

Airport Commercial Development

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M.Sc. Program

Airport Planning and Management

Module 26

January 2017

Outline

A. Introduction

B. Business Development

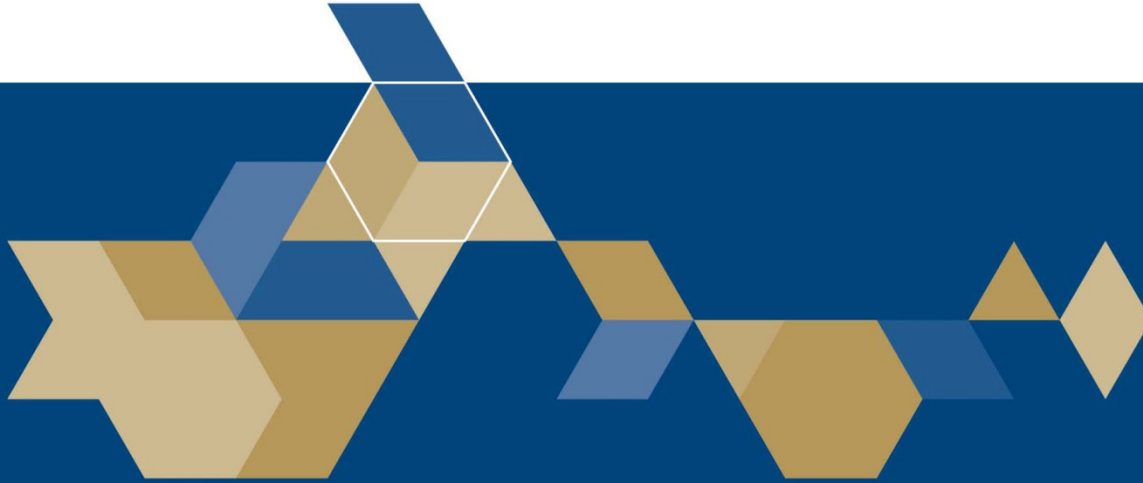
C. Concessionaire Management

D. Customer Sales Relations

E. Sales Team Management

F. Conclusions

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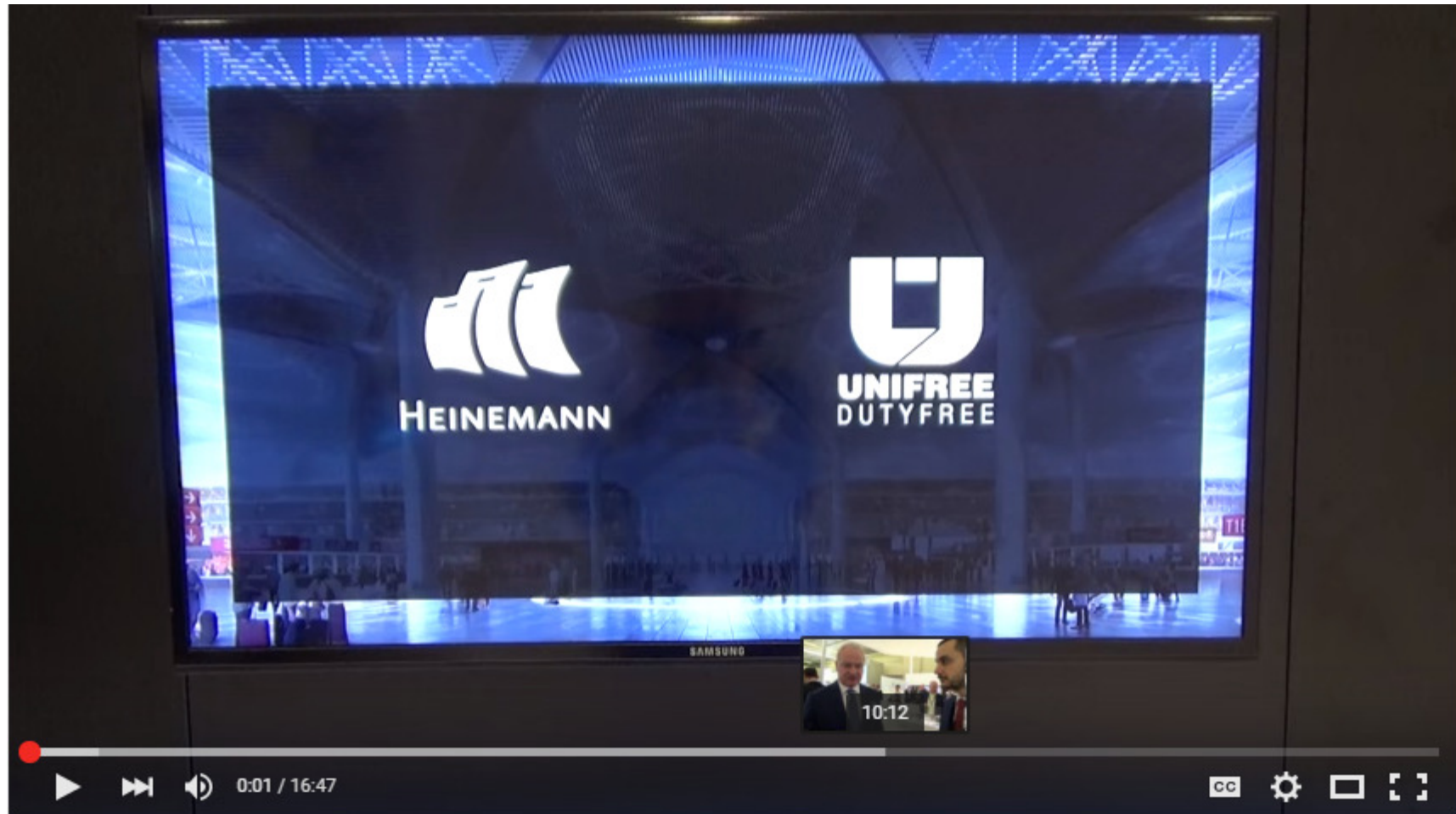


Introduction

Introduction

- **Airport Revenue History**
 - Prior to globalization / deregulation, airports regarded as utility with service emphasis
 - Consequently, relationship between airports, airlines, and governments intertwined with clear joint mission to only provide infrastructure
 - Highly regulated airline environment meant airport revenues were tightly controlled, predictable and not subject to market forces
 - In sum, airports were operated to implement government policy without commercial focus

Introduction



Kay Spanger & Ali Senher

<https://www.youtube.com/watch?v=U-uk1sa1jFc>

Introduction

- **Airport Legal Aspects (ICAO)**
 - **Art. 15** - Airports open under uniform conditions without discrimination on foreign owner
 - Does not define level of charges or costs to be recovered as states must decide level of investment
 - **Art. 37** - Adopt SARPs for industry development
 - **Art. 44** - Ensure safe and orderly aviation growth
 - Doc 9082 defines current ICAO policy
- **IATA / ACI differ on policy implementation**

Modern Commercial Practice

- **Means Revenue Diversification**

Aviation

- Passenger Services
- Cargo Services

Land Use

- Serves locked-in investments
- Short-term for only minimal investment
- Long-term commitment
- Opportunity cost implications

