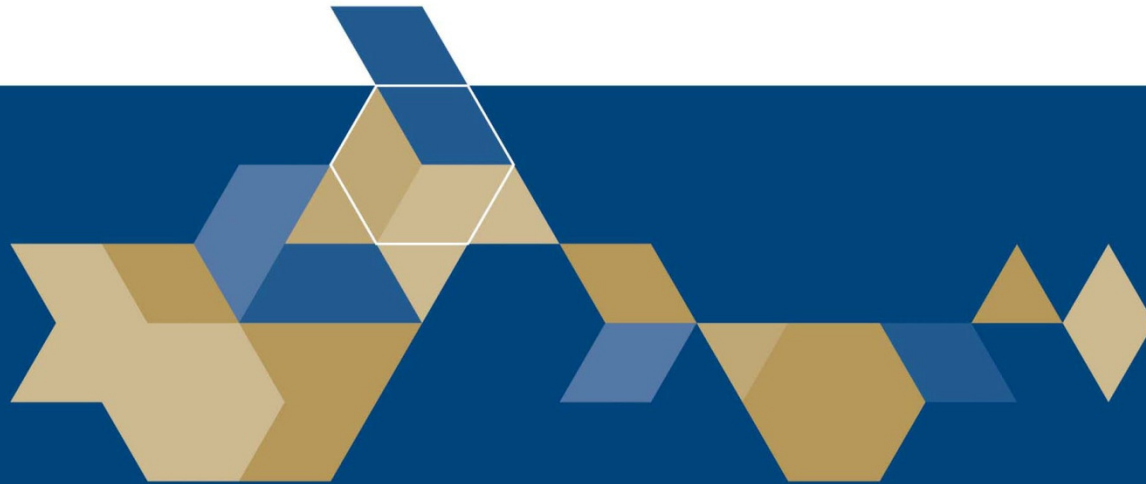


**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



# Airport Marketing

---

*Dr. Joe Sulmona*

**Istanbul Technical University**

**Air Transportation Management**

**M.Sc. Program**

**Airport Planning and Management**

**Module 25**

**January 2017**

# Outline

**A. Introduction**

**B. Creating the Airport Product**

**C. Pricing the Airport Product**

**D. Placing & Distributing the Airport Product**

– Air Service Development

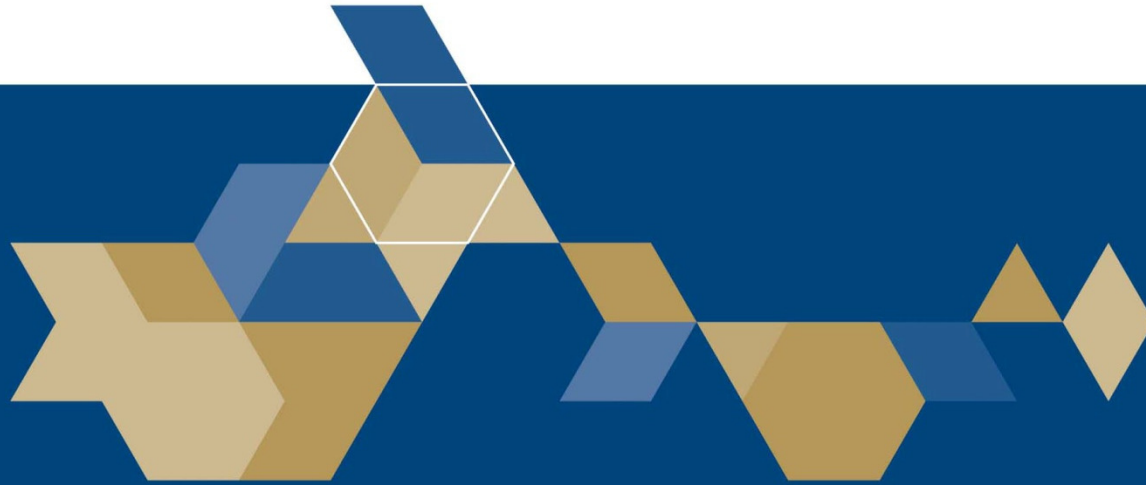
**E. Promoting the Airport Product**

**F. Conclusion**

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



# Introduction

## Airports Compete

- **35-55% of Traffic is Connecting**
  - Travelers have choices of connection points
- **Some destination competition**
  - Conference locations
  - Cruise Port of Call
  - Location of cargo distribution centers and FTZs
  - Freight forwarder gateway competition
- **Retail services increasingly subject to passengers making airport choices**

