

Airport Marketing

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Outline

A. Introduction

B. Creating the Airport Product

C. Pricing the Airport Product

D. Placing & Distributing the Airport Product

E. Air Service Development

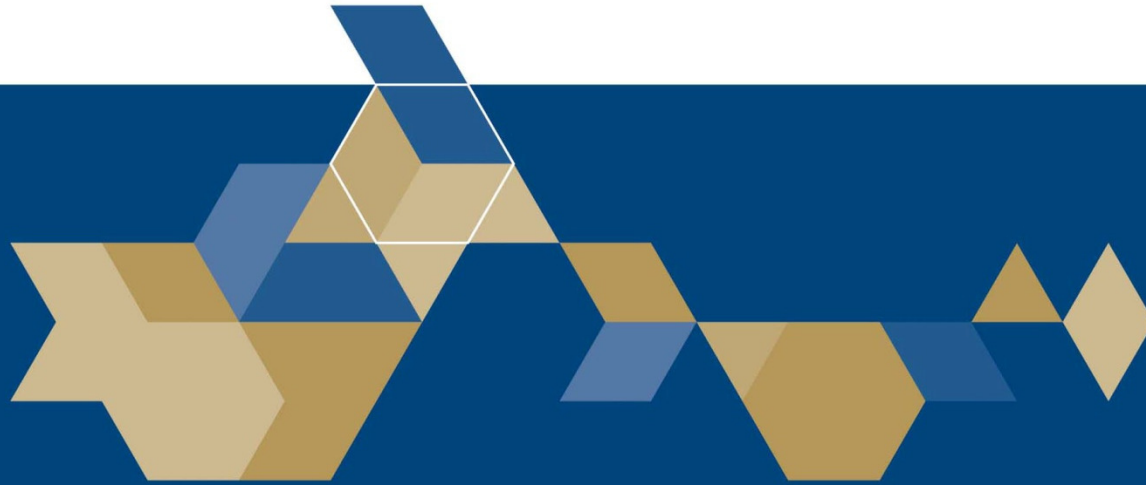
F. Promoting the Airport Product

G. Conclusion

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Introduction

Airports Compete

- **35-55% of Traffic is Connecting**
 - Choice of alternative connection points
- **Some Destination Competition**
 - Conference locations
 - Cruise Port of Call
 - Location of cargo distribution centers and FTZs
 - Freight forwarder gateway competition
- **Retail Subject to Planning by the Passenger**

Marketing Plan

- **Product creation**
- **Pricing plan**
- **Air Service Development Plan**
- **Promotion plan**



Airport Marketing: Oxymoron?

- **Until recently, most airports did not have marketing departments**
 - Traditional Belief: Airports cannot influence demand / traffic pattern



Airport Marketing Recognizes

- **But carriers do respond to**
 - prices
 - connection opportunities
 - information on traffic opportunities
 - growth potential
 - service reliability
 - marketing commitment by airport

Airport Marketing Recognizes

- **Privatization changed role of marketing**
 - Airport operator seeking maximum return on investment
 - Unable to earn profit on airline services due to regulation of aeronautical services
 - So profit must be earned from non-aeronautical services
 - But profit potential depends on level of passenger traffic, thus airport marketing must focus on Air Service Development

Airport Marketing Revenue Contribution

- **Airport Revenue per flight**
 - Landing Fee = \$5,000
 - Terminal Charges = \$4,000
 - Auto Parking = \$3,000
 - 50% of 50% of 80% of 300 pax @ \$20
 - Food/Beverage/Retail = \$1,200
 - Other charges = \$2,000
- **Total per flight = \$15,260**
- **Annual = \$5.6 million**
- **Annual total w/of LF, TF = \$2.3 million**

Airport Marketing Airline Contribution

- **Air Carrier revenue opportunity with a good airport product**
 - extra 50 new connections per day
 - additional on-line connections
 - new origin-destination from stimulation
- **Average Passenger Revenue = \$200**
- **Incremental daily airline revenue = \$10,000**
- **Annual airline revenue = +\$36 million**

