Economic Challenges Facing Airports in an Era of Global Financial Instability

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Executive Summary
Today the world is experiencing some of the most unprecedented economic times in recent history. All industries across all borders are feeling the effects of the slowing economy and the flow on effect on their businesses. Consumer confidence and demand has seen organisations lose their competitive advantage whilst others are battling to survive. The economic challenges facing airports in an era of global financial instability are diverse and complex and have given airports the opportunity to revaluate their core business and strategies.

Despite the intensity of the challenges, the aviation industry must still focus its long term sustainability while managing the short term economic climate.

The key issues facing airports today are not in isolation as many of the airlines issues have a direct effect on airports. Therefore it is imperative that airline and industry issues are acknowledged and a strong partnership approach is utilised as the industry bands together to work towards a viable future.

Creative and innovative solutions to sustain the industry during this difficult operating environment are outlined with the focus on creating value for the airlines and all users of the airport through partnership, a customer service orientated approach, alternative marketing and corporate governance.

Through a collaborative effort the vision for the aviation industry is sustainable and sound. As history has shown the industry has the resilience to overcome challenges and create new opportunities for the future.

Introduction
The 'ultimate teachable moment' is the now famous phrase Thomas F Cooley; Dean of the Stern School of Business, New York University recently described the current global financial instability (Acharya, 2008). The exceptional economic challenges facing the global world today have by far outweighed any other in recent history in both scale and scope. From the volatility in global markets to the declining consumer confidence and limited to no access to capital, industries are now been forced to regulate and implement practices to ensure the continuation of worldwide trade. We have seen financial institutions nationalised and billions wiped from large corporations.

The air transport industry is not immune to these global trends and is now facing the tough challenge of managing this short term crises whilst continuing to work towards the long term robustness of the industry. In the first three months of 2009 there has been a 10% decline in international travel and a 7% for domestic travel (ACI).

Figure 1.0 Monthly Passenger Traffic by Region

(ACI)

Whilst this is seen as extraordinary circumstance, airports cannot become too overwhelmed and consumed by the interim challenges as the industry has shown much resilience with overcoming challenges such as SARS, 9/11 and other global events. The future of the industry depends on the lessons that can be learned of today in sustainability, planning and partnership to ensure the successful continuation of the air transport industry. What outcomes and strategies airports and other industry will take from this 'ultimate teachable moment’ can mould and shape the strength of the future of the industry.
As with most worldwide industries, airports have had to readjust, reanalyse and revalidate their financial position, business objectives and ultimately identify who their customer really is. Airport infrastructure and capabilities are being challenged during the uncertainty surrounding the economic landscape. All airports today regardless of size, market, ownership scheme and airline partners have been forced to question current practices and measures to ensure their long term stability, and more recently, profitability. Airports tactical plays and strategic commitments are being reviewed as airports look to protect their value creation and long term longevity.

Airports are traditionally government owned and regulated which has handcuffed more commercial thinking. In order to be efficient today, airports need to be managed and operated like commercially viable organisations. As such airports, as are other commercially astute organisations, are examining the true value of business partners, partnerships and customer identification with clear objectives, parameters and benchmarks. What may have been considered sensible operations and business practices in the past now must be reviewed. Yet the airport industry must benchmark success and customer service standards in the context of understanding the diverse and fragmented ownership of airports whilst working together in solidarity.

However whenever there are challenges, opportunities arise and innovative ideas can platform into new ways of thinking. Innovative and creative solutions to today’s economic challenges can come about as more effective ways to communicate, operate and perform become essential criteria for success. Before identifying some new ideas, it is important to discuss some of the issues and current situational analysis.

Situational Analysis and Key Issues

Background

It is important, whilst discussing the current challenges facing airports to also understand and recognise the issues facing airlines. After all, without airlines flying to an airport, an airport is unable to reach its objectives. Issues that affect airlines, affect their ability to grow passenger numbers.

If a year ago it was announced that fuel prices were the levels they are today, airlines and airports would have rallied to celebrate the end of an era of extraordinarily high fuel price crises and subsequently extremely high operating costs; a particular detrimental implication for low cost carriers. A year ago the discussion would have focussed on whether an airline had appropriate fuel hedging in place. Furthermore environmental concerns for air travel and airports inability to cope with airline growth with scheduling were also higher on the agenda than today. Regardless, the reduction in consumer demand for air travel in late 2008 and early 2009 has far outweighed any celebrations in lower fuel prices.