# 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
- **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

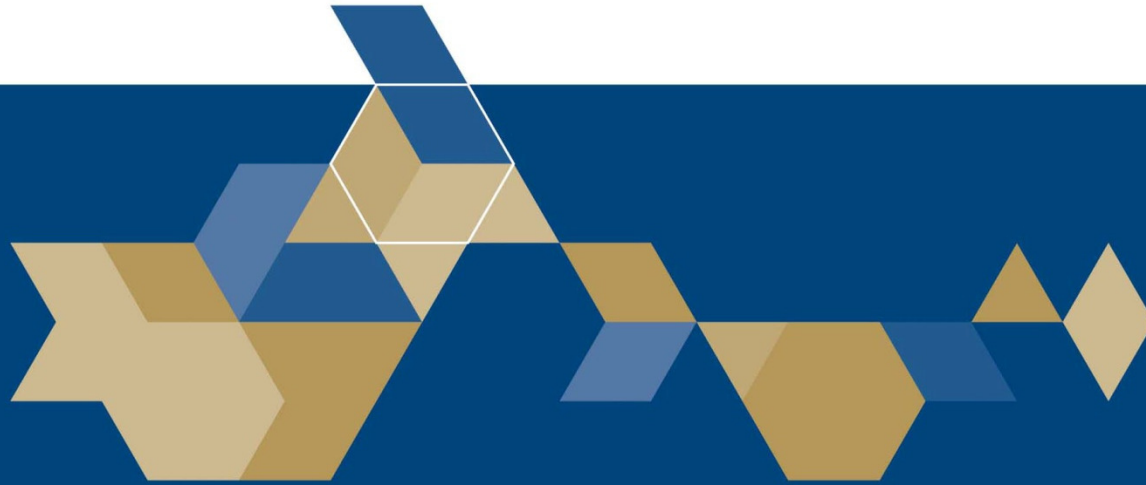
## Passenger Driven Revenues

- **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
  - Airports represent strategic locations for modality depending industry

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**Creating the Airport Product**

## **New Airport Marketing Role**

- **Many airports have Marketing Department**
  - Large and small
- **Many 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

