



New Mexico Air Service Marketing Strategy Executive Summary

Prepared for:
New Mexico Department of Transportation
New Mexico Department of Tourism

Introduction of Material

This document contains the recommendations from the 'New Mexico Marketing Strategy' document prepared for the New Mexico Department of Transportation and the New Mexico Tourism Department in December of 2020. Embark recommends using this Executive Summary in conjunction with the Strategy document for more in-depth detail of air service market strategy tactics and recommendations.

Overview

Effective Air Service Marketing is the integration of three core areas to form an Air Service Market Strategy. The air service market ecosystem includes Air Service Development, Marketing Programs, and Incentive Programs. For air service marketing to be successful and incentives to generate an ROI, there must be a solid, economically viable air service market. The New Mexico Air Service Marketing Strategy can serve as a blueprint for developing a best-in-class commercial air service portfolio for the State.



New Mexico Air Service

Air Service Background

Effective Air Service Development Strategy

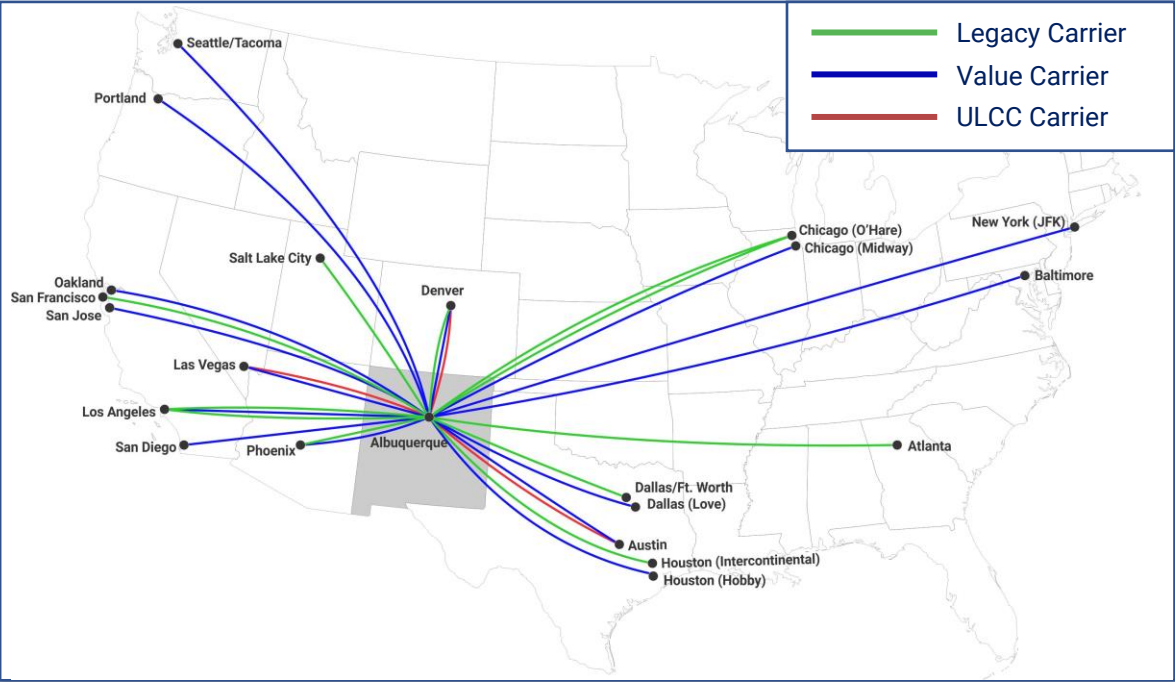
Reference Section 5 of Document

Air Service Development (ASD) is one of the most critical elements in the overall Air Service Market Strategy. ASD encompasses leveraging airline data, external industry data, local visitor data, and other economic trends to develop a profitable market strategy. ASD planners then forecast these market opportunities - modeling expected changes in demand, fare, competitive capacity, connectivity, or the macro environment. Once the network strategy is identified and forecasted, ASD planners and the community will begin outreach with airline candidates to secure the air service. The ASD forecasts are then used to forecast potential risk mitigation costs or minimum revenue guarantee payouts and help to develop effective marketing plans.

New Mexico Air Service - Today

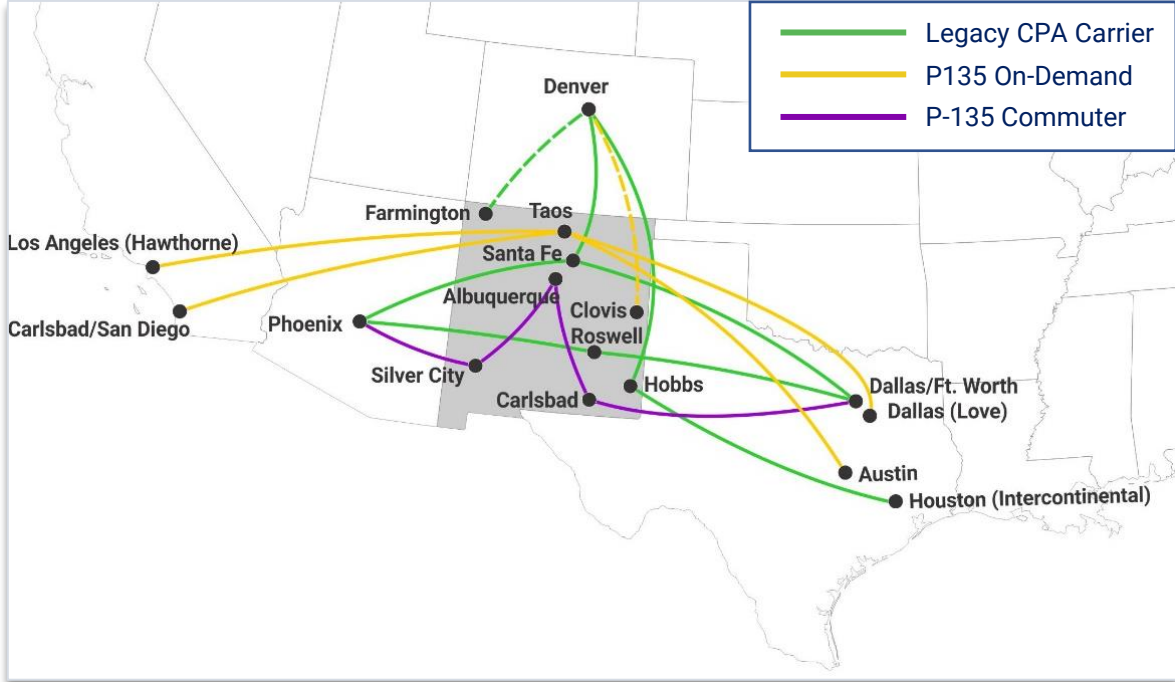
Albuquerque International Sunport

- Commercial air service to 23 destinations
- Served by 10 domestic air carriers with representation from each airline business model (Legacy, Value, Ultra Low Cost and P135 carriers)
- Southwest Airlines has the largest presence in ABQ carrying 48% of passengers
- Network carriers American, United & Delta garner 44% of ABQ market share
- Future of Volaris flights to Mexico unclear



New Mexico Regional Communities

- Beyond ABQ, eight communities are served by commercial air service
- Only three communities have supported legacy CPA service from American and/or United Airlines; Farmington service recently added via SkyWest/United partnership
- Taos Air, a P135 on-demand scheduled charter carrier, began serving the Taos community in 2018 and now provides seasonal non-stop service to four cities
- P-135 Commuter air service is provided from Silver City, ABQ and Carlsbad

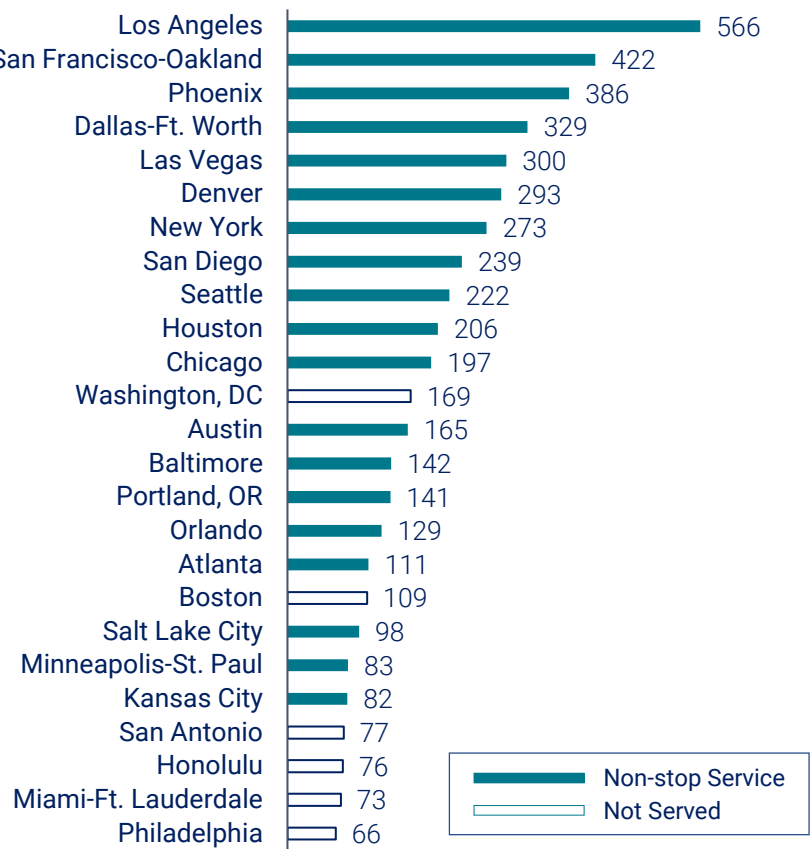


An Introspective Look at New Mexico Air Service



Sunport Intl (ABQ) Air Service

Largest Passenger Markets by DMA (Pax/day YE'19)