Implications for Airports

- **Create price incentives to**
 - add new flights
 - maintain flights in periods of slow traffic
- **The expansion of primary demand**
 - increases demand for other airport services
 - such as F&B and retail purchases
- **But also ground services, fuelling, cargo facilities**

Passenger Driven Revenues

- **Revenues to airport**
 - Depends on the number of passengers
- **Sources of passenger driven revenues**
 - Direct charge/fee on passenger / shipper
 - Landing or terminal charge based on # passengers rather than aircraft capacity
 - Access charges including parking, rentals
 - “Exposure” revenues such as advertising and concession fees from F&B / retail

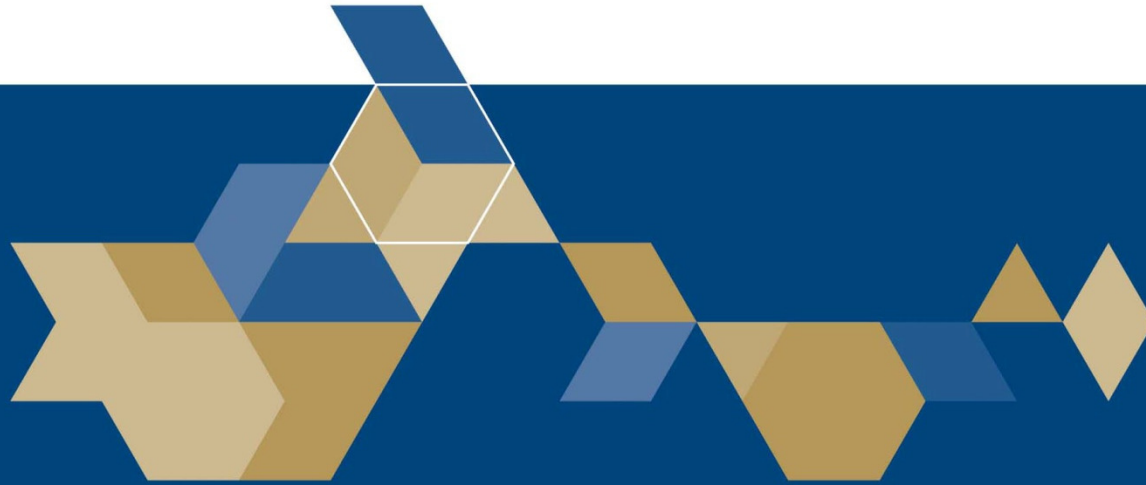
Passenger Driven Revenues

- **The availability of airline services which determines locational value of airport lands**
 - Airports are increasingly trying to offer facilities to attract airlines and to create incentives for airlines to provide service and bring passengers (and cargo) to the airport
 - Airports are now searching for all possible sources of passenger / shipper based revenues

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Creating the Airport Product

New Airport Marketing Role

- **Most airports now have Marketing Dept's**
 - Large and small
- **Many annual airport marketing conferences**
 - Includes Routes, Network, Jumpstart ...where airlines actively participate
- **Some airlines now request proposals for use of new aircraft**
 - Ryanair, WestJet

New Airport Marketing Role

- **Airports apply 4 P marketing principles**
 - Product which defines / creates the product or service to be sold
 - Price the product
 - Place / Distribute the product
 - Business to business
 - Business to consumer
 - Promote the product

Airport Marketing Product

- **Physical Product**

- Runway capabilities may require longer runways to accommodate new aircraft to attract intercontinental freighters
- Small airport to grow from RJ/turboprop to mainline jets such as 777-200ER
- Runway capacity issues at congested airports cannot grow traffic
- Terminal capacity that cannot facilitate a broader range of flight connections

Destroying the Airport Product

- **Montreal YUL (1970)**
 - 4.6 mil. vs. 6.4 mil. for Toronto (YYZ)
 - Canada's premier international gateway
- **Mirabel YMX (1975)**
 - 2nd airport opened with domestic and U.S. traffic remaining at YUL
- **YYZ (1980) Canada's premier gateway**
 - Montreal was Origin / Destination only
 - YUL / YMX fell from #1 to #4 in Canada