Airlines trying to survive today’s environment have the ability to reactively respond to environmental conditions by reducing capacity, parking aircraft, changing routes, offering sale fares and stimulating demand. Airlines can withdrawal services from an airport and redistribute their capacity elsewhere, often leaving airports vulnerable. On the other hand, airport infrastructure is a long term high capital commitment. Airports in their own right are a sunk infrastructure investment and have very high fixed costs with limited ability in reducing operating costs. The fixed asset requires effective utilisation to provide a return on capital investment. Supply from the airline side and demand for usage can directly affect the cash flow and operating costs of airports. Airports need to effectively utilise their infrastructure resource, whilst at the same time managing their own exposure to risk with volatile airline partners. An airlines defence mechanism to the current financial instability of reducing capacity with the hopes of obtaining higher crew utilisation and higher yields directly impacts an airport’s ability to retrieve loss revenue from a reduction in passenger numbers both in aeronautical charges and retail opportunities.

Ownership

One of the key issues facing the industry today is focusing on rallying together for action whilst maintaining the integrity of individual airports. The evolution of airport ownership has seen many airports develop from a traditional nationally owned entity, withholding responsibly for establishing a return on investment for shareholders, to that of a commercially viable operation. This has led to a proliferation of competing airports that have diversified or started the process of diversifying their customers, revenue streams and becoming market leaders; resulting in some airports now needing to defend their first mover advantage for growth in the region. Simultaneously other airports continue during these times to battle legislation, deregulation and national policy as well as manage the short term challenge. Airports operating within this diverse range of ownership has led to airport trading partners working together with varying degrees of autonomy and decision making power. Cooperation between competing airports is challenged as some airports reduce their aeronautical charges in the hopes of gaining more capacity. Revenue earning then becomes a more serious internal and external debate and the question then becomes, how low is too low for charges?

Capital Restraints for Airports and Airlines

An airport’s distinct resources are also at risk with the tightening of global credit conditions. Banks across the world are tightening their lending to levels not seen in recent years.
With a reduction in cash flow as a reaction to the competitive survival strategies of airlines, airports may also need to rethink, postpone or withdraw from planned capital expenditure, including terminal redevelopments, runway overlays and airport expansions. This we can see with Brisbane Airport in Australia in April announcing the deferral of their $A750 million domestic terminal expansion for at least 18 months and their $A1 billion parallel runway project postponed up to three years (ABC, 2009). The flow on effect of the inability to pursue capital expenditure to update existing infrastructure may lead to an airport operating at existing full capacity and not able to attract new airlines or services, subsequently hindering the growth plans and even competitive advantage of the airport precinct. Whilst the short term is seeing unprecedented circumstances, history has shown that the aviation industry does return to growth in correlation of the economy (CAPA). Thereby the pressure for an airport to be able to continue with capital investments for their future is high in order to take advantage of the next boom time.

Despite the economic and social benefits of increased air access, airlines in general have not been able to recover the cost of capital. This has lead may airlines unable to provide a return on investment to shareholders:

For the past few years, and in particular in Asia, airlines have been ordering new aircraft to fulfil future expansion plans, replace environmental unsound and inefficient fleet, and maintain market share (CAPA). Many airlines took advantage of the buyer’s market post 9/11 and capitalised on the opportunity of purchasing aircraft with available financing and affordable purchasing arrangements. Post 9/11 also saw the rise of low cost carriers in the region such as Virgin Blue in Australia and AirAsia in Malaysia, who identified the ability to quickly enter the market easily with the finance barrier to entry reduced.

A particularly relevant issue in today’s economic climate is seeking finance, and lending has become increasingly difficult to nonexistent. As such airlines are not able to seek the finance available to fulfil those aircraft orders made during the boom time.
and have limited capital raising ability without the financing. As a result, planned expansion for many airlines has now been either postponed, or revised down. For example, Virgin Blue in Australia have parked aircraft, deferred orders and reduced capacity on non-performing routes as a response to diminishing cash flows. Virgin Blue, as with many other airlines, certainly has the ability to ride out the storm and these short term actions are mechanisms to ensure their long term viability (Virgin Blue). Nevertheless the impact on airports is profound with airport having to readjust future passenger forecasts and revenue

**Partnerships**

Full service airports are grappling with the enormous growth in low cost carrier travel whilst experiencing declines in passenger numbers on the legacy carriers as value seeking becomes a priority for consumers. Airports are required to understand the value of growth, particularly low cost carrier growth, while at the same time protecting their current airline partners’ passenger numbers and routes with the additional competition. Cannabilisation of existing services becomes a threat and the challenge is to maintain a balance between sustaining growth and managing the relationships of the current airlines. At what cost to the budget should an airport go to seek losses in traditional carrier services and can this be made up with lower aeronautical charges? Managing excess capacity on particular liberalised routes and the explosion of low cost carrier competition to a level that is sustainable and profitable is now a key challenge for airports across the region.