Largest Passenger Markets

- 19 of the largest 25 markets have non-stop commercial service
- Washington, DC is the largest DMA without nonstop flights, however, its neighbor Baltimore maintains service which services both DMA's as its airport is marketed as Baltimore-Washington Intl. Airport
- Service to San Antonio was recently discontinued and has been sporadic in recent years
- Most markets are served by Network and Value carriers. Only 4 of the top 25 (Las Vegas, Denver, Austin & Orlando) are served by ULCC carriers.
- Because of its ability to most successfully meet service needs in smaller markets, the ULCC business model has the greatest potential for succeeding in expanding the destinations from ABQ

Previously Served Markets

- A review of markets with historic service from ABQ reveals that not every potential market addition is among ABQ's Top 20 Unserved DMA's
- Several regional markets, such as Tucson and El Paso, lack reasonable air service options without nonstop flights, but carried substantial traffic when nonstop flights were offered in the past

International Markets

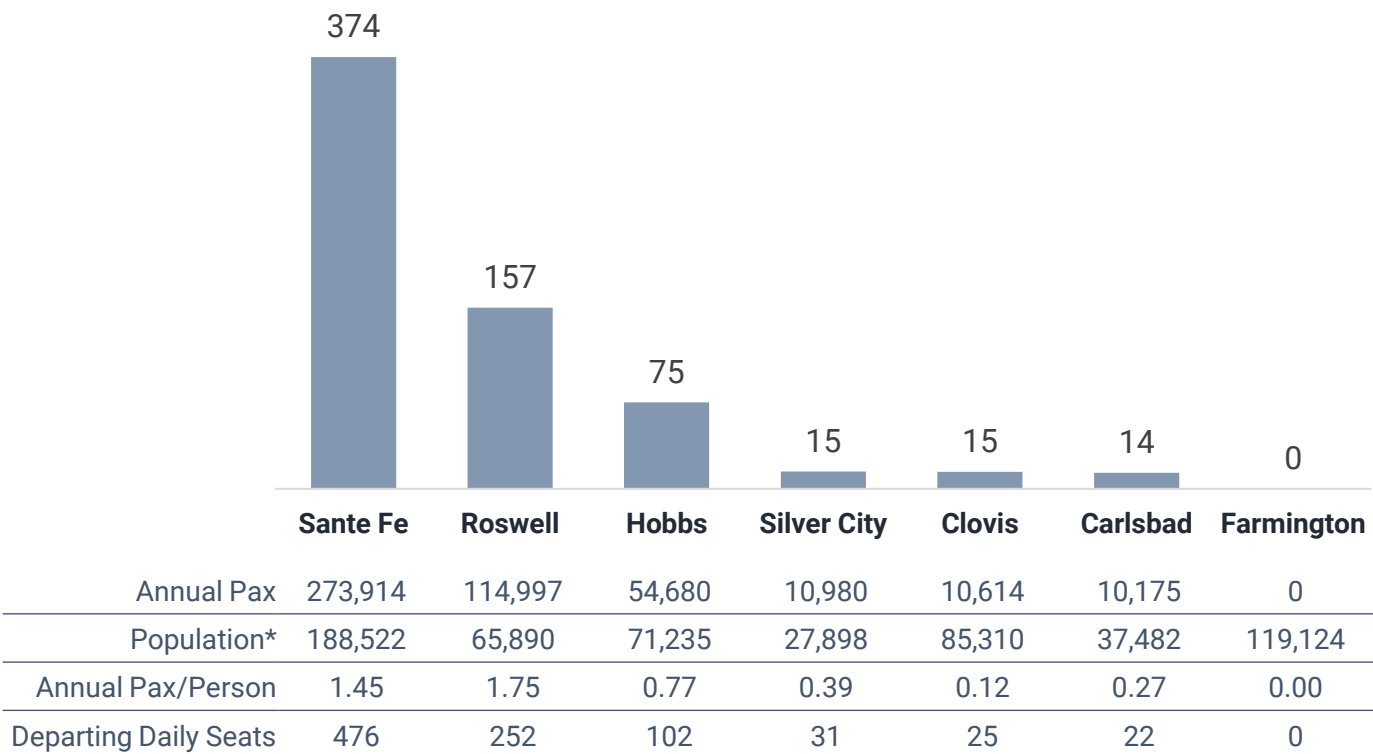
- Except for ULCC service to Mexico beach destinations, ABQ currently lacks the fundamentals for nonstop international flights – however demand to Europe is compelling enough to begin developing
- With additional marketing support, underlying traffic and industry trends suggest that traffic can likely be developed to support international flights in the future

An Introspective Look at New Mexico Air Service



Regional Community Air Service

Departing Passengers per Day (YE 2019)



* Source: DIIOMi, Combined population by zip code within 30 miles of each airport

Comments

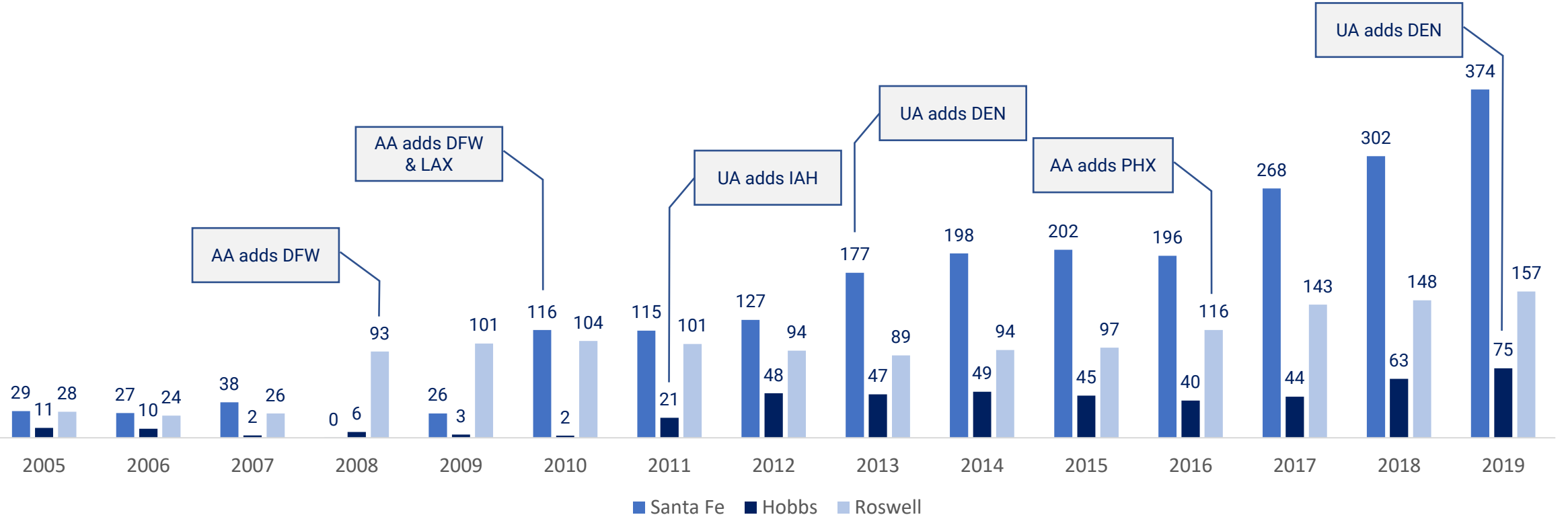
- Although the second largest regional airport in New Mexico, Roswell generates the largest ratio of airline passengers per person of any of the New Mexico regional communities
- Although Santa Fe has impressive traffic figures, its tourism appeal suggests that passengers per person could exceed Roswell's, implying growth potential
- Even with existing regional jet service, Hobbs has potential to support additional service
- The traffic ratio also demonstrates the potential for the EAS markets with branded regional jet service, relative to their regional New Mexico peer markets
- Given the substantial population of the Farmington area, its new service should demonstrate long-term success with potential for additional flights

CPA Market Impact Study – Affiliated Regional Jet Service Success

Demonstration of Major Airline’s Impact to Market Size (Since 2005)

The transition of air service at Santa Fe, Roswell and Hobbs demonstrates the potential of New Mexico’s regional markets. Traffic growth can be dramatically improved simply by upgrading to regional jet services aligned with major airline brands to substantial hubs. The addition of second hub to each market adds passenger utility, further increasing traffic.

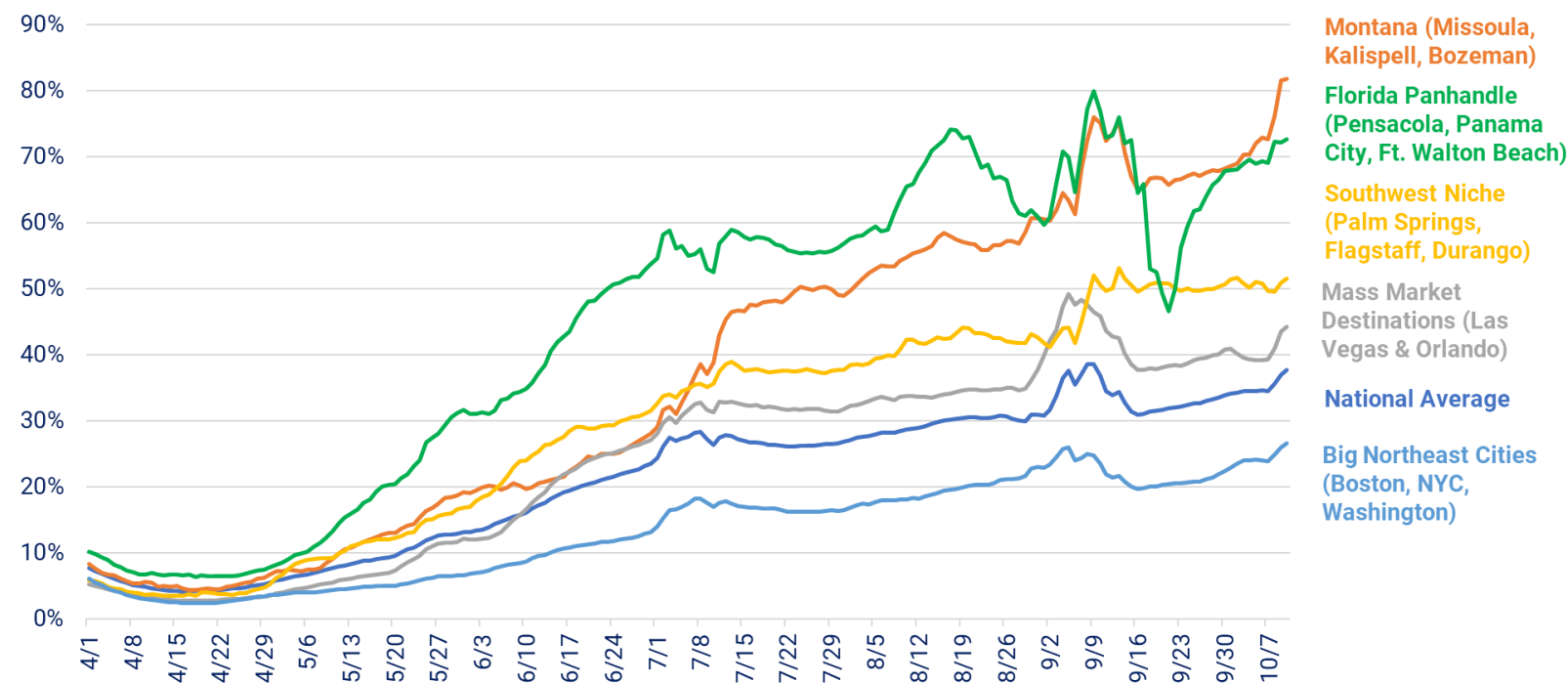
Departing Passengers per Day (PDEW)