Business and Consumer Services

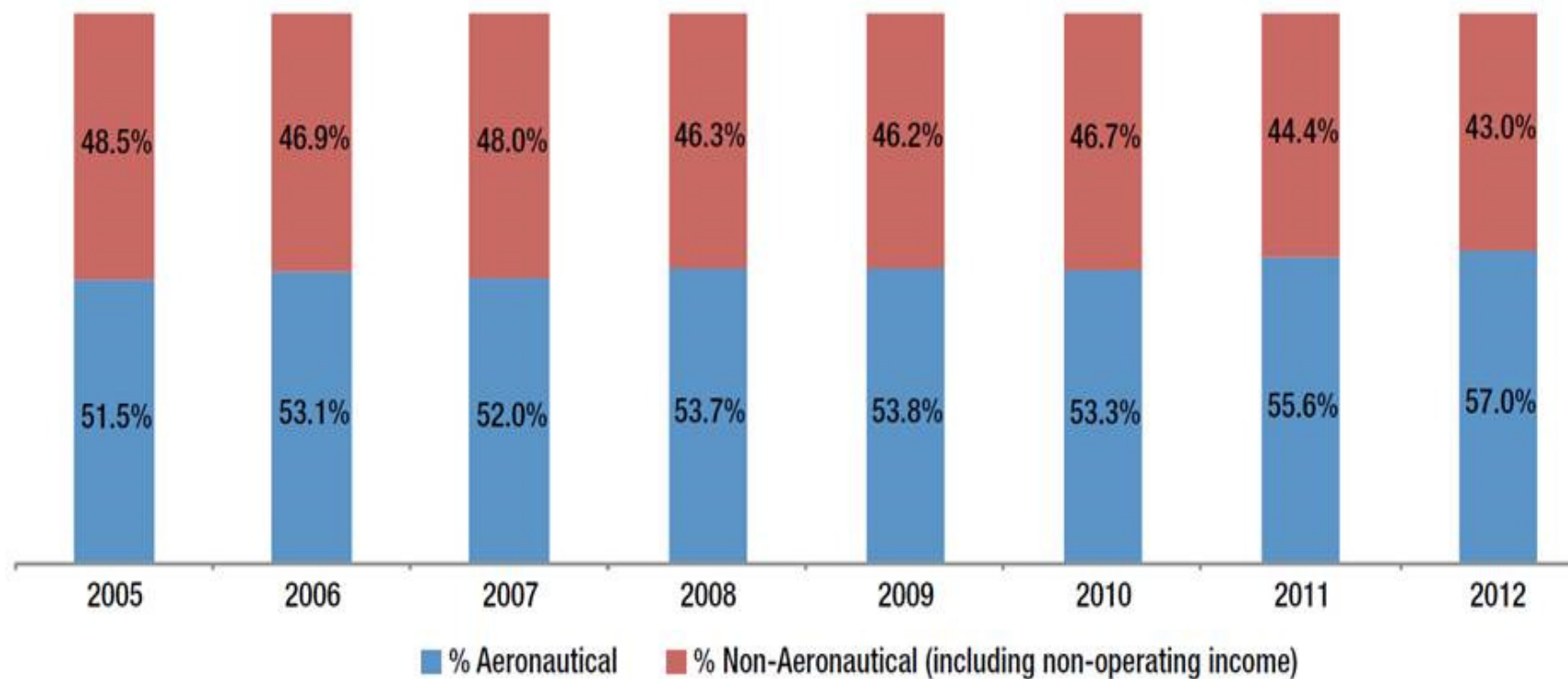
- Competitive positioning
- Robust and globally competent management
- Market rates beyond airport control
- Risk of too high dependence against core aviation

Commercial Challenges

- **Non-Aeronautical Revenue Under Threat**
 - How is airport's commercial performance with regard to best practices (gap analysis) and what revenue optimization strategies are necessary ?
 - Which concession management model should be pursued accounting for local context and overall optimization of airport operational objectives ?
 - How airports mobilize partnership competencies and synergies to design new best-practice models ?
 - And new A3 threat – *Amazon, Alibaba, & Apple*

Commercial Challenges

Chart 44: Proportional Evolution of Aeronautical versus Non-Aeronautical Income (2005-2012)



Source: ACI Airport Economics Survey (2013)

Commercial Challenges

- **External Commercial Expertise Needed!**
 - Develop higher density / breadth of commercial exposure to maximize performance
 - narrow airport product lines generate lower per departing passenger spend than local High Street
 - Rapid offer adaption to reflect the passenger profile
 - Convert browsers into buyers with better offer
 - Airport cost dis-advantages over city retailers
 - Expand target groups to include non-travelers and nearby community