Destroying the Airport Product

- **Decision to segregate North America traffic from overseas traffic resulted in loss of ability to offer gateway product**
- **Today:**
 - Toronto: 39 million passengers
 - Montreal: 12 million passengers and only #3 in Canada, although Montreal has consolidated overseas traffic back to original site close to downtown

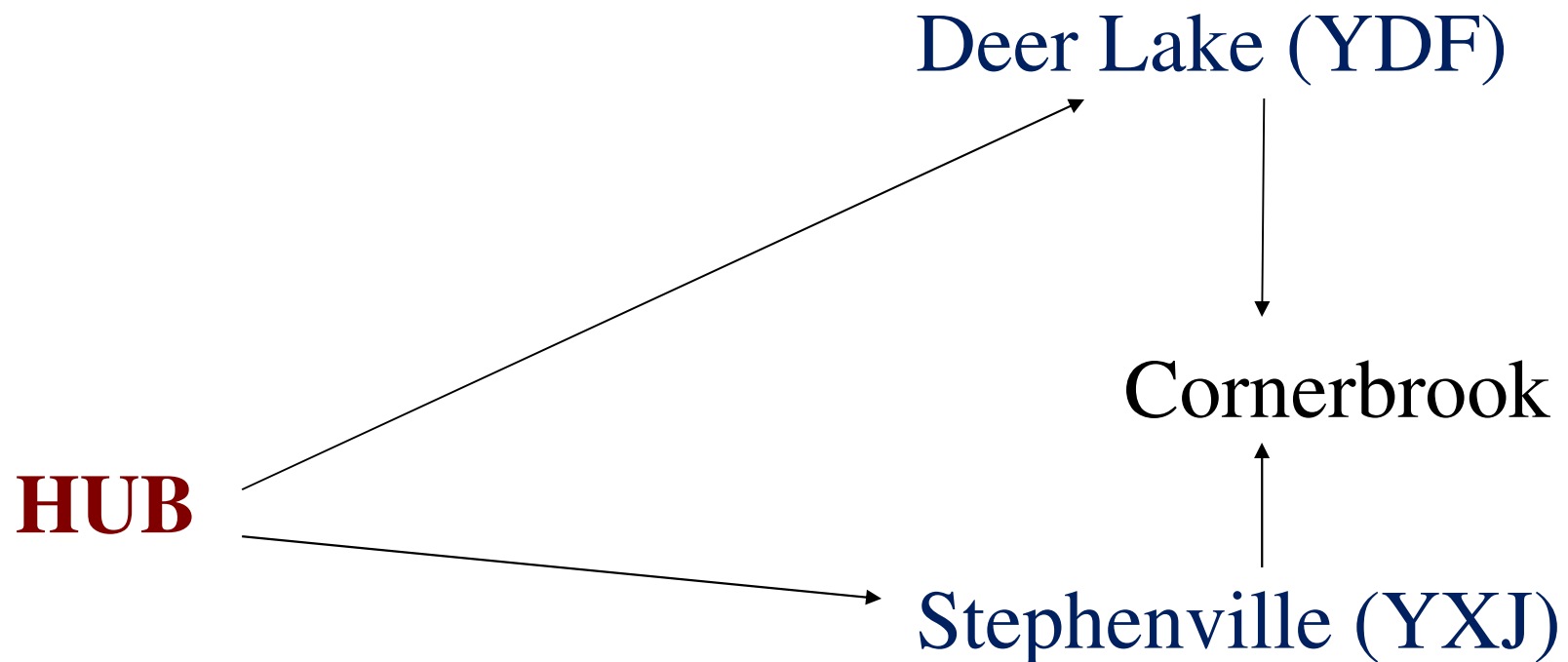
Airport Product Creation

- **Intermodal services**
 - Air / Rail connectivity
 - ADP/SNCF fly/rail
 - Cruise ship linkages
 - Vancouver cruise terminal check-in
 - 2nd phase on-board check-in
 - Bus service connections with through ticketing