COVID-19 Recovery Opportunity

Industry COVID Recovery Varies Dramatically by Regional Characteristics

7-Day Average TSA Screenings as Percentage of 2019



Comments

- Through the pandemic, markets with a profile that includes elements like New Mexico have out-performed the national average. Elements of the profile outperforming markets include:
 - Leisure destinations out-perform business or mixed business-leisure
 - Smaller destinations out-perform mass-market destinations
 - Destinations with outdoor activities and 'easy-to-social-distance' activities out-perform
- Given the nature of New Mexico destinations, particularly the regional market, New Mexico has the ingredients to out-perform when travel restrictions are lifted

Air Service Development (ASD) Recommendations

Air Service Development Goals



Goals for ABQ ASD Development

- Continue to recruit service to top unserved markets with a focus on matching opportunity to carrier business model.
- Restoration of previously served markets by matching opportunity to business model likely to be successful in the future.
- Package and market groups of complimentary opportunities to assist target carriers in justifying fixed costs of service additions while minimizing financial risk to the carriers.
- Drive increased international traffic through marketing in a long-term effort to recruit nonstop international flights



Goals for Regional ASD Development

- Restore air service to previously served airports, including Gallup and Las Cruces
- Each regional jet airport should be served by two major airline brands, with American and United being most logical based on hub proximity
- Each regional jet airport should maintain service to Phoenix, Denver, and either Dallas/Ft. Worth or Houston-Bush Intercontinental Airports
- Reestablish intra-state airline network

Recommendation 1: Ground Transportation Coordination

Reference Section 6 of Document

Embark recommends exploring a few different strategies to close the ground transportation gap. The state can lead an effort to ensure all regional airports have sufficient car rental options, including at least one brand with a location at every regional airport with commercial service. By doing so, regional airports will be able to better meet the complete need of travelers, which will allow traffic to grow.

- 1. Establish a relationship with Enterprise.** Currently, Enterprise is the largest operator in the State and located in every existing air service community. This is largely run through an Albuquerque based franchisee. New Mexico DOT could begin a dialogue with the franchise or corporate office to collaborate on accessibility options and potential costs.
- 2. Establish a grant program or incentives.** The State or Community may need to develop a grant program to encourage establishment of a branch at the airports until air service creates sustainable rental car business. This could include reimbursing the participating agency for moving staff/vehicles to airport to facilitate rental, waiving facility rents at the airport for rental car facility and vehicle parking, or local/State tax rebates based on volume of cars rented at regional airports.
- 3. Establish transit link.** Alternatively, each community has a transit system that could be extended to the airport during flight arrival/departure times. This would allow visitors to access car rental facilities downtown.

Recommendation 2: Create a State-supported CPA Program

Reference Section 6 of Document

Embark recommends exploring the development of two CPA programs to support rural New Mexico markets. The first is focused on building on the success of air service models in Hobbs, Roswell, and Santa Fe. As demonstrated on slide 9, we believe affiliated air service to nearby hubs is crucial for success. The second explores establishing a CPA program to develop an intra-State network.

A	Hub Service	B	Intra-State Service
	<ul style="list-style-type: none">- Focus on new, unserved or underserved markets- Network Connectivity- Interline Required/ Codeshare Preferred- State/Community Match- Potential 'exit' as profitable markets to Network Carrier		<ul style="list-style-type: none">- Focus on establishing intra-State service- Designed for same day roundtrips and connectivity through ABQ- State/Community Match- State managed and branded airline

Important note: Before exploring either option, a detailed forecast and business case needs to be developed. The costs described below are estimates based on industry data and DO NOT include any revenue projections that would ultimately reduce the cost of the program to the State and Communities.

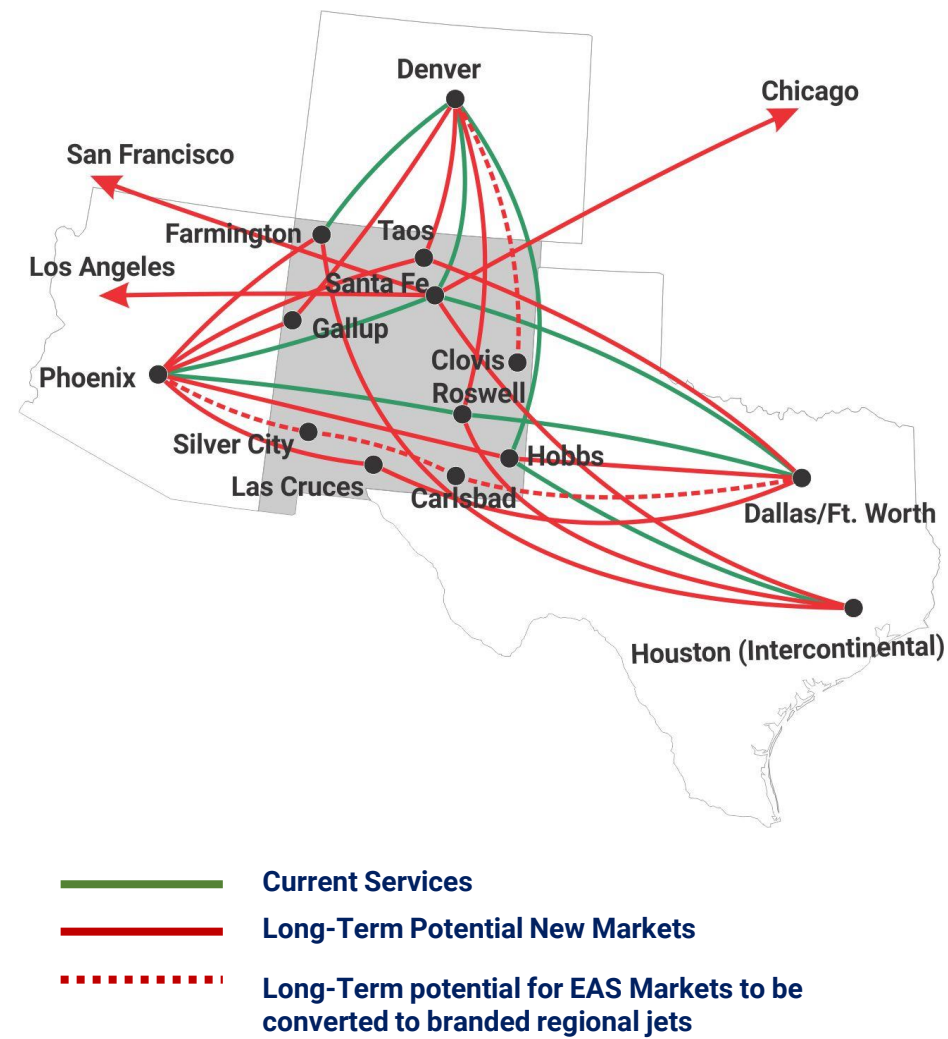
Recommendation 2A: Hub CPA Program

Program Details	
Focus Airports and Routes	NM Regional Airports to nearby hubs
Business Model	CPA provided to major-carrier affiliated regional jet operator for limited time to demonstrate potential for success of major airline branded flights to hubs in Dallas/Ft Worth, Denver, Phoenix, Houston
Target Carriers	American, United, and their regional partners
Basis	SCASD, WYDOT
Phase 1	Phoenix to Farmington, Gallup, Taos, and Las Cruces

Embark initially recommends a phased approach, beginning with Phoenix.

- 1) The market candidates have the greatest need with no, or limited airline service.
- 2) Phoenix is the closest hub, which would limit the overall cost exposure to the State and participating communities. The Phoenix region is also a key origin market for visitors.
- 3) There are two potential operators that can provide network connectivity. The first being American Airlines, which complements the existing American services in other New Mexico communities. Contour Airlines also is a compelling option. While Contour does not codeshare with American, it does have an interline agreement with the ability to book Contour/American itineraries and baggage transfers on aa.com and the OTAs.