**Airport Product Match**

As organisations currently look inward to consolidation measures aimed at saving jobs and cash, can an airport afford to do the same? The challenge for airports is to remain profitable, whilst often their identified customer, the airline, struggles to sell seats. Airports must be more strategic and innovative and become more accountable for the fate of its airport user, whether it is the airline, or airline customer or concessionary owner. This can lead to the issue of understanding who your customer really is, be it your airline’s customer, the airline or other airport users and the strategic decision making challenge of focusing the airport’s strength in maximising value for all stakeholders. KLIA in Malaysia along with the separate LCCT terminal exemplifies the opportunities that are created with space, shopping and facilities that not only allows for growth in non-aeronautical revenue but also customer satisfaction. It also provides the opportunity for Malaysian Airports to work in partnership with both low cost carriers and full service carriers and their own target market of travellers. Malaysian Airports having diversified its customer mix of airline partners with the LCCT and KLIA provides a portfolio that can focus on leisure and volume passenger numbers, appropriate during the economic climate and also full service carriers who can target passengers across the world through its global network and alliances. Essentially airports are no longer a generic product for all but need to target products, facilities and level of experiences based on their key customers.

Often smaller airports have a less diversified traveller mix with the main focus on leisure. This could potentially increase the risk of a loss of capacity as more consumers focus less on travel and more on saving and or surviving (CAPA). However regional airports that focus on low cost carriers in the product mix are more ept to sustain the short term downfall based on the value proposition offered of a value based product for consumers. At a time when the words ‘trading down’ and ‘seeking value for money’ enter the consumers vernacular there is the opportunity that such low cost airports can have a competitive advantage over other smaller regional airports that focus more on legacy carriers or yield base business. Whilst the airline’s decision to withdraw or reduce capacity is a commercial decision during a stage of internal consolidation, the flow on social and economic impact on the region could be devastating. As such an airport is in a strategic position to be able to identify and work with key partners within the destination and act as a gateway not only to the stakeholders but also airline maintenance and growth plans. The role that an airport, in particular a regional airport, can play in tourism growth and accessibility can be vital in a destination’s ability to attract new and repeat visitors.

**Analysing Today’s Economic Challenges**

Understanding the current situational analysis and issues undermining airports today can be analysed using the Porters Five Forces Model of industry competition. Michael Porter proposed that there are five main forces of competition and an analysis of each can help organisations identify their strengths and weakness in the competitive environment and the attractiveness of the industry (Hooley, Saunders, & Piery, 2004). The model analyses the attractiveness of the industry by considering the barriers of new entrants and substitutes, the power of buyers and suppliers and rivalry between organisations.
Figure 4.0: Porters Five Forces of Competition for Airports

**Barriers of entry**- Airports have a high capital cost of operating because of the infrastructure involved. Immediate and short term competition of a new airport developed close in very proximity is minimum. In order for an airport to have a competitive advantage high utilisation of the terminal is needed for recovery of the cost of high capital. Particularly for regional airports which may not experience the same spread of demand and aircraft movements that a capital city airport may experience.

Availability of land sites for airport development is also a barrier for airport expansion. Given the size of land required for airports, there are often restrictions and limitations based on the location of the desired site. The growth of the urban sprawl can contribute to an airport having to focus on community issues, such as noise complaints and curfew hours when planning strategies for the future.

A benefit for regional airports is that they may not be required to follow the national bilateral agreements, such as in Australia. This allows for regional airports to target airlines that have already reached the capacity level available to them flying into capital cities. As more routes become liberalised there is the opportunity for route development by competing airports. Airports do need to be aware however of the possibility of excess capacity as new entrants commence on liberalised routes. Strategic planning with airline partners is required to ensure cannabilisation of other partner airlines does not occur.

National governments can also play a role in the growth at the airport as deregulation and commercial freedom allows for a healthy competitive environment to take place (IATA). Obtaining national and or local government approval for infrastructure and property development can be a long process hindering airport expansion. The economic challenge for airports today is to focus on sustainable growth and internal efficiencies in a competitive environment.

