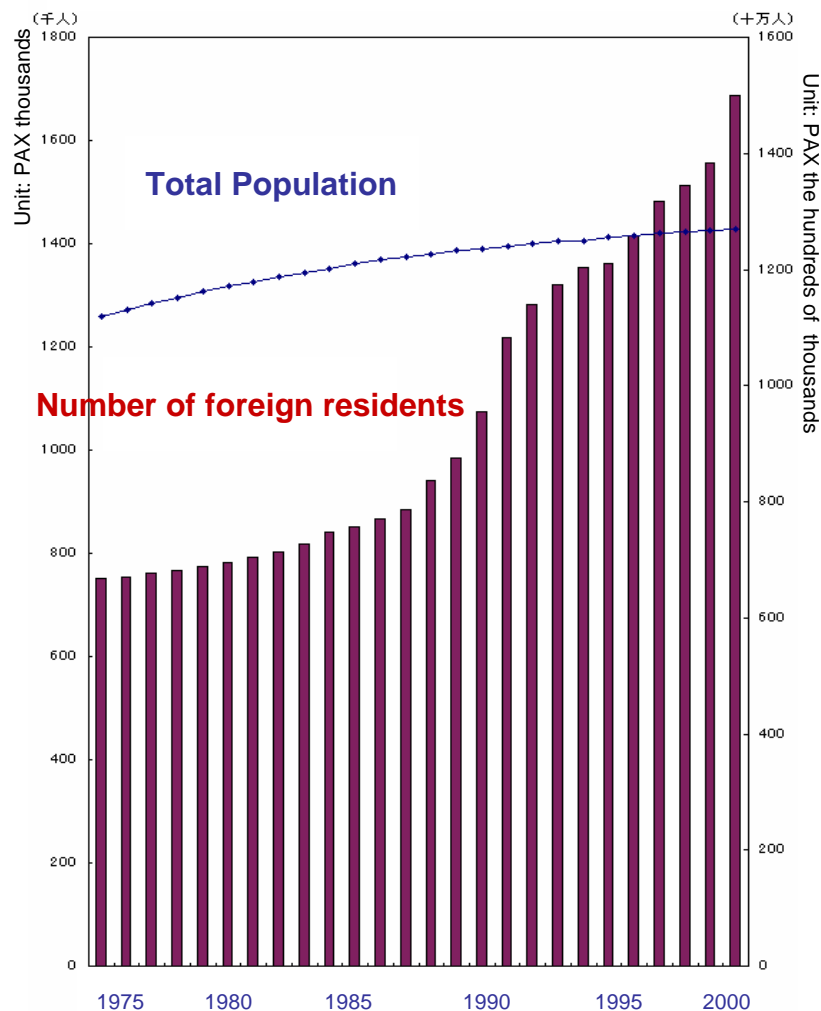


Opening of KIX Airport in 1994. Opening of NGO Airport in 2005.
Total capacity growth was 130% in 2005 vs 1995. In addition, capacity to China grew 255%, Korea 156% and Southeast Asia (including HKG) 130%. Resort routes reported a trend of reduced capacity.

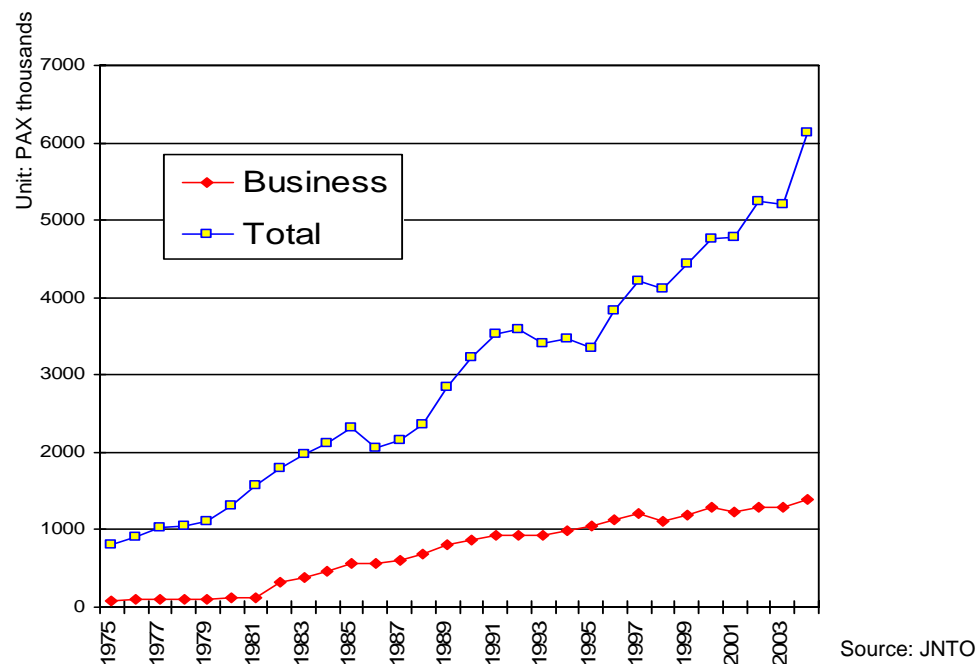
The Number of Japanese Companies Overseas