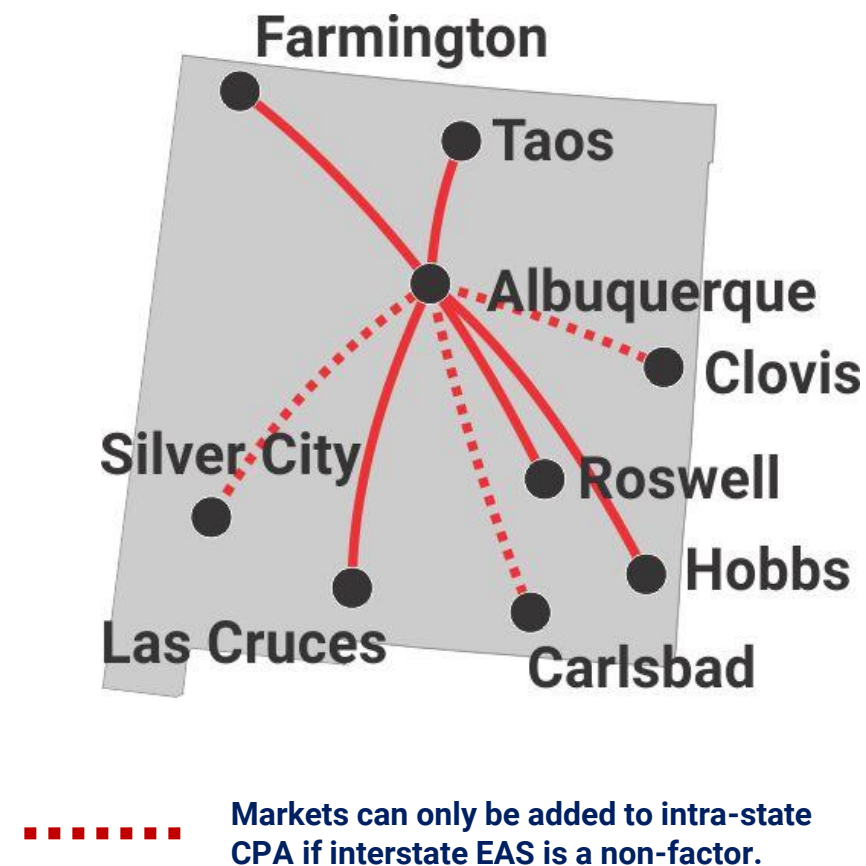
As the program matures and markets become profitable, the State can then focus on future phases of support and remove profitable markets from the program.



Recommendation 2B: Intra-State CPA Program

Program Details	
Focus Airports and Routes	ABQ to points statewide
Business Model	Re-establish intra-state network with reliable Part 135 carrier – likely requires long-term CPA support
	Operate on behalf of the State of New Mexico
	Potentially provided via state-run entity like Rail Runner
Target Carriers	Part 135 carriers like Advanced, Contour, JSX
Basis	WYDOT

- The State would manage the commercial functions of the airline, including distribution, revenue accounting and collection of all revenues.
- Revenue shortfalls/profits would be invoiced or credited to the community based on the State/Community risk sharing model at the end of each fiscal operating year.
- A percentage of the profits could be retained to support other State air service initiatives.
- Using a model developed for Taos, the State could bid the management of the airline out to an airline management firm. In addition to managing the day-to-day commercial entity, the firm would also work with various local and State entities to help develop and market the air service.



Recommendation 2: Program Requirements

Reference Section 6 of Document

Any shortfall in either of the two the program revenues is covered by the State and matching funds from each participating community. Conversely, profits would be shared at the same rate. Matching support would be based on tiered market need and funded through local sources:

Tier 1 - No Air Service: No air service in a commercially viable market (match: 20%)
Tier 2 - Limited Air Service: 1-2 routes, non-Network hub access, seasonal (match: 40%)
Tier 3 - Established Service: Multi-hub access, multi-carrier options (match: 60%)

Hub CPA Requirements	Intra-State CPA Requirements
<ul style="list-style-type: none">• Municipalities or counties shall have a minimum population of fifty thousand persons residing within a fifty-mile radius of the airport unless the municipality or county has existing air service• Air carrier must have (at minimum) an interline agreement with the dominant hub carrier, or most preferred, a codeshare or CPA relationship with the dominant hub carrier and operate regional jet equipment• Airline operator will be required to meet minimum service levels based on USDOT established metrics for schedule completion and on time performance• Routes to be served by the program shall be new air routes that were not served prior to program or previously served routes that were discontinued within the past twelve months; and• Program needs to be in place for a minimum of three years to adequately develop the markets.	<ul style="list-style-type: none">• Municipalities or counties shall have a minimum population of twenty thousand persons residing within a fifty-mile radius of the airport unless the municipality or county has existing air service• Aircraft to be used to service proposed new air routes shall be served at a minimum with twin engine turboprop aircraft• Airline operator will be required to meet minimum service levels based on USDOT established metrics for schedule completion and on time performance• Routes to be served by the program shall be new air routes that were not served prior to program; and• Program needs to be in place for a minimum of three years to adequately develop the markets.

Recommendation 2: Estimated Annual Program Costs

Program Cost Forecast – Phoenix Hub CPA					
Destination	Distance	Daily Frequency	Daily Seats	Annual Departures	Annual Cost
Las Cruces	306	1.7 x	51	1,251	\$4,400,000
Farmington ¹	313	1.7 x	51	1,251	\$4,000,000
Gallup ²	233	0.7 x	21	521	\$1,000,000
Taos ³	415	0.4 x	13	156	\$700,000
Total		10.2	137	3,181	\$10,100,000

¹ Operated 1x daily nonstop and 0.7 on triangle with GUP

² Operated on triangle as PHX to GUP to FMN to PHX

³ Operated Summer and Winter only

Cost Assumptions: Operated with EMB145 aircraft with 30 seat configuration

Program Cost Forecast – Intra-State CPA					
Destination	Distance	Daily Frequency Each Way	Daily Seats	Annual Departures	Annual Cost
Farmington	148	2.7 x	24	1,970	\$1,300,000
Roswell	169	2.7 x	24	1,970	\$1,400,000
Las Cruces	190	1.7 x	15	1,240	\$1,000,000
Hobbs	254	1.7 x	15	1,240	\$1,200,000
Taos	111	1.4 x	13	1,021	\$500,000
Total		10.2	92	7,442	\$5,400,000

Cost Assumptions:

- Operated with fleet of 6 Cessna 402 aircraft
- Aircraft configured with 9 passenger seats
- Fuel purchased at \$4.00 / gallon

Important note: Before exploring either option, a detailed forecast and business case needs to be developed. The costs described above are estimates based on industry data and DO NOT include any revenue projections that would ultimately reduce the cost of the program to the State and Communities.

Recommendation 2: Hub CPA forecasted economic impact – up to \$9MM

Origin (to PHX)	LRU	FMN	GUP	TSM	Total
Daily Frequency	1.7	1.7	0.7	0.4*	4.3
Incremental Visitors (low)	6,500	6,500	2,700	800	16,500
Incremental Visitors (high)	10,400	10,400	4,300	1,200	26,300
Avg. Trip Spend per Visitor	\$195				\$195
Incremental Visitor Spend (low)	\$1.27M	\$1.27M	\$0.53M	\$0.16M	\$3.23M
Incremental Visitor Spend (high)	\$2.03M	\$2.03M	\$0.84M	\$0.23M	\$5.13M
New Employment Salary	\$0.67M	\$0.67M	\$0.67M	\$0.67M	\$2.68M
Fuel & Facility Fees	\$0.44M	\$0.44M	\$0.16M	\$0.06M	\$1.10M
Economic Impact (low end)	\$2.38M	\$2.38M	\$1.36M	\$0.89M	\$7.01M
Economic Impact (high end)	\$3.14M	\$3.14M	\$1.67M	\$0.91M	\$8.91M

Forecast Details

- Based on industry experience, new airline seat capacity stimulates between 0.5 and 0.8 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
- Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
- New scheduled air-carrier service will create new local jobs. Assumed 15 new employees at each NM station, include airline, airport & TSA staff
- NM stations will collect facility fees and fuel sales from the schedule air carrier
- Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from \$7.0M to \$8.9M

* TSM service limited to Summer and Winter seasons

Recommendation 2: Intra-State CPA forecasted economic impact – up to \$6MM

Destination	FMN	ROW	LRU	HOB	TSM	Total
Daily Frequency	2.7	2.7	1.7	1.7	1.4*	9.5
Incremental Visitors (low)	1,500	1,500	900	900	400	5,200
Incremental Visitors (high)	2,300	2,300	1,500	1,500	600	8,200
Avg. Trip Spend per Visitor	\$182					\$182
Incremental Visitor Spend (low)	\$270,000	\$270,000	\$160,000	\$160,000	\$70,000	\$0.93M
Incremental Visitor Spend (high)	\$420,000	\$420,000	\$270,000	\$270,000	\$110,000	\$1.49M
Operating Investment (Minus Ownership)	\$1.10M	\$1.40M	\$0.90M	\$1.10M	\$0.30M	\$4.80M
Economic Impact (low end)	\$1.37M	\$1.67M	\$1.06M	\$1.26M	\$0.37M	\$5.73M
Economic Impact (high end)	\$1.52M	\$1.82M	\$1.17M	\$1.37M	\$0.41M	\$6.29M

- Forecast Details
- Based on industry experience, new airline seat capacity stimulates between 0.5 and 0.8 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
 - Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
 - Avg. trip spend was reduced by X%, as we anticipate a higher ratio of day-trips with air travel
 - Operating investment is included, as airline expenditures such as employment and fuel expenses are stimulus to local economies
 - Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from \$5.7M to \$6.3M**

* TSM service limited to Summer and Winter seasons

Recommendation 3: Pursue ULCC Focus City at ABQ

Program Details	
Support	With the exception of DCA and BOS, many unserved markets from ABQ are long thin routes, meaning long distances with relatively few daily passengers.
	ULCC carriers are more successful at succeeding in small markets by stimulating significant new demand with very low fares
	In our analysis, 9 of the largest 10 unserved ABQ markets meet the market size, fare levels, and network fit to be ideal candidates for ULCC service
Focus Airports and Routes	Target unserved routes from the ABQ airport
	ASD efforts will be focused in markets that revenue forecasts indicate will perform strongly with application of ULCC business model
	ABQ should strive to obtain a volume of markets and capacity sufficient to fully utilize at least 2 aircraft
Business Model	Recruit and incentivize addition of several markets through use of traditional Air Service incentives plus additional incentives for local employment
Target Carriers	ULCC Carriers (Allegiant, Frontier, Spirit)
Basis	Traditional ASD and local incentives