Airport Product Creation

- **Bus service connections**

- Stephenville (YXJ) provides bus service to Cornerbrook with IATA code



Airport Product Creation

- **Downtown Check-in Services**
 - Increasing practice to provide downtown airport services connected by bus / rail
 - Potential revenue source to airport
 - Channels traffic to preferred airport
 - Relieves terminal congestion
 - Target high volume points
 - Often focus on convention centre
 - Downtown business travellers

Airport Product Creation

- **Expedited Border Control handling**
 - LHR / KUL premium services to provide faster service
 - Passenger processing generally faster as premium customers tend to be lower risk
 - Increasing automated immigration processing led by airports
 - Vancouver airport owned technology, sells systems to others

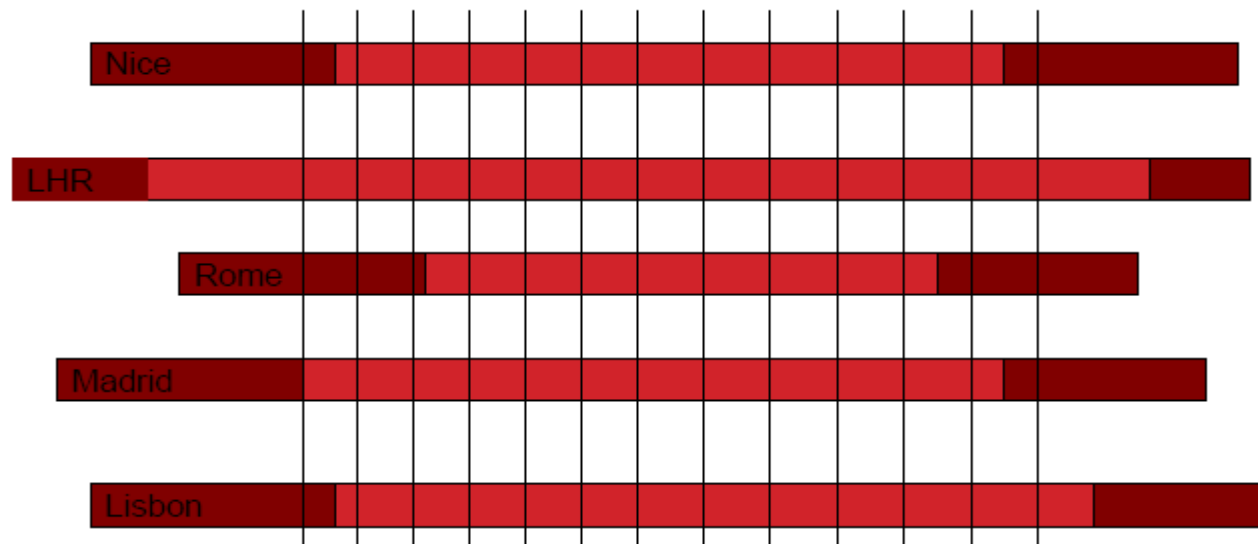
Airport Product Creation

- **Terminal Design for Connections**
 - Transit terminal designed to reduce connection times
 - Best practice can make enormous difference in airline preference and increase connecting gateway passengers
 - Increasingly important as point-to-point airline service growing, and competition from other nearby gateways

Airport Product Creation

- **Terminal Design as a Destination**

- Schiphol (AMS) has developed meeting room program and publishes schedule of European destinations that permit early arrival and late departure