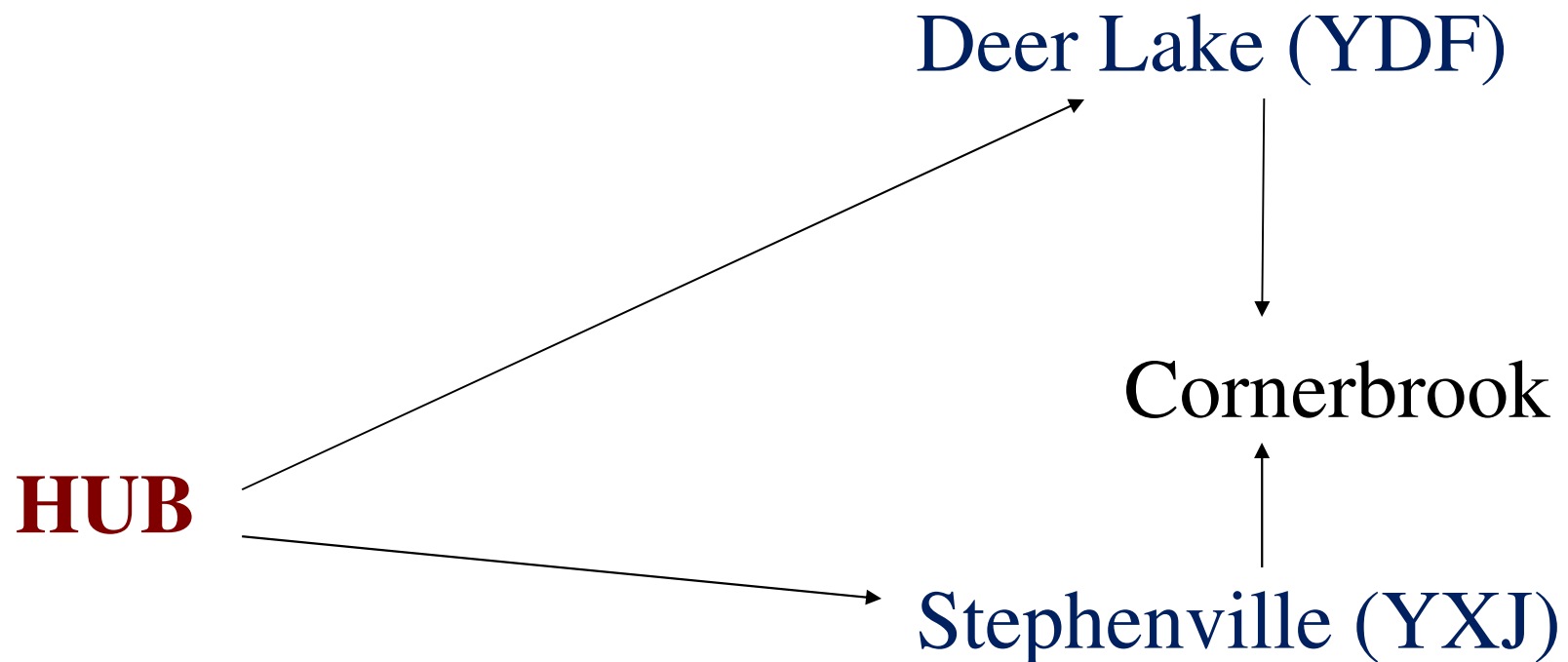
# Airport Product Creation

- **Intermodal services**
  - Air / Rail connectivity
    - ADP/SNCF fly/rail
  - Cruise ship linkages
    - Vancouver cruise terminal check-in
    - 2<sup>nd</sup> 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

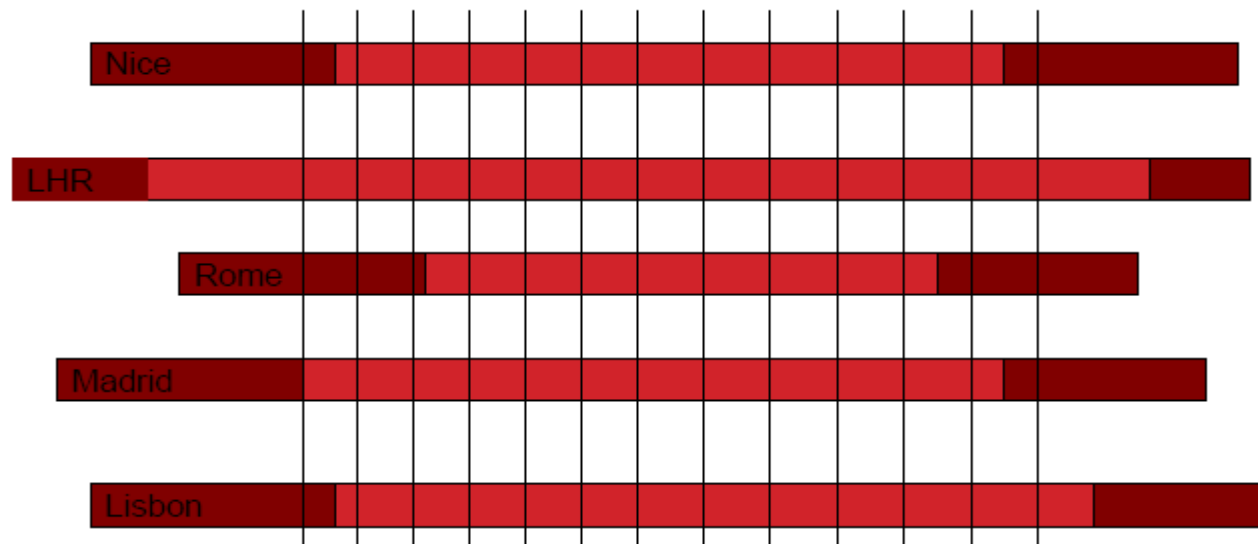
- **Terminal Design for Connections**
  - Transit terminal designed to reduce connection times
  - Best practice can make enormous difference in airline preference and increase connecting gateway passengers
  - Increasingly important as point-to-point airline service growing, and competition from other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