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Business Development

Best-Practice Airport City Development



Best-Practice Airport City Development



Best-Practice Airport City Development



New Airport City Development

Master Plan - Facilities

- AIRCRAFT MAINTENANCE**
Total Area: 700,000 m²
- CARGO CITY**
Total Area: 1,250,000 m²
Capacity: 5.5 million / year
Freighter Stands: 35
- AIRCRAFT CITY**
Offices, Hotel, Clinic, Mosque, Plaza, Car Park, Housing, Expo, Museum, Campus, Golf, Outlets
- AIRPORT SUPPORT FACILITIES**
Catering, Handling, Maintenance, Energy Building, etc.
- FREE TRADE ZONE**
Trading, Production, Storage, Assembly, Banking, Truck Parking.

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36:16 / 46:23

Istanbul Hub Seminar Part VI - Mertol Genc, IGA CEO

<https://www.youtube.com/watch?v=R-FS03fPg90>

Business Development Framework

- **Airport Success Foundation**
 - Proposal justification is valid and supportable
 - Project deliver best outcomes over alternative
 - Challenge process should lead to project amendment or termination where necessary
 - Recognize competitor potential response(s)
 - Business case must recognize and deal with broad stakeholder interests, including community and even nearby business competitors
 - Account for do-nothing strategy

Business Development Framework

- **Investment decision just the start**

- Acquisition method
- Authorize expenditures
- Partner agreements
- Stakeholder support
- Establish accountability
- Implementation risks
- Management roles
- Monitor performance




Land Development Example

- **Attracting Customers**
 - Develop campaign that improves acquaintance with product offering
 - Understand pros and cons of airport location, facility, and neighbouring environment
 - Recognizes competitors doing pretty much same
 - Aligns with corporate strategy...

Montreal - Trudeau International Airport

LOT 12 - AIRSIDE LAND FOR RENT

UP TO 72 ACRES



3,128,000 SQUARE FEET

Property Highlights

- AIRSIDE INDUSTRIAL LAND
- EASY ACCESS TO MAJOR HIGHWAYS
- LOCATED ON CH. CÔTE VERTU NEAR HIGHWAY 13

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AÉROPORTS DE MONTREAL

INDUSTRIAL LAND - LOT 12

Land Development Example

- **Request for Proposal**
 - **Highest & Best Use Test**
multiple alternatives are being considered within broad market scope
 - Use single or multi-phase bidding depending on complexity of proposal
 - Other bidding models may be applicable e.g. **First-in, First-served Test**

Expressions of Interest

Specialty retail opportunities at Auckland Airport

For immediate release

Auckland Airport

Introduction

Auckland Airport has been voted one of the top ten airports in the world three years in a row at the Skytrax World Airport Awards, and is the major gateway to New Zealand. Around 70% of visitors to New Zealand enter or leave via Auckland Airport and we now handle in excess of 13 million passenger movements each year. Auckland is second only to Sydney within Australasia in relation to volume of international passengers.

Auckland Airport has a strong and successful retail business, and following major investment in the international terminal in the last three years, our present retailers now operate in an award-winning environment that is conducive to travel shopping.

New Specialty Retail Opportunities

Auckland Airport is pleased to announce new opportunities in the following categories:

- Specialty retail kiosks: The creation of five new kiosk locations, ranging in size from 23sq m to 40sq m. All kiosks are located in the recently redeveloped international terminal airside precinct. Categories of potential interest are unisex fashion accessories, executive accessories, electronic accessories and skincare/health/beauty.
- Specialty inline store: A 105sq m store, located in a highly prominent position in the airside precinct. Categories of potential interest are electronics, fashion and gourmet packaged food.
- Travel Pharmacy opportunity: Three separate locations under one licence. Two locations within the international terminal (one landside and one airside), plus a domestic terminal site.