ULCC Focus city forecasted economic impact – up to \$48MM

Destination (from ABQ)	Wash. D.C.	Boston	San Antonio	Miami	Philadelphia	Sacramento	Total
Daily Frequency	0.4	0.4	0.4	0.3	0.3	0.3	2.1
Incremental Visitors (low)	10,500	10,600	10,100	5,300	7,500	7,900	51,900
Incremental Visitors (high)	15,700	15,900	15,100	8,000	11,300	11,900	77,900
Avg. Trip Spend per Visitor	\$195						\$195
Incremental Visitor Spend (low)	\$2.1M	\$2.1M	\$2.0M	\$1.0M	\$1.5M	\$1.5M	\$10.1M
Incremental Visitor Spend (high)	\$3.1M	\$3.1M	\$3.0M	\$1.6M	\$2.3M	\$2.3M	\$15.2M
New Employment Salary	\$4.7M						\$4.7M
Fuel & Facility Fees	\$1.1M	\$1.3M	\$0.5M	\$0.7M	\$0.8M	\$0.5M	\$4.8M
Economic Impact (low end)	\$7.8	\$8.0	\$7.2	\$6.4	\$6.9	\$6.7	\$43.0M
Economic Impact (high end)	\$8.8	\$9.0	\$8.2	\$7.0	\$7.6	\$7.5	\$48.1M

Forecast Details

- Routes selected based on high level review of opportunity. Volume of flying fulfills typical Allegiant utilization for 2 based aircraft
- Based on industry experience, ULCC seat capacity stimulates between 0.6 and 0.9 passengers per seat. These are the baseline assumptions for the low- and high-end forecast ranges.
- Average trip spend per customer is derived from the Economics Impact of Visitors in New Mexico 2019 report, prepared by Tourism Economics
- A ULCC hub will create new local jobs. Allegiant suggests a new hub adds 66 new high paying jobs, which our estimate is based
- Total economic impact for year 1 of operations with a frequency of service as defined, is forecast to be from \$43M to \$48M

Air Service Marketing Recommendations / Action Plan

Effective Marketing Strategy

Reference Section 3 of Document



The State of New Mexico (and many of the local DMOs across the State) have developed effective destination marketing programs to build awareness and consideration for tourism within the State. These programs can be modified to improve air service awareness; and with the introduction of dedicated air service budgets, increase the reach to new target travelers. Marketing programs are critical to the development of air service in the State as well as functioning as an incentive to attract new air service options. Our recommendations will focus on the five key areas introduced in the Strategy document.

Recommendation 1: Owned Channel Messaging

Reference Section 6 of Document

Each community/region with air service should develop comprehensive air service messaging for all owned channels

Community/Regional Channels	State Channels
<ul style="list-style-type: none">• Tourism, Airport, and Chamber websites in prominent, high traffic locations (example: homepage tile, 'getting here' pages, etc.)• Social media channels – air messaging integrated into any post that promotes travel to the region• Key economic entity owned channels (lodging properties, major businesses, major tourist attractions, etc.)	<ul style="list-style-type: none">• Adding 'airplane' icons to the regional maps to call out availability of air service• In the regions and cities section include a 'Getting here' line that leads with air service messaging.• Develop a 'Fly New Mexico' page that provides details on ease of access to the State by air with links to the respective websites to book travel. This page will also serve as a landing page for any State supported advertising targeting airline service.• On 'Plan' page add a 'Fly New Mexico' tile linked to the 'Fly New Mexico' page that shows how easy it is to access the State

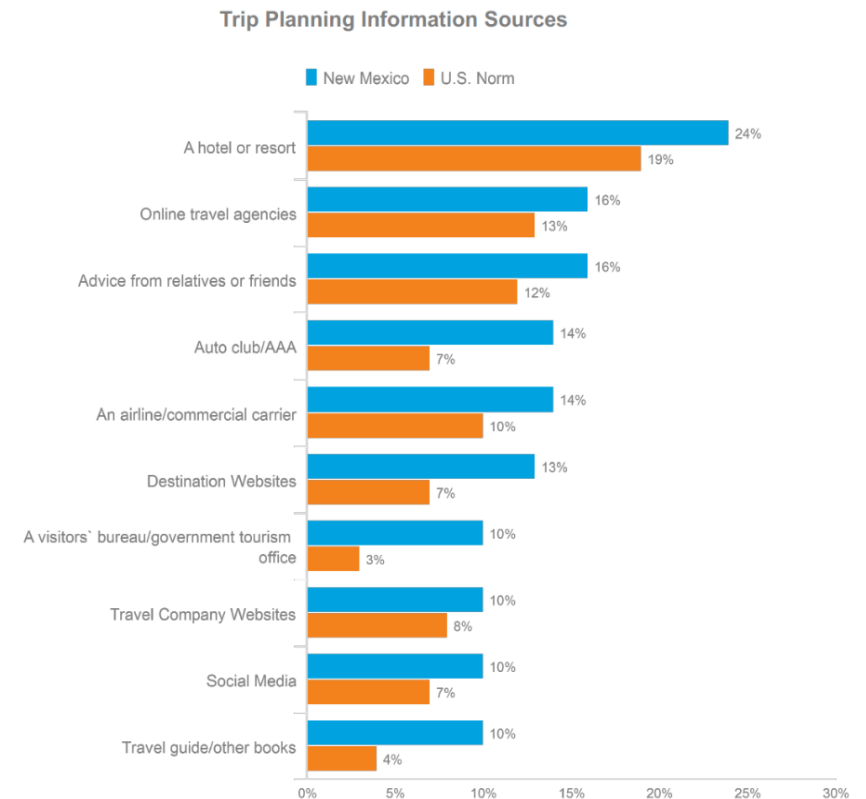


Recommendation 2: Community Channel Messaging

Reference Section 6 of Document

Each community/region with air service should develop a 'Fly Local' marketing tool kit
(Reference Appendix 2 in the Strategy document)

1. The community should identify one accountable entity to administer air service marketing programs
2. The program should include a web page toolkit with resources to promote air service locally. It should include images, language for websites and other channels, logos, and digital advertising assets (Appendix 2 of Strategy document).
3. The community should then encourage all key businesses, hotels, resorts, and other prominent organizations to leverage the toolbox and promote local air service. State of New Mexico visitor research demonstrates the importance of local participation. A significant number of visitors use local websites for trip planning. With 24% using a hotel or resort website and 16% from advice from relatives and friends, a strong local network promoting air service can be powerful resource.
4. To incentivize participation, the State could develop a grant program that matches the value of air service in-kind marketing efforts with State funds that can be used for air service marketing initiatives in a community.



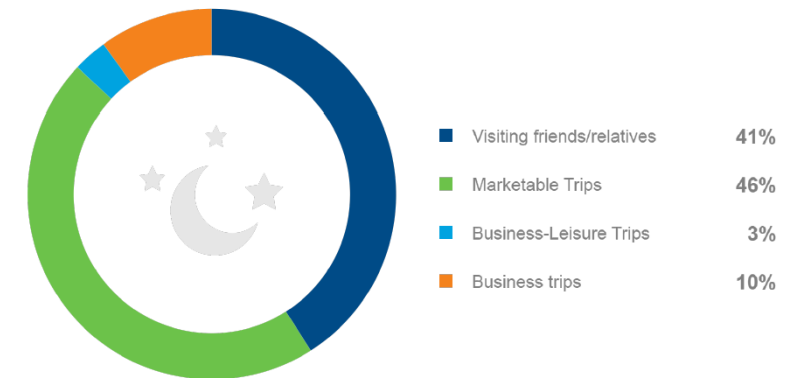
Recommendation 3: Paid Media Development

Reference Section 6 of Document

Each air service community should develop paid advertising programs. In addition to being used to expand and develop existing services, these advertising programs will be critical components for a robust airline incentive program.

Air service marketing will need to be budgeted and approached with a focus on these two tactics:

- 1) Build awareness and consideration for new air service
 - 2) Maintain awareness and increase conversion of existing air service
- Since the DMO already has marketing programs in place to attract visitors, Embark recommends the DMO initially own air service marketing for the community.
 - This will include planning for both the inbound market, the local market, and assisting the airport in the development of an Air Service Incentive Program.
 - Local advertising spend can be relatively simple, particularly if a strong 'Fly Local' program is in place. Since New Mexico has a large percentage of visitors (41%) in the VFR (visiting friends/relatives) category making up overnight trips, ensure a local advertising program is in place to support and augment the plan targeting inbound visitors.



Recommendation 4: Creation of Air Service Improvement Tax

Reference Section 6 of Document

Given the required investment for air service development and marketing, Embark recommends legislation to create an air service improvement tax. This optional tax could be leveraged by municipalities to create a funding mechanism to support air service marketing, development, airport ground transportation, and risk mitigation programs.

Proposal:

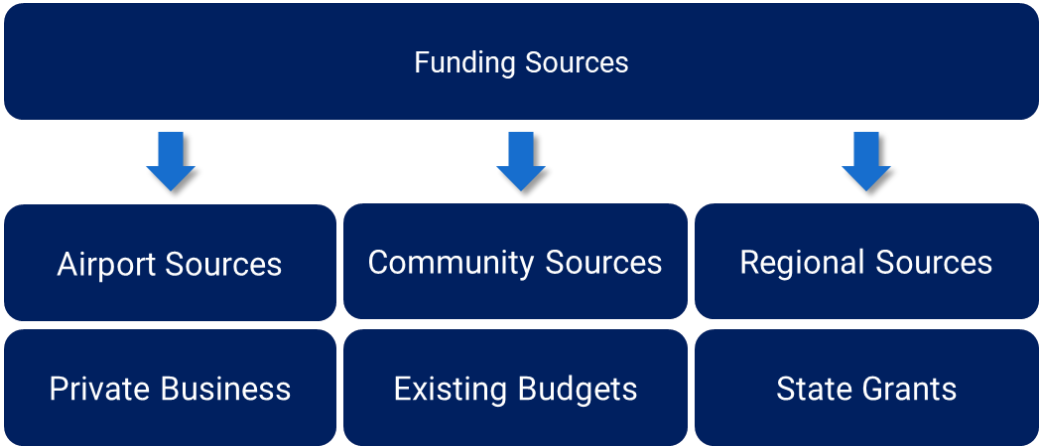
- Optional tax available to New Mexico municipalities to fund air service marketing, development, airport ground transportation solutions, and risk mitigation programs.
- This new tax of up to five percent (on goods and services to be determined) would be developed based on forecasted local program costs for air service marketing, development, airport ground transportation, and risk mitigation programs.
- Program could require matching contributions from other funding sources in the public and private sector to ensure local support from the communities.
- Regional communities that surround an air service community (up to 50 miles) could also be eligible for these provisions if a regional air service marketing organization is formed to support air service.