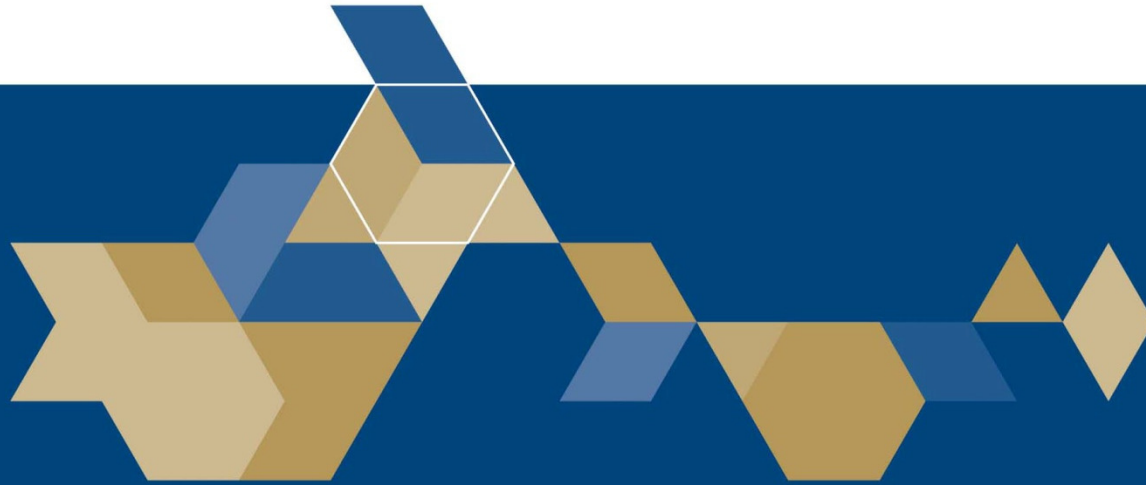
Airport Product Creation

- **Terminal Design for Retail**
 - High retail spend rate when passengers have exposure to various retail outlets
 - **Poor:** separate floor or area for retail
 - **Good:** retail along passenger walk path to gates
 - **Best:** passengers must walk through retail outlets similar to modern shopping concepts, including crooked paths

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Pricing the Airport Product

Traditional Pricing Methods

- **Compensatory**
 - Airport operator assumes all financial risk for airport capital and operating cost
 - Airport receives normal return on capital
 - Aeronautical charges cover ALL aeronautical costs
 - Airside system
 - Aeronautical part of terminal building
 - e.g. dedicated airline ticket counters

Traditional Pricing Methods

- **Compensatory (near equivalent to dual-till)**
 - Airport operator retains all revenues from non-aeronautical / discretionary spending for commercial lands / building space
 - Retail, Food & Beverage
 - Office rentals, public lounges...
 - Any dedicated use facilities such as car rentals, parking, and ancillary revenues

Traditional Pricing Methods

- **Residual (near equivalent to single-till)**
 - Airlines effectively assume financial risk for airport capital and operating cost
 - Airline Fees = All airport costs Less non-aeronautical revenues
 - Often higher bond rating with lower interest rate, but airport financing dependent on airline financial health as back-stop to airport investment risk

New Pricing Methods

- **Unbundled Charges**
 - Landing fee
 - Only recovers costs of airside system
 - Terminal fee
 - Recover costs of aeronautical parts of the terminal
 - Not paid by cargo carriers
 - Based on standard aircraft seat type
 - Can be based on actual passenger count

New Pricing Methods

- **Unbundled Charges**
 - Specialized Facility Fees
 - Airline fee for use of Border Control facilities who generally do not pay rent
 - Common Use Terminal Equipment (CUTE)
 - Fee per flight, or per ticket counter time
 - More efficient use of airport assets
 - Reduces investment where airlines will accept non-dedicated facilities

New Pricing Methods

- **Volume Discounts**

- Some airports may be asked by home carrier for lower rates due to their high volumes
- This may be viewed by regulator / courts as unjust and unfair
 - Due to price discrimination unlinked to service delivery / cost of facilities
- Can be justified if operators can demonstrate real efficiencies in airport costs

New Pricing Methods

- **New Service Price Incentives**
 - Some airports offer landing fee reduction or rebate or waiver for new air services
 - May encourage new air service
 - Airport may have net gain due to increase in non-aeronautical revenues
 - Serious question to whether incentives change airline behaviour, but competitive game between airports demands response