**Bargaining power of buyers**- The main ‘buyer’ or customer to an airport is the airline partner. Airports are often at the whim of the airline’s route development in terms of the airline targeting destinations where the airport and local government may offer the biggest incentive and lowest aeronautical charges to lure the airline. This is particularly relevant with low cost carriers. As airlines are reducing capacity the balance of power can be skewed to the airline as they understand the need for an airport to maintain capacity levels for revenue generation as an airline can simply withdraw services. Alternatively an airport faces slot restrictions and can implement peak time pricing as a bargaining power with airlines. Tiger Airways announcing their arrival into Sydney Airport demonstrates the challenges and opportunities of the economic downturn. Before the downturn, Sydney Airport did not have slot availability or the need to negotiate with a low cost carrier who would have sought very low aero charges. The downturn changed the shift of power and provided an opportunity for Tiger Airways to grow their Australian network.

In addition the liberalisation of air travel between countries, such as the recently opened Singapore-Malaysia route, has stimulated competition between airline players to increase market share. This directly impacts on the airport’s ability to negotiate with the airlines as airlines compete to gain a competitive advantage over each other.

Air travel has become a commodity in today’s world due to low airfares with the emergence of low cost carriers. As more of the world’s population, particularly in Asia-Pacific, can afford to travel flying is no longer a luxury item. With this been said, offering a pricing scheme to the airline partners that allows your key partners to grow sustainably becomes a key challenge in the
negotiations. Implementing a pricing strategy that allows the airport to continue to operate at sustainable levels and establishing a long term relationship with the airlines becomes a balancing act with the two players. Often airlines already are working with unsustainable margins, in particular the low cost market, which increases the pressure on airports to lower their charges. Pricing can give the airport a competitive advantage by meeting the airline’s needs and allow them to grow passengers through the airport. Despite the airport’s responsibility to work closely with the airlines in sustainable pricing agreements, airports are continuously aware of their reliability on an airline’s performance for their profit.

**Bargaining power of suppliers** - An airport’s relationship with suppliers includes a broad range of stakeholders who effect the day to day operation of the airport and can have control over pricing structures to security procedures; all factors that can often be challenging in today’s environment.

Government policy often determines suppliers on the airport, such as in Australia with AirServices Australia. Mandated charges by Government departments can often be detrimental, particularly if volume based charging takes place. If an airport has a direct competitor, based on location, such as Brisbane and the Gold Coast Airport, this can challenge the smaller airport’s negotiation power with airlines.

![Figure 5.0: An Example of Comparative Government Mandated Charges in Australia](image)

(AirServicesAustralia, )

As AirServices Australia charges are significantly higher than Brisbane, it is very difficult for Gold Coast Airport to negotiate with international carriers for services as an alternative to Brisbane. Brisbane has the economy of scale advantage with the mandated charges. During this current economic environment this can be a challenge in competing for new services.

The relationship with airport site suppliers such as ground handling and concessionaries can also be a challenge. As aeronautical charges are reduced there is a real need to focus on non-aeronautical revenue particularly within the terminal. Working with on site concessionaries to maximise their potential to offer value to the passengers is becoming more relevant in today’s economic environment. However as discretionary spend decreases for passengers the challenge to make up revenue earnings from aeronautical charging becomes increasingly difficult.

**Threat of substitution.** Despite all the challenges facing the airport, the air transport industry as a whole must also recognise the threat of substitution by other means of transport including rail, car and bus. When fuel prices reached their peak, people were hesitant to drive long distances with such high costs. As these costs have lowered the proposition of travelling by car becomes more affordable.

Nevertheless a strong ground transportation link to the airport and the infrastructure in place to access the local catchment area plays a role in the volume of potential airport users.

Despite governments working towards economic packages to stimulate consumer purchasing, air travel also has to compete against other material items consumers may purchase. There is a real threat of discretionary income being spent on new televisions, household items or other large ticket items. Airports need to work closely in partnership with travel industry partners for retail marketing pushing leisure travel to compete in the market.

There are varied and many economic challenges for the aviation industry. However as challenges are put forth there are opportunities for growth, enhancement and sustainability as airports look for innovative and creative solutions that will see the industry continue during the short term instability while focussing on growth for the long term.
Innovative and Creative Solutions for Today’s Challenges

Value Creation and Partnerships

Innovative solutions are needed for the air transport industry to be prepared for the future growth expectations while surviving the current downturn. Airport investment in its partnerships, its people, smarter technologies and streamlined business processes will all strengthen the competitive response to the current climate of instability.