Recommendation 5: Funding Considerations

Reference Section 6 of Document

Air service development and marketing is a significant investment in time and money. However, well developed air service will generate significant return on the investment and economic benefit. Embark recommends the following approach:

- 1. Identify Optimum Budget.** Based on best practice, a budget of \$100,000 for new service and \$50,000/year for maintaining and growing existing service has produced the best results. The community will want to identify the optimum budget for each category – beginning with developing the owned and community engagement channels first.
- 2. Identify Funding Mechanisms.** This can be a very collaborative, regional approach with contributions from various organizations. Funding can come from a variety of sources, including but not limited to taxes, general fund, private businesses, real estate, homeowner dues, grant programs, etc.
- 3. Build Program.** Identify who will own air service marketing in the community, generally this is managed by the DMO. The program owner will develop the program, identify funding, and execute the plan.



Recommendation 6: Develop Local Air Service Development Programs

Reference Section 6 of Document

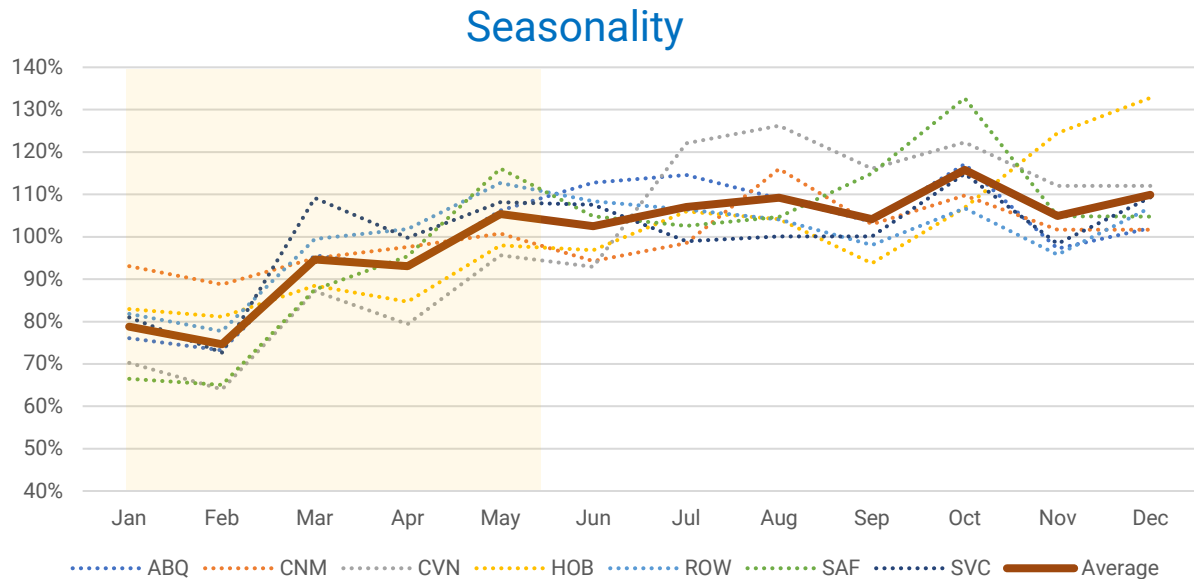
As air service grows and develops, Embark recommends creating a comprehensive Air Service Development Program supported by a local air service organization



Media Planning Considerations: Seasonality and Targeting

Reference Section 6 of Document

Focus air service marketing to target the off-peak travel periods and key traveler demographics



Air service is most vulnerable in the off-peak periods of the year and represent the greatest opportunity for marketing support; this is also generally the period that airlines cut service. Airline bookings generally build momentum and peak between 30 to 60 days prior to departure, so a plan that targets air travel roughly 60 days from the period you want to support is most ideal.

Demographics

- Adults between the ages of 35-54
- Male 60%/Female 40%
- College educated
- HHI \$75,000+
- Propensity to travel at least 1-3 times per year by air

Based on the A4A's [annual survey](#), only 45% of Americans traveled by air in 2019 and of that total 71% traveled for personal reasons and 29% for business. Air travel over-indexes with an audience that generally has more discretionary income. This allows more focused and specific demographic targeting to ensure budgets are utilized effectively.

Recommendation 7A: Post Covid-19 Approach

Reference Section 6 of Document

While it is difficult to forecast a return to ‘normalcy’ following Covid-19, outdoor leisure destinations are recovering more quickly and will likely accelerate once a vaccine is introduced in early 2021

1. Given New Mexico’s focus on outdoor recreation, the State and local DMO’s should aggressively implement campaigns immediately upon the Governor lifting quarantine restrictions
2. Competition across DMOs across the country will likely require a higher budget than 2019 given the pent-up demand across the country.
3. With lodger tax receipts significantly lower than 2019, and other funding likely a challenge to raise, the State should consider a Covid-19 grant program to close the gap for communities across the State based on 2019 fiscal year spending.
4. Airline traffic peaks between August and December, giving New Mexico an advantage for planning and executing campaigns leading up to the 2021 peak season, especially if vaccines are more widely deployed by late Spring.

Campaign Concepts

1. **Work from _____.** Develop campaigns around the emerging ‘digital nomad’ culture. This emerging dynamic is creating a whole new segment of ‘bleisure’ traveler – mixing work with play. Partnership from hotels and resorts deeply discounting mid-week stays could help incentivize travel.
2. **Small Town USA.** Travel is shifting away from large cities and crowded tourist attractions and moving to smaller cities with authentic experiences.
3. **Travelers have become more interested in the outdoors.** Aggressively target popular outdoor destinations in New Mexico’s competitive set. This should include moving share from Arizona, Colorado, and Montana. Programmatic ad buys should target these destinations to intercept visitors. This can be particularly effective in OTA or Kayak advertising platforms.

Recommendation 7B: Regional Collaboration

Reference Section 6 of Document

New Mexico markets six distinct regions across the State and while this concept is not new, reinvigorating regional marketing programs that integrate air and ground components can help create longer stays and broader awareness of air service options. Embark identified two potential concepts:

Arts and Adventure	
Focus airports and routes	Santa Fe, Taos
Communities	Santa Fe, Taos, and Enchanted Circle region
Non-community partners	Taos Air, American Airlines, Car Rental partner
Target media markets	Austin, Los Angeles
Concept	Fly/Drive promotion that allows visitor to fly into one airport and out of another. The car rental partner could waive drop off fees for cars on either end. Participating communities would provide value added offers when they show their Taos Air or American boarding pass with Taos or Santa Fe as the airport destination
Marketing	The NNMAA, Taos, Enchanted Circle DMOs would collaborate to develop the program and campaign and promote through owned and paid channels. Paid media would be targeted in the Austin or Los Angeles DMAs. Given the high cost of media in Los Angeles, State marketing funds could be used to match the media plan, or existing State plans in those geographies adjusted to promote the campaign.

Parks and Peaks	
Focus airports and routes	Carlsbad and Roswell
Communities	Carlsbad, Roswell, Ruidoso, NP Communities
Non-community partners	Boutique, American Airlines, Car rental partner
Target media markets	Dallas and key visitor markets throughout U.S.
Concept	Fly/Drive promotion that allows visitor to fly into one airport and out of another. The car rental partner could waive drop off fees for cars on either end. Participating communities would provide value added offers when they show their Boutique or American boarding pass with Carlsbad or Roswell as the destination.
Marketing	Starting with Dallas, media would also target key visitor origin markets that are available by way of connections on American. Since flights will need to be purchased through an Online Travel Agency partnering with an OTA may also provide value. State marketing funds could be used to match the media plan, or existing State plans in those geographies adjusted to promote the campaign.

Recommendation 7C: International Market Development

Reference Section 6 of Document

While international development has focused primarily on Mexico, Embark see's long-term opportunity to support air service from Canada and Europe, which from an air service perspective, generates the most air travelers (refer to Section 5 in the Strategy document). New Mexico can start laying the foundation for air service to Canada and Europe by beginning to develop marketing programs targeting these regions.

- **Mexico Maintenance.** The size and strength of the drive market today requires maintaining a marketing program targeting this region.
- **European Expansion.** Given the impact of Covid-19, travel from international gateways is not likely to recover for at least two years. This gives New Mexico Tourism time to develop a budget; and target investing in Europe beginning Summer/Fall of 2022. Partnering with American/British Airways in the UK and other European cities to develop marketing programs, sales missions and media familiarization trips would be valuable in 2021.
- **Northern Neighbors.** Vancouver and Toronto are key markets to develop and have the strongest potential for service in the future. Like Europe, partnering with United/Air Canada to develop marketing programs would begin to lay the foundation for future service.
- **Regional Partnership.** Since Santa Fe also attracts a significant number of international visitors that mirrors ABQ, partnering with SAF on European and Canadian efforts will help increase traffic for both cities and create a more compelling value proposition.

Recommendation 8: Space Tourism Development

Reference Section 6 of Document

With the development of Spaceport America near Truth or Consequences, New Mexico has an opportunity to develop a space tourism industry. New Mexico's rich military and space history create an opportunity to develop a much deeper and immersive experience by tying other regional space exploration attractions into a 'Space-cation.'

1. While Spaceport America is closest to Truth or Consequences, Las Cruces is the closest major city that can support the infrastructure and visitor volumes for space tourism.
2. Las Cruces currently has a large inventory of rooms across several hotel brands and chains. It is anchored on the luxury end with the Hotel Encando de Las Cruces which has been designated as the official hotel of Virgin Galactic for Spaceport America. The region also provides a wide array of restaurants and other amenities that make it the perfect hub for space tourism and the astronauts participating.
3. Resumption of air service is critical to providing the most convenient and competitive link to the region. If served by a major network brand such as American Airlines, it provides seamless access to the World, making Las Cruces and the region more accessible. The region can likely support limited air service and begin to develop an air service niche like Santa Fe.

Embark recommends creating an air service development program in Las Cruces and begin to lay the groundwork for attracting and securing air service; possibly through the recommended Hub CPA program

Recommendation 8: Space Tourism Development (Cont.)