The Number of Foreign Residents



Annual Visitor Arrivals by Purpose of Visit



-Number of foreign residents have increased over the years. As of 2003 there were 1.9 million foreign residents.

-Among the total number of visitors to Japan, business-related visits accounted for 31% of the total share in 1995, which was a new record. Since then the leisure market especially from within Asia has seen substantial growth and in contrast the present business travel market represents approximately 22% of the total share.

International Corporate Market Concept

→ Pricing, Safety
and Comfort

1. Compliance of Aviation Law

→ Restricted to only offer fares
which have received prior
government approval

2. Route Planning

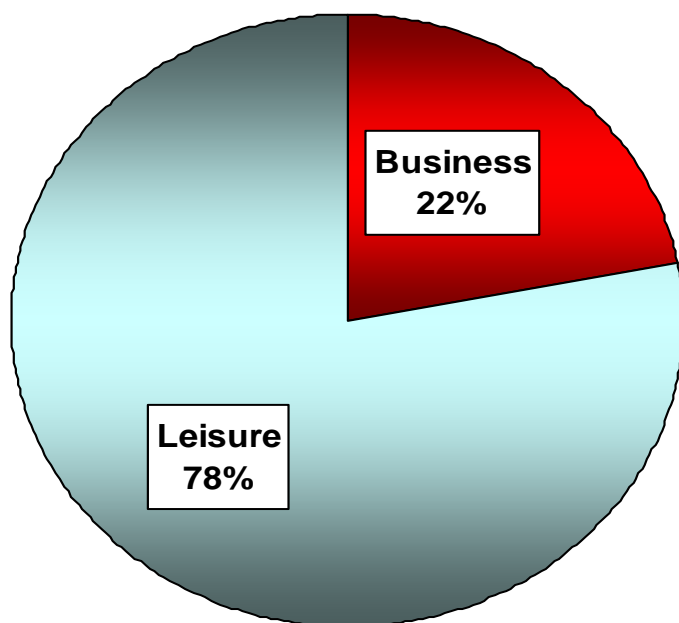
→ Key word : BRICs
especially China

3. Merchandise Strategy

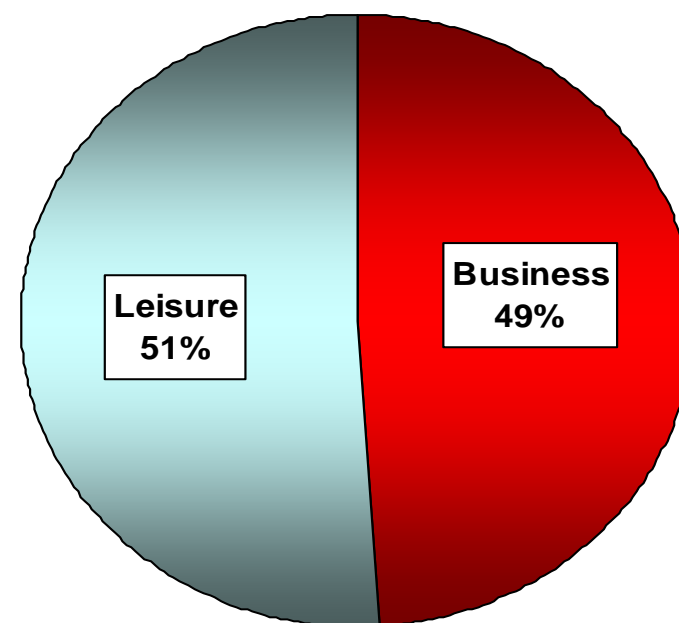
→ Seat, In-flight service
& Mileage
→ Support program
- Assisting connection PAX
- Limousine service for
long distance PAX