Value creation in any industry is vital for survival and airports are no exception. Creative and innovation solutions to capturing value can stem from an airports ability to focus on its key infrastructure resources while capitalising on its core competencies to sustain a competitive advantage.

Firstly we must acknowledge that the air transport industry is global and operates 24 hours a day 7 days a week, across all borders, nationalities and cultures. Regardless of political boundaries, airport ownership and liberalisation trends; air transport has become a key resource in today’s global world. It makes sense that the industry that connects all people around the world, in business and leisure, work in partnership with key stakeholders. No one actually flies around the world to visit an airport, they are utilising the space to travel between point A and point B as the destination is what drives airport business. It is vital that an airport can solidify a working relationship and strategic partnership with the destination that the airport services. Without a destination or location there isn’t a need for an airport and without an airport, airlines cannot deliver the number of visitors to a region. Moving forward to search for answers for the current downturn and preparing for the future continued growth of the industry, it is imperative that collaboration and partnership takes centre stage.

The opportunity is to work cooperatively in mutually beneficial partnerships and continue to grow the advancement of the reputable industry. Whether the relationship extends to international organisations such as the International Civil Aviation Organisation (ICAO) to small regional destination organisations; stakeholder engagement is important to adding value to the community at large. By playing an important liaison role between industry players, airports can enhance strategic industry alliances and provide leadership to grow the aviation and tourism industries. Airports can be directly involved in stimulating demand.

Most important and fundamental to the future of airports is the relationship between airports and airlines. If airports can play a more strategic and active role with their relationship with airlines by providing intelligence, analysis and proposing growth, airlines will further seek the guidance of airports. The role airports play with the airlines can be a factor in sustainable growth for both parties by actively working with airlines with their route development, long term plans and current strategies for the short term instability. Establishing long term agreements with airlines that are capable of providing the appropriate levels of growth and passenger volume will have positive results for airports. Negative sentiment between airports and airlines is possible with the continued downward pressure to reduce aeronautical charges for airlines however it is important to improve this sentiment and work together as a solution to today’s downturn as win-win solutions are possible. After all airlines do have the ability to park their asset, aircraft, until the current instability ends, an option that airports are not afforded with. This will ultimately lead to growth by both parties as quoted recently by Alan Joyce, CEO of Qantas “We need airports to become partners with us in reducing overall costs …The Gold Coast is an example, where the owners have worked hard with us to develop a strong and cost-effective base for Jetstar’s international operations. They’ve been responsive and sensible about keeping operating costs low because they can see the long term benefits.” (Alan Joyce, CEO Qantas)

As with any commercial transaction the negotiation between airports and airlines in regards to pricing should be transparent and benefit both parties. Airports might be lured into a quick solution of agreeing to ridiculously sided charging offers by an airline in order to offset a reduction in overall capacity into the airport. It is important, however that long term longevity and sustainability be an objective in all agreements. Airports can seize the negotiating opportunity to become more involved with the airline’s strategy and planning stages rather than simply the operational role of an airport. The more an airport understands of their core customer, the airline the more responsive an airport can be to their needs and subsequently work towards the mutual goal of growth and success.

Maximising Distinctive Resources

Incorporating the airport’s distinctive resources and capabilities with core competences will provide an airport with the platform for a competitive advantage. For example, Gold Coast Airport is currently undergoing a terminal redevelopment that will see Gold Coast Airport become the first low cost carrier dedicated terminal in Australia. Allowing the airport to maximise the infrastructure and approach low cost carriers to grow their routes from the airport without having to compete with legacy carriers. The challenge for Gold Coast Airport now is to maintain its first mover advantage of becoming the first dedicated low cost carrier airport in Australia while facing growing competition from other regional airports and even capital city airports building low cost carrier terminals in Australia.

One way to continue to hold market position for airports is to understand what their airline partners require to grow services to the airport, and develop and design aircraft parking and a terminal that meets the needs of your customers and airline partners. More and more today airlines, in particular low cost airlines, are looking for cost reductions and aircraft utilisation wherever they can.
One measure to ensure an airline can maximise their aircraft flying time is to design an apron and operation with maximum efficiency including quick turnaround time and effective use of aircraft parking.