Reference Section 6 of Document

Working with other communities in the region, develop the ultimate 'Space-cation' including the development of a multi-day itinerary leveraging Las Cruces as the hub, or if part of a fly/drive program, Roswell as a gateway airport.

- **Launch parties.** When launches are planned, the Space-cation marketing entity will publish the launch calendar and develop exclusive launch parties or viewing areas for each launch.
- **Ride the Space Highway.** Regional integration of activities that serve as the core space-cation experience:
 1. Spaceport astronaut training and 'certification'
 2. Post training exploration of Truth or Consequences (hot springs, recreation, more 'eclectic' experience)
 3. Visit to White Sands National Park and White Sands Missile Museum
 4. Alamogordo activities at the NM Museum of Space History and the Sunspot Astronomy and Visitor Center

While further away to accomplish a day trip, integrating Roswell and its world-famous UFO Museum and 'site' tours would be a fantastic component. Incorporating Roswell would be a good fit for inclusion in fly/drive itineraries where visitors fly into Las Cruces and out of Roswell, or vice versa.

Embark recommends the region begin forming a regional marketing organization with other communities to develop and structure the Space-cation experience.

While not preferred, Las Cruces can initially leverage the El Paso Airport as the 'gateway' airport (60 minutes away). While retaining all dollars in New Mexico is ideal, the nearest major gateway is Albuquerque over three hours away, which makes the space-cation experience less convenient and less accessible.

Once air service is established in Las Cruces, the messaging can switch away from El Paso.

Air Service Incentive Recommendations / Action Plan

Effective Incentive Strategy

Reference Section 4 of Document



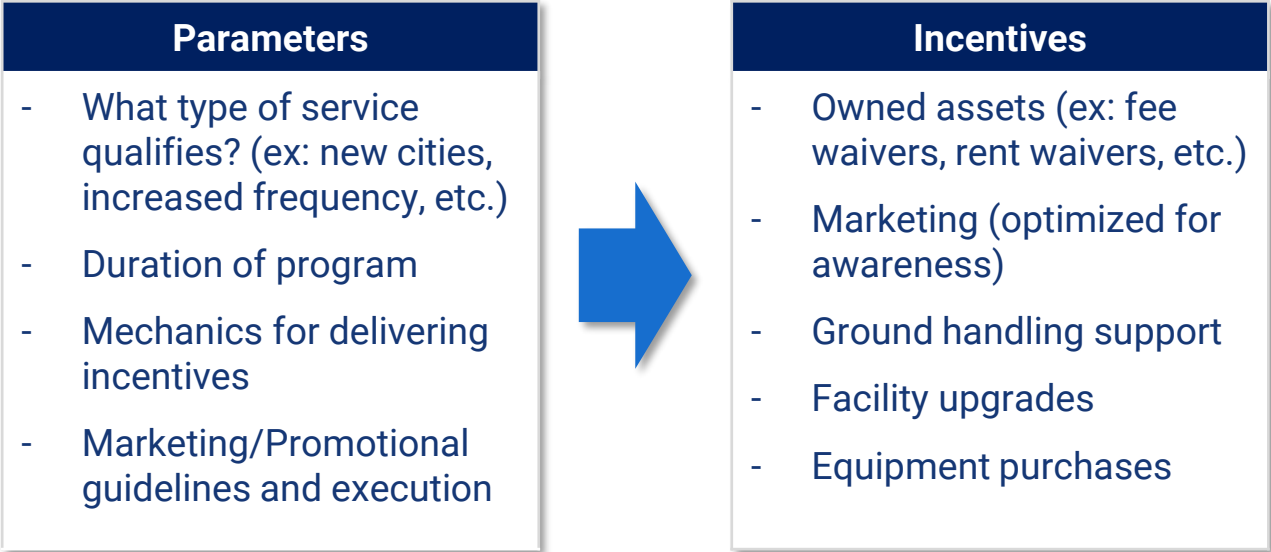
Each community and airport will need to commit to developing an air service incentive program and determine how much they want to invest in air service. This process can be as simple as providing fee waivers and marketing support (low cost/effort) to developing an MRG funding mechanism and portfolio of incentives (high cost/effort). For the best chance of attracting air service, Embark recommends developing a comprehensive portfolio of incentives and identifying the funding mechanisms to accomplish this.

Recommendation 1: Develop Local Airport Incentive Programs

Reference Section 4 of Document

The key components of an incentive program include recommended marketing programs discussed in the previous section. If the airport has not already done so, Embark recommends developing an airport incentive program to complement the community efforts.

1. The airport will want to work with an Air Service Development firm and community to identify new air service route candidates. This will infer how to structure the program and ensure alignment
2. The airport will establish parameters for program following FAA guidelines
3. The airport will then structure their incentives based on FAA guidelines. The objective of these incentives is to mitigate as much cost as possible incurred by an airline in the start-up/ramp up period. Depending on the incentive package, this can have a significant influence on an airline’s decision to enter a market

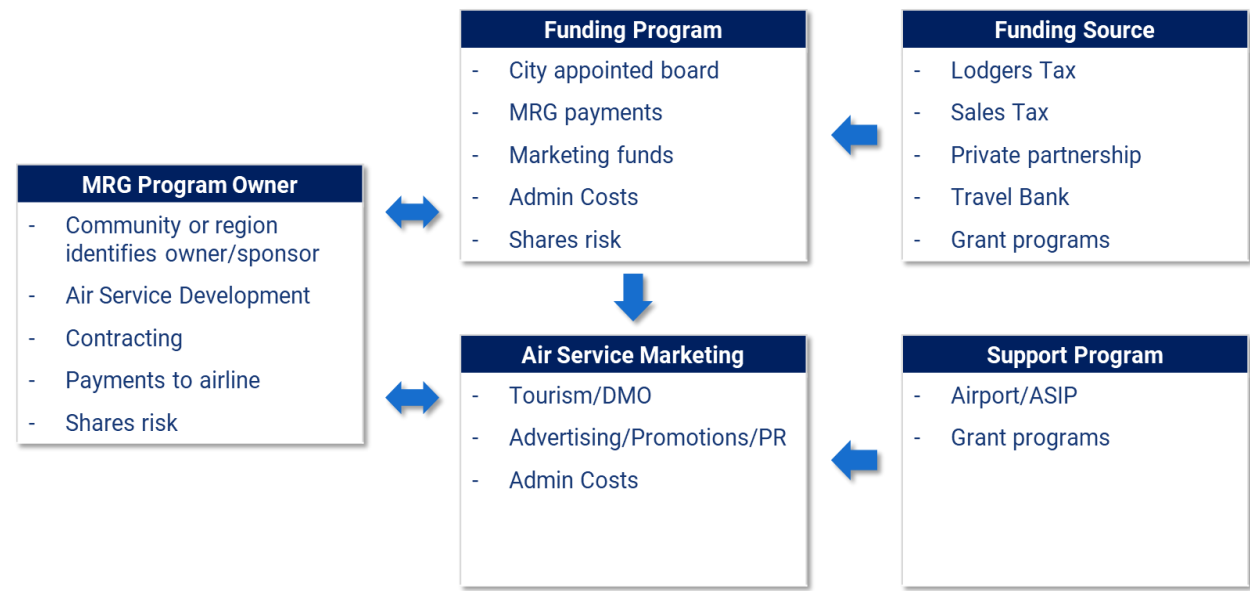


Recommendation 2: Develop Local Community Incentive Programs

Reference Section 4 of Document

The key components of an incentive program include recommended marketing programs discussed in the previous section. Embark recommends creating a Minimum Revenue Guarantee Program (MRG) and if the airport has a strong business community, establish a travel bank program. Refer to the appendix for MRG program models

1. Develop an air service organization to support incentives, risk mitigation, and marketing
2. Working collaboratively with the airport (and potentially an air service development firm) the organization will want to identify viable new air service routes
3. The organization will then identify the forecasted cost to serve routes and develop an MRG program to mitigate those costs
4. The organization will need to identify a funding mechanism and coordinate fund raising and support programs (such as a travel bank)



Note: Anti-donation Clause of New Mexico Constitution (Art.IX, Sec. 14) restricts the use of some incentive programs or initiatives and may need to be adapted to reflect law

Next Steps

Next Steps - State Level

Executing on Recommendations – as noted, before exploring the State CPA program, a detailed forecast and business case needs to be developed. This will help determine revenue projections and overall cost of the program for the State and Communities.

Air Service Development	Marketing	Incentives
Build business case and estimate program cost of proposed State CPA programs	Develop and update air service messaging for New Mexico Tourism owned channels	Explore feasibility of creating an air service improvement tax to fund marketing, development, and incentive programs
Develop ground transportation co-ordination and understand logistical needs	Explore feasibility of grant program that matches the value of 'fly local' marketing efforts with State funds	
Build out ULCC business case for ABQ base	Explore feasibility of creating an air service improvement tax to fund marketing, development, and incentive programs	
	Post Covid (beginning Spring 2021) launch aggressive campaign targeting outdoor recreation destinations – explore feasibility of 'backstopping' communities with grant program	
	Develop strategy for developing marketing strategy for Canada and Europe	

Next Steps - Local Level

Executing on Recommendations – at a minimum, each community should have a strong owned and community channel air service marketing approach

Air Service Development	Marketing	Incentives
Work with ASD firm and airport to identify best air service opportunities	Identify local air service marketing ‘owner’ and develop and update air service messaging for all owned channels	Airports – develop air service incentive programs (if applicable)
Begin developing a local air service organization with local and regional partners	Identify local air service marketing ‘owner’ and develop ‘Fly Local’ program	Begin developing a local air service organization with local and regional partners and identify interest in air service development and funding requirements/sources
Las Cruces – begin developing an air service strategy to support emerging space tourism industry	Identify what the air service marketing budget would require based on existing air service levels – identify ways air service messaging can be integrated in existing marketing/advertising programs	
	Leverage State of NM DOT air service marketing funds (up to \$200K/year in matching funds)	
	Begin developing a local air service organization with local and regional partners	
	Develop regional marketing groups: Las Cruces region, Taos/Santa Fe region, Carlsbad/Roswell region	



Support:

Embark has considerable experience to support NMDOT, NM Tourism, and local New Mexico communities on the development of the recommendations outlined in these documents. We look forward to the opportunity to collaborate with the State in the future.