Japanese International Market Segment Share

Passenger Number
(FY 2004)



Passenger Revenue
(FY 2004)



International Corporate Market Strategy

1. Restructuring of Network

- As business demand increases, airlines are replacing leisure routes with business routes and utilizing previously restricted slots to produce more revenues
- As China continues to grow, airlines are adding additional services to handle growing demand for new routes and increased frequencies

2. Competitive Environment

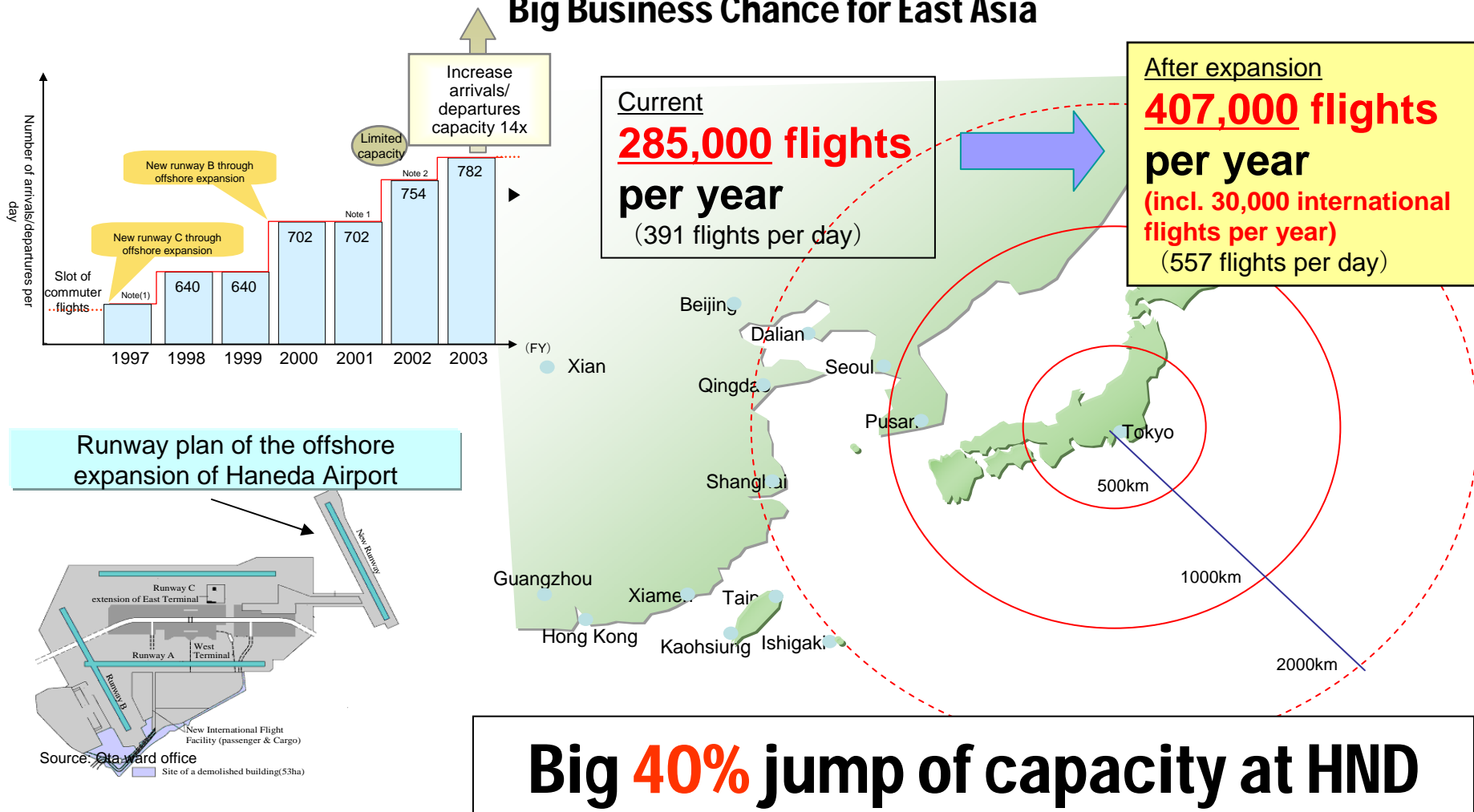
- Introduction of new business fares to match market demands
- Continue to collaborate with both corporations and travel agency partners in an effort to improve and enhance revenue production