It may not be necessary to build that aspirational gold plated airport to attract airlines but rather focus on the functional benefits required for operational use as well as the passenger journey. In addition involve airlines in infrastructure development to ensure that their functional needs are met for future development. Not only can an airport view the infrastructure development such as a runway extension or terminal redevelopment as a driver for further growth, but also other broader aspects of a commercial organisation such as the retail space, business development and marketing.

Customer Service Approach to Maximise Revenue

When travelling to a new destination the first impression is on arrival at the airport. Impressions and experiences at the airport can be highlighted based on the customer satisfaction which is a tool for loyalty. Airports that can implement best practices in customer service standards will be able to see the direct result from satisfied passengers.

Airports are maximising opportunities to raise income from non-aeronautical revenue such as rent, concessions, car parking, consultancy and property development to offset their reduction in aero revenue. This increase in airport management on passenger spending in the terminal and car parking has seen the traditional model of an airline-airport passenger relationship evolve into a more complex relationship of various passengers.

![Figure 6.0: Airline-Airport Relationship](Francis, Humphreys, & Ison, 2004).

It is important to recognise that the passenger travelling through the airport, and becoming a user of the facility is a direct customer of the airport itself, rather than just an airline’s customer. Establishing and creating a service oriented environment has the potential to create loyal airport users leading to a higher volume of passenger numbers. This is critical particularly in an environment where more than one airport is accessible in a catchment area. The service quality experience the customer has can decide if they again choose to travel through the airport. Understanding what drives the passengers purchasing decision making process and creating the ability to enhance their experience at the terminal can increase their desire to relax and spend at the terminal. This is particularly an opportunity where there are two or more airports in close proximity and passengers can select their airport of choice. For example, Gold Coast Airport is located within an hour and half drive from Brisbane Airport.

Customers come to the conclusion and make value assessments not on products or services perceived benefits to the customer but instead the solutions they provide (Vargo and Lusch 2004). An airport facility provides the customer the gateway to their destination, arrival point to their holiday or access point for a business trip. Identifying customer-focused approaches to service quality and marketing within the airport terminal and beyond will offer further value to the customer.
Customers make assessment on all aspects of the service delivery component, whether it is the cleaning employee at the terminal, the ground handler at check-in or the Airport Manager. During slower times at the terminal, now is the time to assess current customer service levels, identify areas of improvement and innovative solutions to exceeding customer expectations of airport facilities. A gap analysis of the customer service standards at the airport terminal may highlight areas that the airport has an unique competitive advantage from other modes of transport and provide further value to the passengers. Customer-driven perceptions of the airport and service quality are paramount, in particular in the current environment where value for money and service is important.

**Business Development and Marketing for Airports**

**Business Development**

During difficult times and uncertainty, a quick solution for management is to reduce the cost of marketing. However, now more than ever value needs to be perceived and created by meeting and exceeding the needs of both the business to business partner of airlines and airport passengers. The significant role that airports play by providing access to a destination for visitors can be further extended with the value airports place on their business development roles. Integrating industry, small businesses, ground transport, government and tourism organisations with the airport business processes will be a valuable tool for airline partners. Being one step ahead of your airline partner in terms of providing support, strategic advice and assistance of their operation, capacity and route development at the airport, will benefit the airport in terms of additional revenue from passengers and the airline will grow their market share, leading to a strategic partnership in long term growth.

The role of the airport with tourism numbers is an important factor as aviation and tourism management have a supply and demand relationship and depend on the strength of each other. The impact of working with tourism partners with the objective of growing the market share of the destination is a key indicator for airport business development. Working with tourism partners provides the opportunity to extract value from airport customers- (both as an airline or airline’s customer). Airports and airlines should share business strategies as the partnership is key to the growth of both the airport and airline.

Aeronautical revenue can be maximised by marketing on behalf of or in conjunction with an airline to grow passenger numbers through the airport. Joint marketing plans and co-operative marketing can add value to the partnership with the airline by helping them sell seats and provide airlines with the confidence of working more closely with the airport. Giving the airport a more strategic role in the airline’s development for the airport and leading to more effective future passenger forecasting.

The next step in airport marketing is to understand additional ways reach a return on investment. Whilst attempts are made to extract more value from passengers in regards to non-aeronautical activity within the terminal, the next stage of value creation is to understand new revenue streams that may be available to airports. Airports can investigate what focus they have on more non-aeronautical revenue streams (both within the airport itself and outside) and activities without taking away the core business of airlines. What non-aeronautical revenue opportunities are there for airports outside the business and grounds which can extract further value from its various customers? By utilising the airport’s access to the local market through research and analysis an airport can investigate what opportunities may be present.