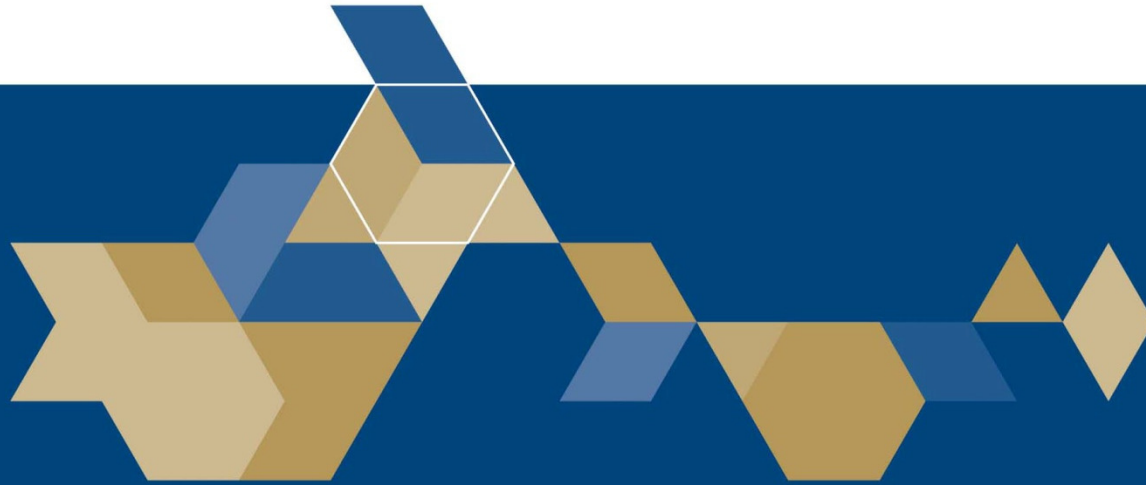
# Airport Product Creation

- **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

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



## **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

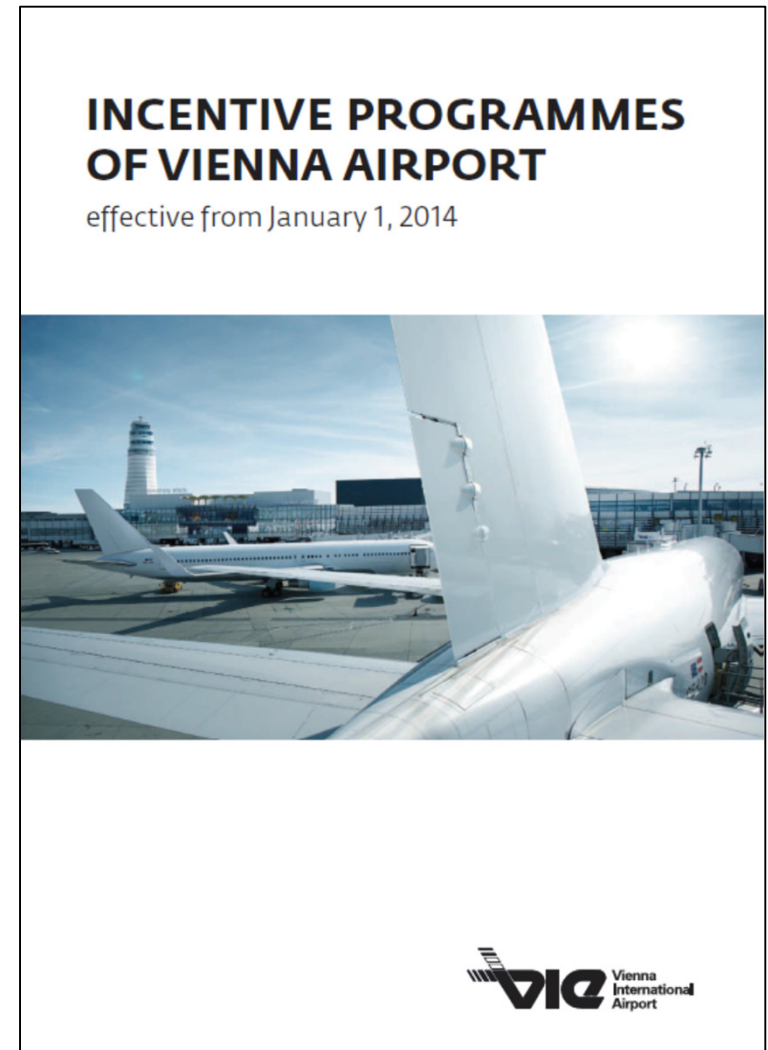
- **New Service Price Incentives**
  - Some airports offer landing fee reduction or rebate or waiver for new air services
    - May encourage new air service
    - Airport may have net gain due to increase in non-aeronautical revenues