New Pricing Methods

- **Types of Incentives**
 - Airline Fee waiver, reduction, rebate
 - Travel Bank (revenue guarantee)
 - Businesses in community deposit funds in bank trust account
 - Business withdraw funds when they purchase tickets
 - Airlines receive unused bank balance
 - Intended to lower airline start-up risk

New Pricing Methods

- **Types of Incentives**
 - Airport guarantees minimum airline revenue
 - Airport marketing to create awareness of new air service
 - Tourism partners may promote route
 - Preferential gate access, office fit-out, etc



New Pricing Methods

- **Issues with Price Incentives**
 - Must be non-discriminatory
 - All new services should be eligible, including by dominant incumbent carrier
 - Brussels Charleroi Airport incentives judged unfair, Ryanair had to re-pay
 - Incentives should not be subsidy, but instead reduce risk for new service start-up
 - Time limit necessary, generally 1-3 years

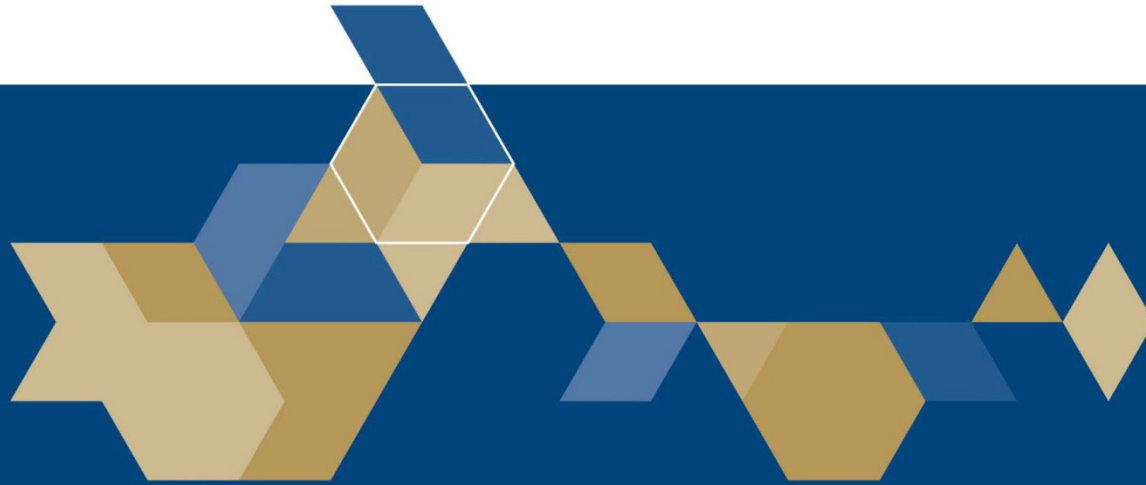
Regulatory Considerations

- **European Commission Guidelines**
 - Apply only to publicly funded airports
 - Private airports not constrained
 - EC guidelines not law as original Brussel Charleroi ruling by overturned in court
 - Selective incentive elements
 - No incentives with high speed rail service
 - Must be non-discriminatory
 - Limited to 30-50% of direct airline costs

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Placing & Distributing the Airport Product

New Customer Engagements

- **Business to Business**
 - Airline Customers
 - Air Service Development
- **Business to Consumers**
 - Passenger marketing via travel trade
 - Cargo marketing



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Air Service Development

Air Service Development Objectives

- **Service to new destinations**
- **New carriers**
- **Convert multi-stop or connecting flights to non-stop service**
- **Upgrade existing service to larger aircraft**
- **Improved scheduling**

Air Service Development Process

- 1. Define the catchment area**
- 2. Undertake market assessment and leakage analysis**
- 3. Identify viable unserved or underserved routes**
- 4. Produce market size and growth forecast for target routes**
 - Include traffic stimulation from new or improved service

Air Service Development Process

5. Target potential airlines

- Assess financial viability and profit
- Also consider how route would work within its network
- Develop incentive package

6. Present to carrier

Air Service Development Success Factors

- **Long term commitment to program**
- **Strategic but realistic approach**
- **Demands resource commitment**
 - People and management
 - Budget to execute program
- **Well-defined shipper and passengers targets**
- **Knowledge of airline market / competition**
 - Accurate data to support air service proposals
 - Impact of proposal on target airline economics