**Consumer Marketing**

Experiential marketing and alternative media may not be traditional lingo in an airport marketing mix. However, as an airport with a marketing focus in times of cost reduction, innovative marketing becomes imperative. In addition to marketing in partnership with airlines to promote their routes and sale fares to and from the airport, airports can focus on marketing directly to their local catchment in a manner that will raise awareness and engage the local market.

In today’s internet savvy world, consumers of all products and services are constantly inundated with special offers, deals, brand information and marketing messages. With so much clutter both online and in traditional media it is often difficult for a consumer to really connect to the product or service. What many marketing departments have realised is that an effective marketing tool with the consumer is to include alternative media and online strategies as a cost effective tool to promote their brand. For example through the use of viral online campaigns, social media sites, search engine optimisation and database marketing. Many of these tools attract more visitors to a brand website. Optimising airport information on the website by ensuring the information is relevant and valuable will enhance the airport’s credibility particularly in the changing times of messages which are in shorter news cycles than previously.

Airports also have a brand and marketing message and have brand equity in both business relationships, such as with airlines, but also with the travelling passengers. In particular for those that are regular users of the airport which can generate loyal repeat customers. An innovative solution for airports is to look at other successful brands and industries in regards to their marketing and communication mix and establish a marketing strategy similar to one in a service driven industry. Identifying regular users of the airport as a potential pool of loyal customers of the airport (as opposed to just an airline customer) airport marketing can focus on
targeting these passengers in the market mix and work towards their perception of value to the airport product, leading to a loyal customer base.

Database creation and collecting emails is more than just a tool for broadcasting information regarding the airport to those that register. Collecting data such as demographics, area of residence, travel preferences and so forth allows the airport to connect with recipients on a personal level. Marketing intelligence than can be used as a partnership tool with airlines by providing them an analysis of local travel patterns and potential demand for new routes and also key marketing messages that the passengers will respond to. Customer insights into their behaviour data can then contribute to their customer service experience at the airport and understand new ways to generate both non-aeronautical and aeronautical revenue.

User-generated content (UGC) is another tool airport marketers can use to receive feedback. Whilst airports may find this uncomfortable if they perceive the potential for negative commentary, it is still an effective tool to track feedback and understand the customers using the airport. For example, a recent Twitter on KLIA stated: “thumbs up for free wifi at Kuala Lumpur International Airport” (Twitter). Collecting information via online surveys, BLOGS or other social media site will identify new and innovative ways to extract more value from passengers to make up for smaller aero revenue while at the same time also increasing loyalty to the airport.

Corporate Governance and Shareholder Value

An interesting scenario that this current crisis has raised is for industry and market level analysis of current risk strategies and the discussion of new aviation strategies. At a time when many in the industry, including airlines and airports are focussing on consolidation of services, distribution and partnerships, there is the opportunity to identify key potential risks and an airport’s organisational inefficiencies. Many airlines now are reviewing their fuel hedging policy, to ensure they are better equipped for the next fuel hike. At an airport level optimising capital management and identifying risks associated with interest rates, debt and capital and transforming these risks into sustainable strategies for the future has become a real opportunity during this period of instability.

Corporate Governance best practices can be implemented into all aspects of the airports’ organisational structure. By having a check and balance system in place, the airport can identify key growth strategies and appropriate airline partners that will sustain growth for the airport and at the same time offer shareholder value. By working in a transparent environment in ways that are acceptable both socially and environmentally and ensuring effective financial policies in place for sustainable practices.

Wherever possible, airports can implement environmentally sustainable practices by establishing whole of airport environmental plans to consolidate policy and identify where gaps lie between the green vision of the airport and current practices. Airport planning and management can take into consideration all the new alternative ways to generate energy and reduce emissions. Implementing recyclable water and other effective measure within the terminal can take precedence.

Furthermore an airport should proactively address community concerns about the environmental impact of the airport and play a lead role in educating the community of the positive value growth of the airport has for the community. An active airport impacts the local community with social, economic and environmental benefits and as such has the opportunity to act in a responsible and leadership manner with the wider community.

Conclusion: Visions for the Future

The short term issues of financial instability at hand are complex and diverse and include the slowing economic conditions, consumer confidence and the flow on effect of weaker passenger demand, airline capacity reductions, loss of revenue from lower aeronautical charges and reduced access to capital.