  - Serious question to whether incentives change airline behaviour,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

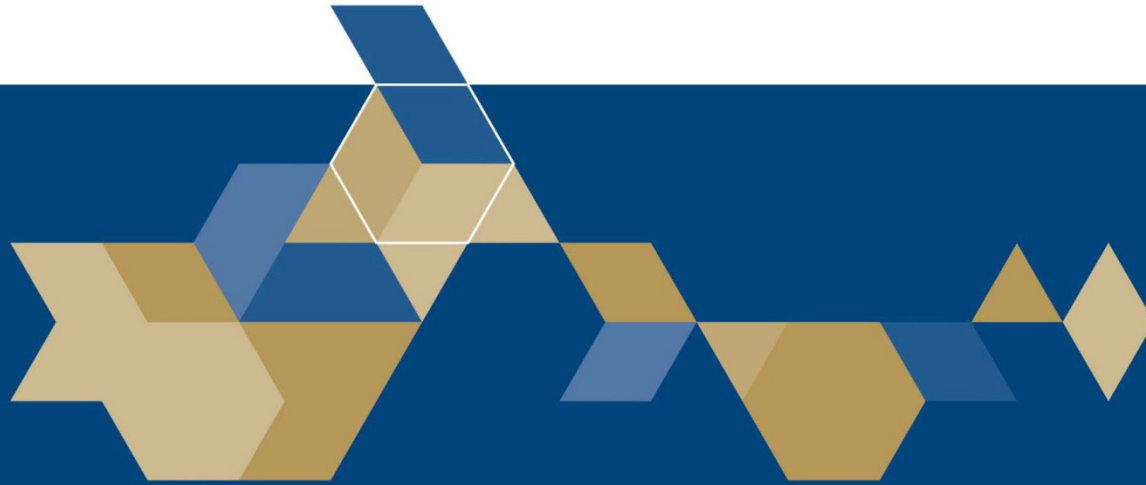
# Regulatory Considerations

- **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

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**Placing & Distributing the Airport Product**

# New Customer Engagements

- **Business to Business**
  - Airline Customers
  - Air Service Development
- **Business to Consumers**
  - Passenger marketing via travel trade
  - Shipper / Logistics Chain marketing