Air Service Development Requirements

- **Program Components**
 - Value added data of target markets will require expenditure on IATA BSP / GDS MIDT info
 - Community support
 - Effective airline contacts
 - Comprehensive proposal to air carriers
 - Appropriate incentives, if necessary

Data Requirements

- **Size of targeted market for targeted carrier**
 - Origin-destination traffic
 - Behind and beyond connections
 - Traffic stimulation
 - Market share model
 - Relative to competitors
 - Frequency, nonstop vs connection, aircraft type,
 - Role of frequent flyer loyalty
- **Trends in local market**
 - High-tech sectors link to SJC / SFO

Data Requirements

- **Historical airport activity statistics**
 - airport specific
 - by market segment
- **Trends in airport activity**
 - analysis of historical stats
 - plus forecasts
- **Commercial Data is Available**
 - IATA Pax-IS, Diio, Travelport, Sabre, Amadeus
 - But it is often insufficient as portion of traffic does not go through BSP or GDS for self-sales

Data Requirements

- **Airport Passenger Surveys**
 - Demographics
 - Travel patterns (e.g., annual frequency)
 - Why passengers use competing airports / gateways ?
 - Identify decision factors in travel decisions
 - frequent flyer program, parking rates
 - Determine passenger preference for airlines
 - Inbound to outbound travel ratio
 - Airports need to fully understand connecting traffic, and potential for diversion / re-capture

Potential Traffic Stimulation

- **Quality of air service envisaged will influence projected traffic**
 - frequency, schedules, type & size of aircraft, number of stops...
- **Take into consideration the effect of air service quality on stimulation or erosion of potential traffic**
 - non stop service stimulates traffic
 - increased frequency stimulates traffic ...

Different Route Estimate Methodologies

- **Method 1 - Demand Density Analysis**
 - Assess relationship between air travel demand and population based on local market conditions
- **Method 2 – Transportation Survey**
 - Obtain inputs from local community and business, together with destination airport area
- **Method 3 – Travel Catalysts**
 - Understand demand based on local economic base
- **Method 4 – Common Catchment Area**
 - Estimate dynamic traffic capture from competitors

Different Route Estimate Methodologies

FAYETTEVILLE REGIONAL AIRPORT - WASHINGTON D.C.

Fayetteville

AIR SERVICE OPPORTUNITIES

Summary of Results by Methodology

True Demand Estimation Methodology	FAY–WAS Market	
	Annual Passengers	Passengers Per Day Each Way (PDEW)
Method 1: Demand Density Analysis	14,300	20
Method 2: Fort Bragg Region Air Transportation Surveys		
- Travelers via Air	14,400	20
-Travelers via Air/Auto/Rail	23,200	32
Method 3: Fort Bragg Travel Analysis	17,700	24
Method 4: Common Catchment Analysis	38,800	53

Clearly, the reported FAY–WAS O&D market of 6,140 annual passengers (8 PDEW) is severely understated