However, the industry has overcome many challenges in this past decade alone, from SARS to 9/11, to airline collapses, lack of aircraft and high fuel prices. Yet the industry continues to shine as robust and viable. The world needs air transport and airports, and airport’s stakeholders can continue through the long term with common goals in place.

Pandemics, terrorism, global events and the instantaneous distribution channel of the internet have made it imperative that knowledge is shared in all aspects of the industry. The immediate and collaborative response to the threat of swine flu has proven that the industry can respond quickly and effectively in a global manner. More importantly as the information age has no boundaries. Effective and consistent communication both to customers and business partners will continue to lead the response to the economic downturn, swine flu and any other events that may challenge the industry as a whole. Strategies are in place as we work together in solidarity for confidence in the future of the industry.

Streamlining efficiencies in operational integrity, new business processes and paradigms and the use of new technology will continue to see the industry and airports work towards a competitive advantage and achieve outcomes which are appropriate for airport shareholders and acceptable for stakeholders. Value creation for airports will continue to have a dominant effect on
decision making by airport managers. Working with key airlines by closely understanding their business model and customising the relationship will provide the benchmark for future airport/airline relationships. Excellence in operations, flexibility working with partners, efficiencies in lowering operating costs as well as reducing noise and emissions are all possible and timely for the aviation industry.

The value proposition of low cost carriers will continue to become of greater importance in an airport’s passenger mix. Airports will start to have a better understanding of the low cost carrier market and will customise pricing schemes that will provide low cost carriers the opportunity for sustainable growth while protecting the market position of incumbent airlines. As airports play a more strategic role with their relationship with airlines, airports will be able to produce valuation models that better help them segment their business strategies.

Full service carriers, some of which are feeling the effects of the slump in premium traffic, can take this opportunity to redefine their business process and understand where their position is on the value chain and realign their future strategies with the learning’s of today’s economic challenges. As with airport goals, diversifying the product mix and meeting the needs of their passengers will challenge the full service carriers into efficient practices. As with past events full service carriers will bounce back to sound growth forecasts and continue to serve the global community with a network of routes linking all people across all cultures.

Airports will continue to evolve into commercially viable operations with organisational structures and policies that will provide the needed support for airports to prosper with a triple bottom line approach of social, economic and environmental goals. As airports continue to shape the local community, airports can embrace this leadership role and lead by example the community into environmentally sound practices which will improve efficiencies that will reaffirm the aviation industry’s commitment to the environment. Green less expensive options for airports will ensure that sustainable and best practice implications take place. Investing in low cost yet efficient solutions that will reach long term success while continuing working in partnerships with airlines.

Regardless of airport ownership structures and government involvement airports must continue to deliver service levels to their airline partners. The future of airlines has obvious implications to airports as without airlines there is no need for airports. With that been said, airports need to be run as efficient and effective commercial operations in true partnership with their airline partners. Airports need to ask themselves the key question of “who are my key target markets and what business am I in?"

Airports will continue to design terminals and other infrastructure functions that will suit the needs of the passengers in the airport as well as the needs of the airline passengers. If an airport’s niche is low cost carriers, then maximising the terminal space for non-aeronautical revenue opportunities with concessions that will benefit the airport customer is essential. At the same time focusing on the terminal efficiencies from an airline’s perspective of quick turnaround and efficiency of processing will ensure the development of mutually beneficial links between the two players. Airports will continue to learn more about their key airline businesses and strive to meet their needs.

Alternative avenues for revenue and profit growth such as investing in airport property and land, innovative ways to sell advertising and offering additional terminal services for customers will become key ingredients for sustainable practices for airports. Changing the notion that an airport is a piece of infrastructure to facilitate airline customers travel to a service orientated approach by offering value to all partners.

Innovative strategies in communication and marketing approaches will help shape the future recognition of airports as market leaders of creative thinking. Embracing change yet solidifying approaches to marketing that will be effective for the target market. Airports can learn from other industries and be prepared with aggressive strategies for the longer term growth, post the short term instability of the economic environment.

It is during these times that airports have the opportunities to grow and develop partnerships and work collaboratively yet competitively to ensure sustainability and growth in the ever changing aviation industry. By knowing their position in the market, who their key customers are and understanding their needs, airports can continue to manage infrastructure costs with revenue while facilitating growth for airlines.

As important players in the air transport industry lets make sustainable decisions in this ‘ultimate teachable moment’ so that future decision makers in airports can learn for the case studies today of sustainable airports.
References


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