3. Product Update

- Continue to improve the customer experience from door-to-door, making it as seamless as possible
- Provide better quality in-flight service, in-flight entertainment and upgraded seats
- Replace older aircraft with newer, more fuel-efficient and comfortable aircraft like the new Boeing 787

Expansion of Haneda Airport in 2009

Big Business Chance for East Asia

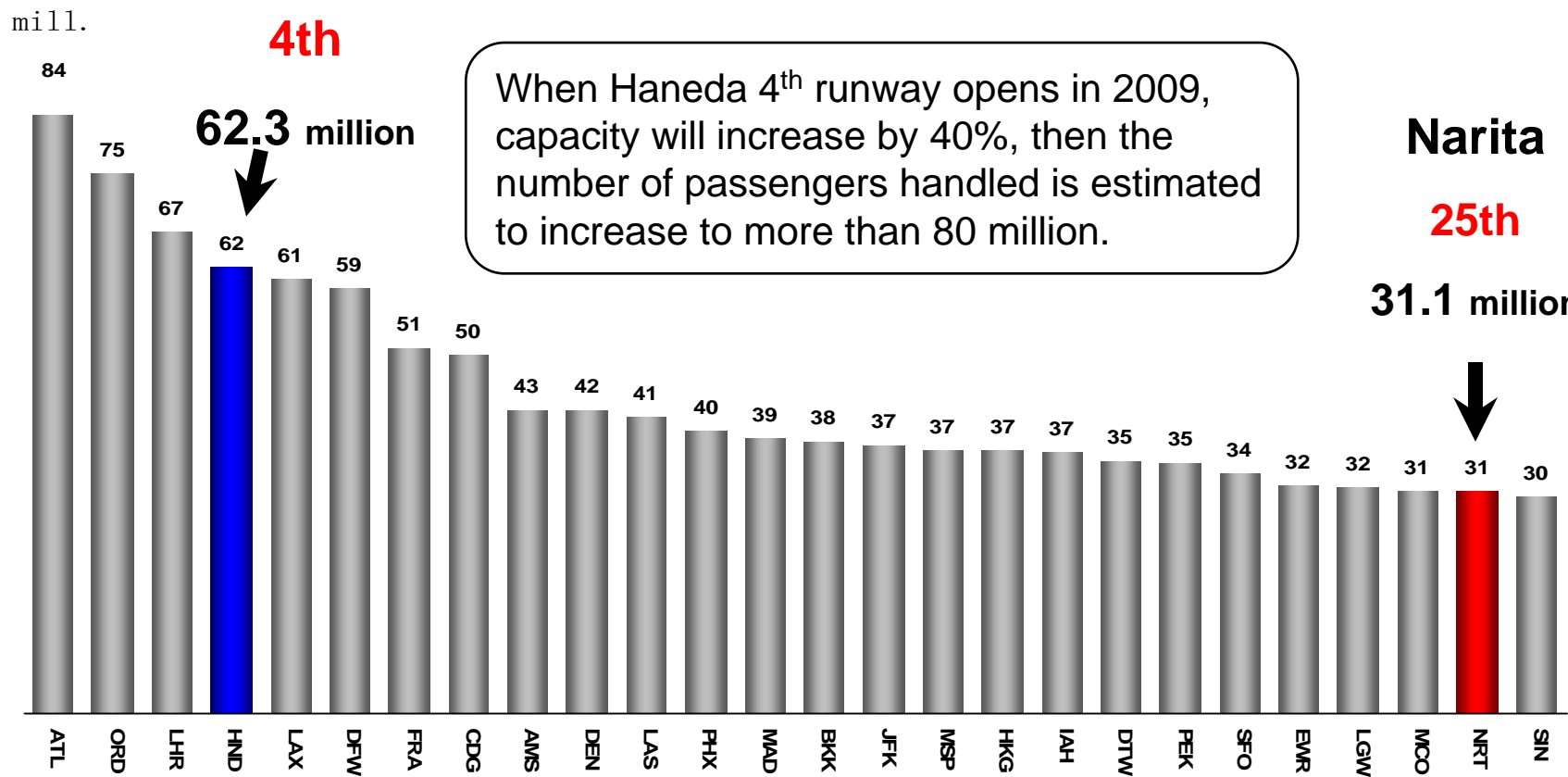


Source: Ministry of Land, Infrastructure and Transport (MLIT)