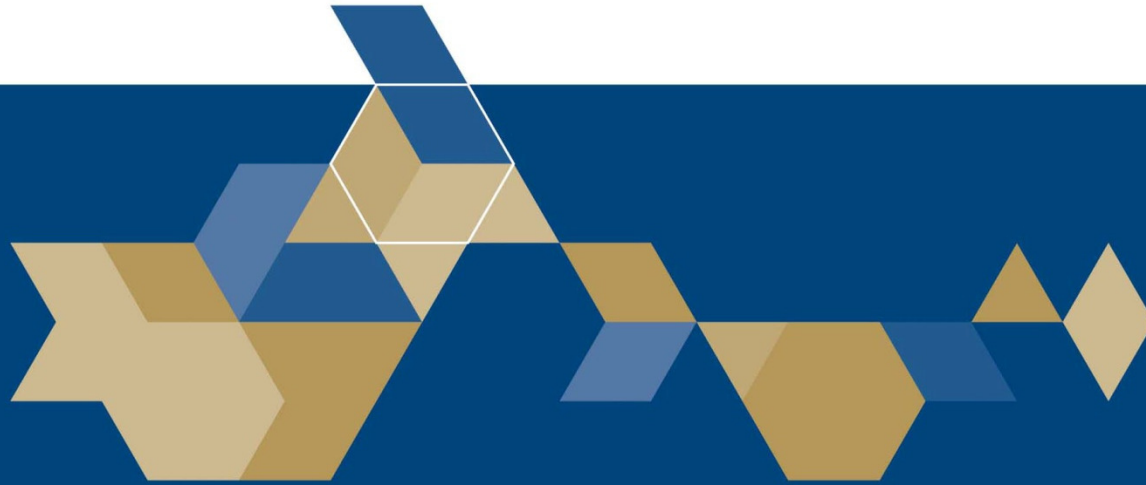
Right Airline Contacts

- **Primary Components**
 - Identify the right contacts within the airline, including route development
 - Airline marketing and promotion
 - Develop analysis and presentation
 - Follow-up contact and dialogue
 - Participate in Routes, Jump-Start, and other airline-airport marketing Forums

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Promoting the Airport Product

Marketing Communications

- **Target Markets**
 - Potential Passengers and Shipper traffic
- **Target Intermediaries**
 - travel agents
 - tour operators
 - cruise ships
 - Freight forwarders
 - Supply chain logistics operators

Marketing Communications

- **What to promote**
 - Encourage more use airport, especially important for fringe airports in a catchment region
 - Make aware airport services
 - Demonstrate convenience of parking, retail, F&B
 - Competitive pricing
 - Dedicated facilities for shippers that require specialized services e.g. refrigeration, FTZ
- **Increasing Importance of Social Media, especially for passenger engagement**

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Conclusion

Conclusion

- **Airport Marketing All About Partnerships**
 - Joint Strategic Advocacy with airlines and other business partners to create supportive state policy e.g. taxation
 - Joint promotional activity that works with various stakeholders, including airport at destination to participate
 - Demands marketing strategy integration, as little point in tourism marketing to India without non-stop services to India

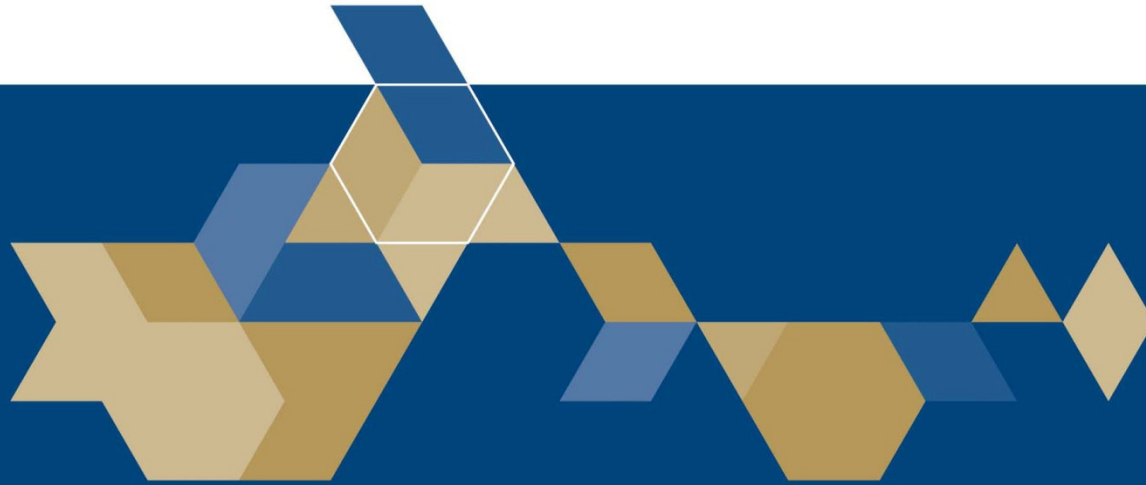
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Questions ?