**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**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

## 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**

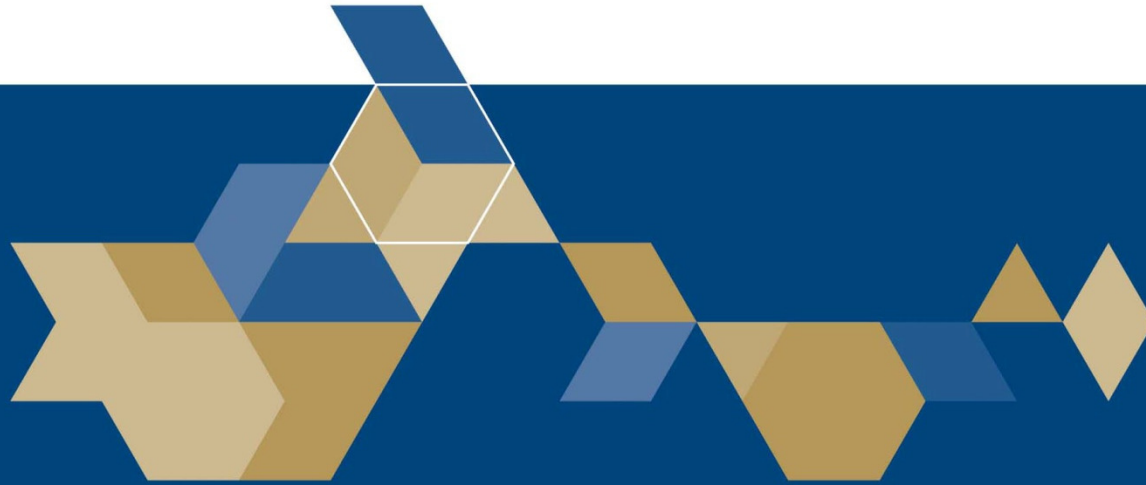
# Right Airline Contacts

- **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

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**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**



**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**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

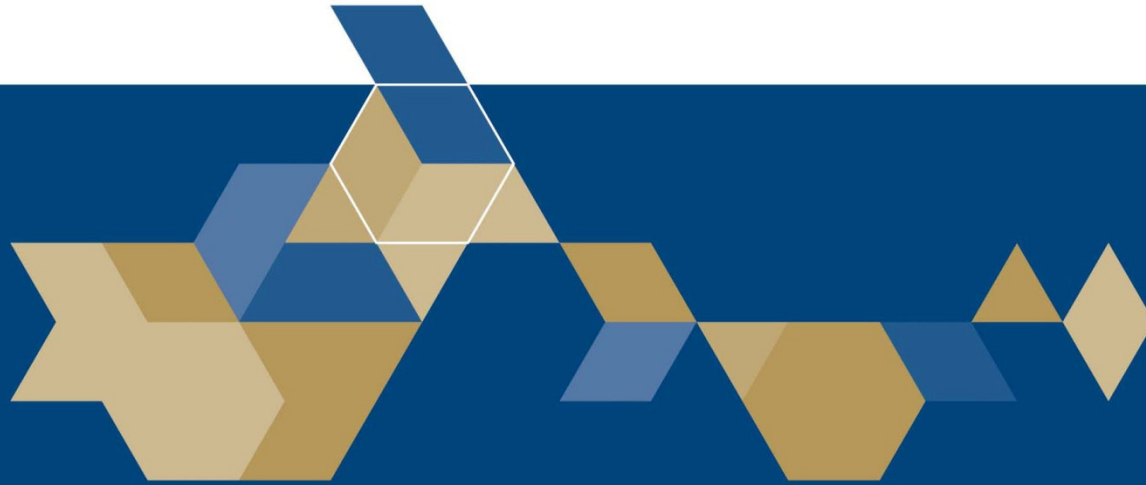
## Select References

- Anne Graham, 2002, “*The Role of Airport Marketing*”, Butterworth-Heinemann, Elsevier Science
- Halpern, N., Graham, A., 2013, “*The Air Service Development Process*”, in *Airport Marketing*, Routledge

**TURKISH  
AVIATION  
ACADEMY**



**İTÜ**



**Questions ?**