Passengers Handled at Airports World Wide

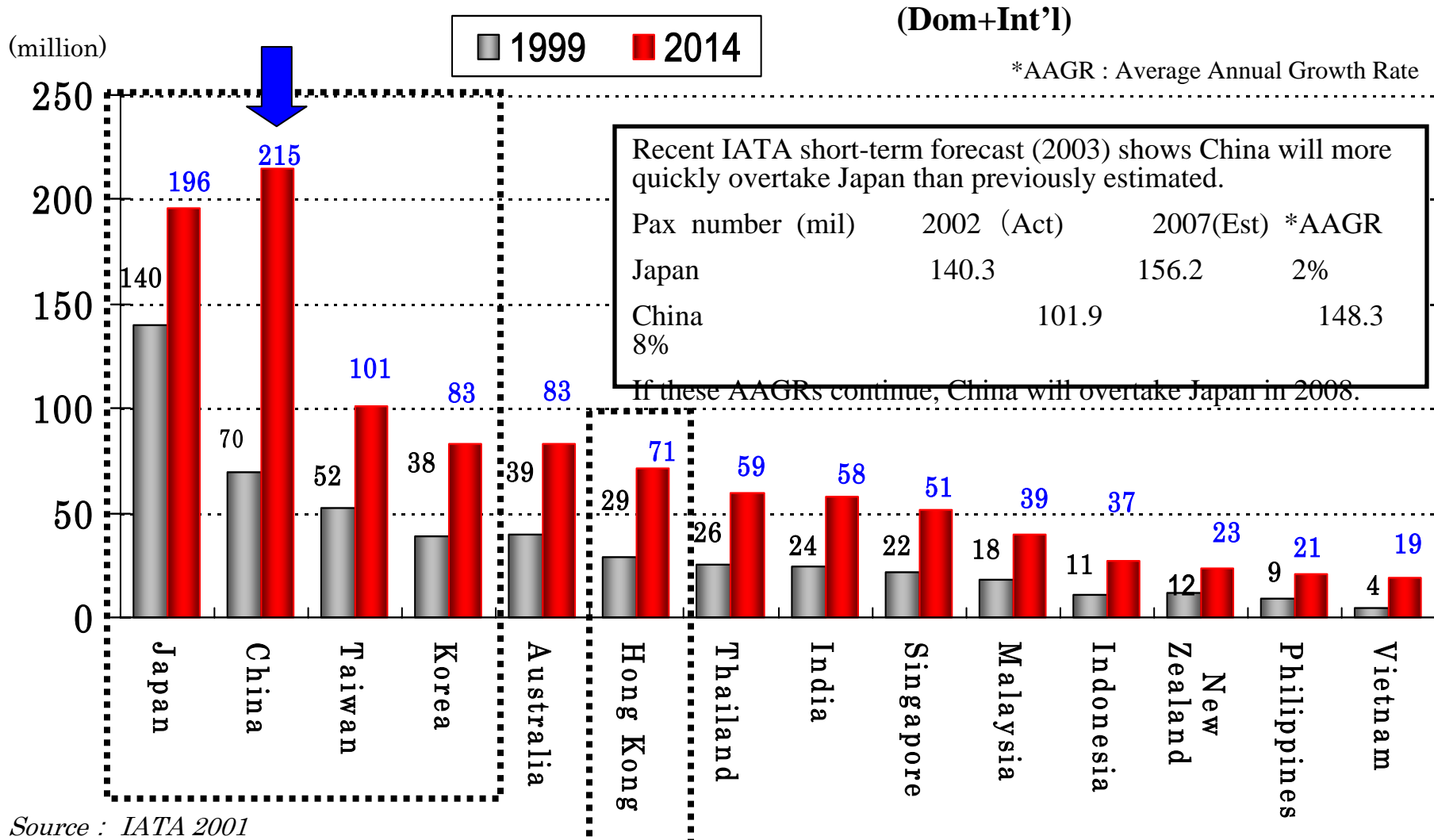
2004

Haneda



Source: Airline Business June 2005

Forecast of Market Size of Asian Countries



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