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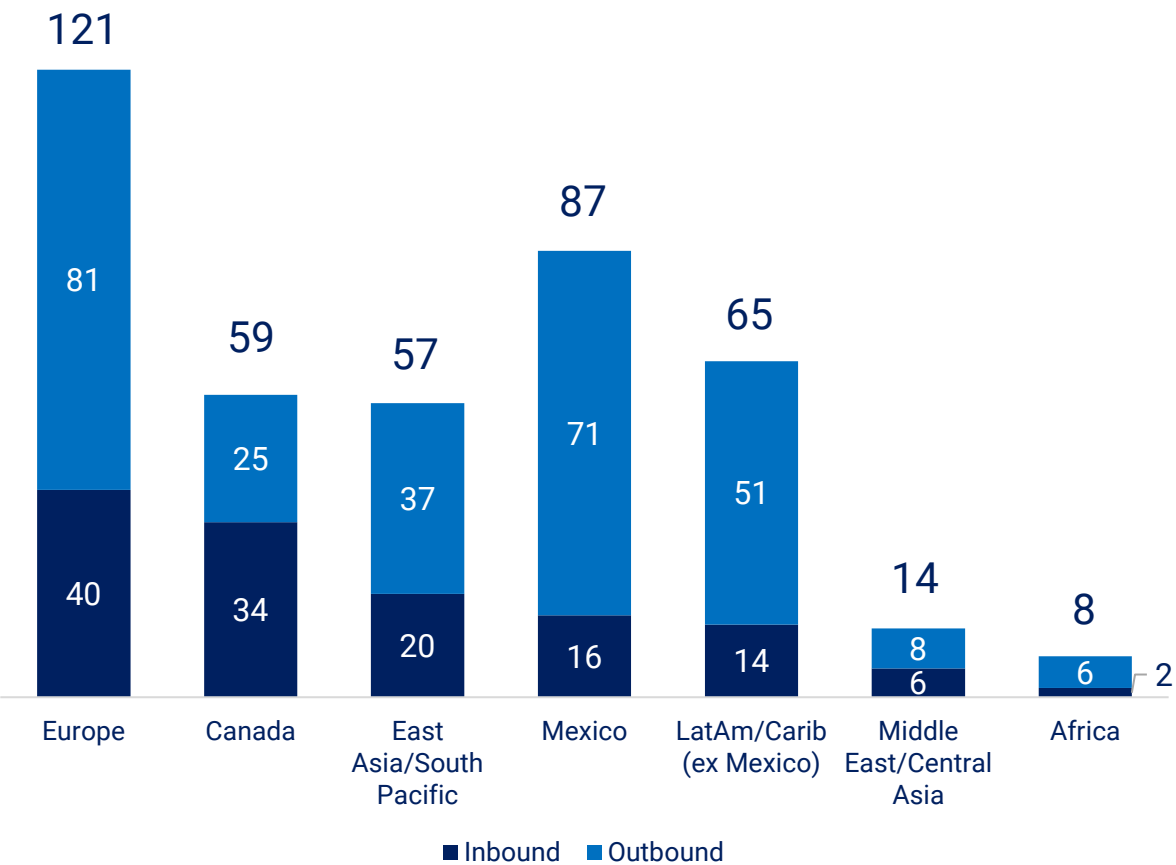
Appendix

Incentive Programs: Risk Mitigation Program Models

Program	Funding Split	Public Funding Source	Management Structure	Air Service Marketing	Minimum Revenue Guarantees	Capacity Purchase
Reno Air Service Corporation (RASC)	100% Private	N/A	Board consisting of contributing private entities	Yes	Yes, new service only	No
Fly Sun Valley Alliance (FSVA)	50% Public 50% Private	1% sales tax	Volunteer board consisting of business and public-sector representatives	Up to \$1 million	\$2.8 million	No
Steamboat Springs, CO	2/3 Public 1/3 Private	2% lodging tax	City council appoints 5-member board	No	\$1.5 million, funds available up to \$4 million	No
Wyoming Department of Transportation	60% State 40% Local	1% sales tax + general fund appropriations	Administered through WYDOT	No	No	Yes: WYDOT pays for service, profits are returned to state and local communities
Lea County/ Hobbs, NM	50% City 50% County	City/County taxes + banked surpluses	Contract with Economic Development Corporation	No	\$2 million	No

Air Service Development: International Air Service

ABQ & SAF International Passengers per Day Each Way by Region



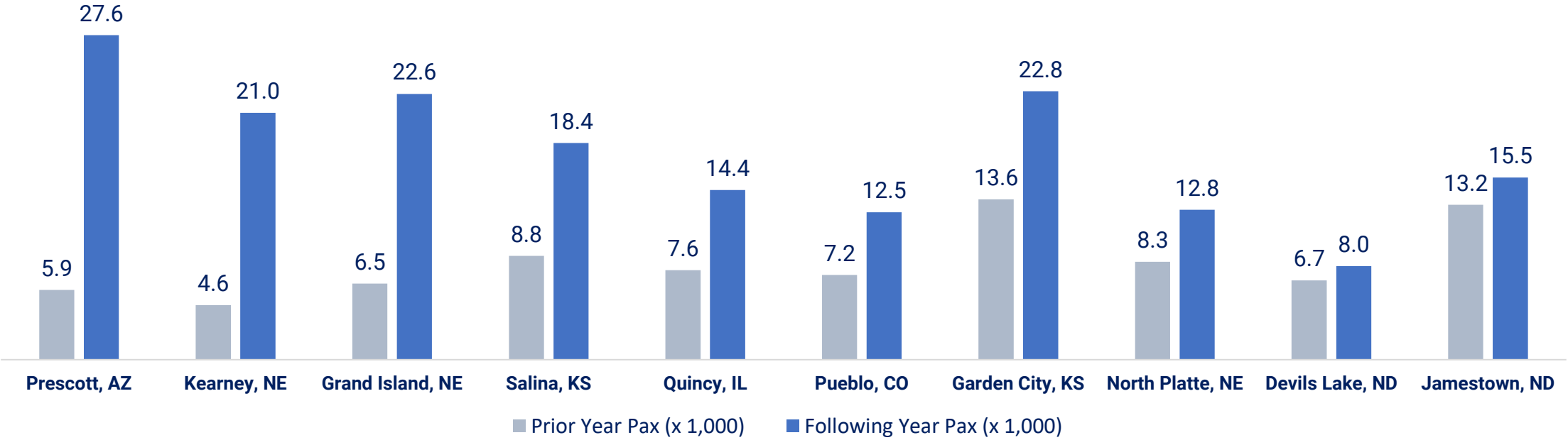
Comments

- Except for ULCC service to Mexico beach destinations, ABQ currently lacks the fundamentals for nonstop international flights.
- However, underlying traffic and industry trends suggest that traffic can likely be developed to support international flights in the future.
- Europe is ABQ’s largest international region – both overall and inbound.
 - Marketing of New Mexico to drive increased visitor traffic from Europe can lead to increased traffic volumes in line with other unique destinations which have recently recruited Europe service like Charleston, SC
 - Canada has the highest percentage of existing air traffic as originating from the home country. Increased marketing of New Mexico as a destination and prevalence of tour operators can lead to nonstop flights from Canada

Essential Air Service Market Transitions

Demonstration of Major Airline’s Impact to Market Size (Since 2011)

Numerous Essential Air Service markets across the western U.S., similar in pre-existing traffic as those in New Mexico, have demonstrated that replacing independently branded turbo-prop operated Essential Air Service with regional jets integrated into major airline hub networks offers sustained passenger traffic growth.



Change	366%	354%	250%	109%	90%	74%	67%	53%	18%	18%
Prev. Carrier	Great Lakes	Pen Air	Great Lakes	Great Lakes	Cape Air	Great Lakes	Great Lakes	Pen Air	Great Lakes	Great Lakes
New Carrier	United Express	United Express	American Eagle	United Express	United Express	United Express	American Eagle	United Express	United Express	United Express

Carrier Types

Carrier Type	Network Carriers	Low-Cost/Value	Ultra-Low-Cost	Part 135 On-Demand	Part 135-Commuter
Network Reach	Worldwide network accessed via multiple large connecting hubs	National network with large focus cities and operational bases	National network with large focus cities and operational bases	Niche networks designed for specific market opportunities	Niche networks designed to exploit 9-seat aircraft platforms
Network Connections	Connections available worldwide to locations large and small via hubs	Connections available, but focused on large markets and niche geography	Although connections sometimes offered, focused on nonstop markets	Connections sometimes offered if carrier has sufficient arrangements with network carriers	Connections sometimes offered if carrier has sufficient arrangements with network carriers
Alliance and Airline Partners	Each network carrier belongs to a worldwide airline alliance with a team of international partners and reciprocal frequent flyer benefits; additional codeshare and interline connection partners	Typical do not belong to global alliance. May maintain some codeshare or interline relationships	Do not belong to alliances. Codeshare and interline agreements with other carriers are rare and specialized	Limited interline connections to network carriers	Limited interline connections to network carriers
Aircraft Fleet	Range of aircraft types designed to optimize supply vs. demand. Aircraft have up to four cabins onboard: First, Business, Premium Economy, Economy	Limited range of aircraft sizes focused on narrow-body aircraft usually between 100 and 225 seats. Number of aircraft types minimized for efficiency. Seat density typically standard to generous, and seat upgrade options may be available	Typically, one family of large narrow-body aircraft; may include sub-models for modest capacity range. Typically, one class of service in very dense seating configuration	Small Jet and Turbo-props Aircraft up to 30 seats in one class of service	Aircraft no more than 9 seats. Often operated with one pilot
Ancillary Fee Strategy	Ancillary fees focused on infrequent travelers and low-value tickets. Frequent flyers and premium cabin passengers have most fees waived	Minimal extra fees with focus on marketing customer friendly fee structure	Substantial additional fees accommodate very low base fares	Few additional fees	Few additional Fees

Scale of Network Benefit by Relationship of Regional Carriers