Request for Expressions of Interest

Auckland Airport invites experienced retail operators to submit expressions of interest for any of these specialty retail opportunities. Expressions of interest should include proposed concept, product ranging and operator information. Selected operators will then be invited to prepare and submit a detailed proposal.

Information packs are immediately available and should be requested from Darrell Abbott, Retail Commercial Manager, via e-mail to darrell.abbott@aucklandairport.co.nz



16 The Moodie Report e-Zine 1 December 2011

Land Development Example

- **Negotiating Contracts**
 - Airport operational priorities demand different contract terms typical of land development
 - Land / space rent based on fixed amount typical only for bare land or simple services
 - Activity based fee increasingly normal in addition to space rent
 - Airport must consider whether utilities and operational services are priced separately
 - Consideration for future service adjustments crucial

Land Development Example

- **Specific Airport Provisions**
 - As Airport Master Plan always remains work-in-progress, contracts must include potential for future flexibility in use of facility and land base
 - Recognize that international clientele will have different interpretations of what airport might consider routine clauses
 - Understand airport risks and insurance needs
 - Environmental protection highly contentious and historical uses may create future obligations e.g. car rental maintenance, industrial kitchens

Contract Commitments

- **Fulfill Obligations**
 - Airport responsibility to guide commercial partners to achieve desired outcomes
 - Obtain incentives (discounts, marketing budget) through pooling arrangements to benefit all partners
 - Deliver operational excellence
 - Adopt continuous improvement philosophy

Contract Commitments

- **Monitor Performance**
 - Monitor your accounts payable
 - Target site inspections during construction and afterwards for contract compliance
 - Ensure competitiveness in service supplier markets
 - Only engage partners with learning philosophy
 - Identify areas where partners can reduce costs
 - Provide best conditions for partners to thrive

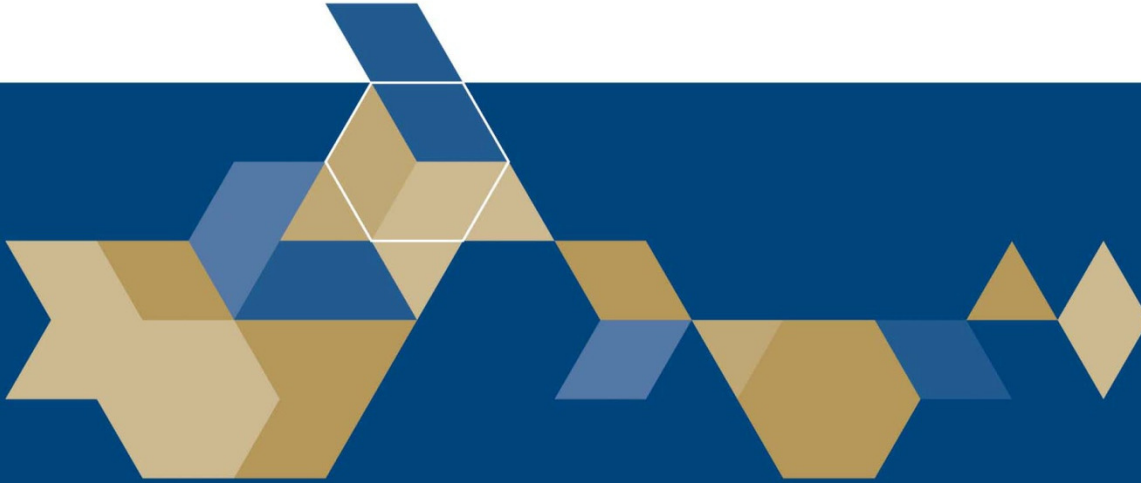
Contract Commitments

- **Effective Communications**
 - Media involving local and foreign markets
 - Coordination of meetings with local sales agents, tourism boards, chamber of commerce etc.
 - Promotion through new sales channel such as social media to launch service changes
 - Keep all stakeholders informed including those parties that may disagree with airport strategies
 - Personal engagement with key partners to understand where risks can be mitigated and opportunities advanced

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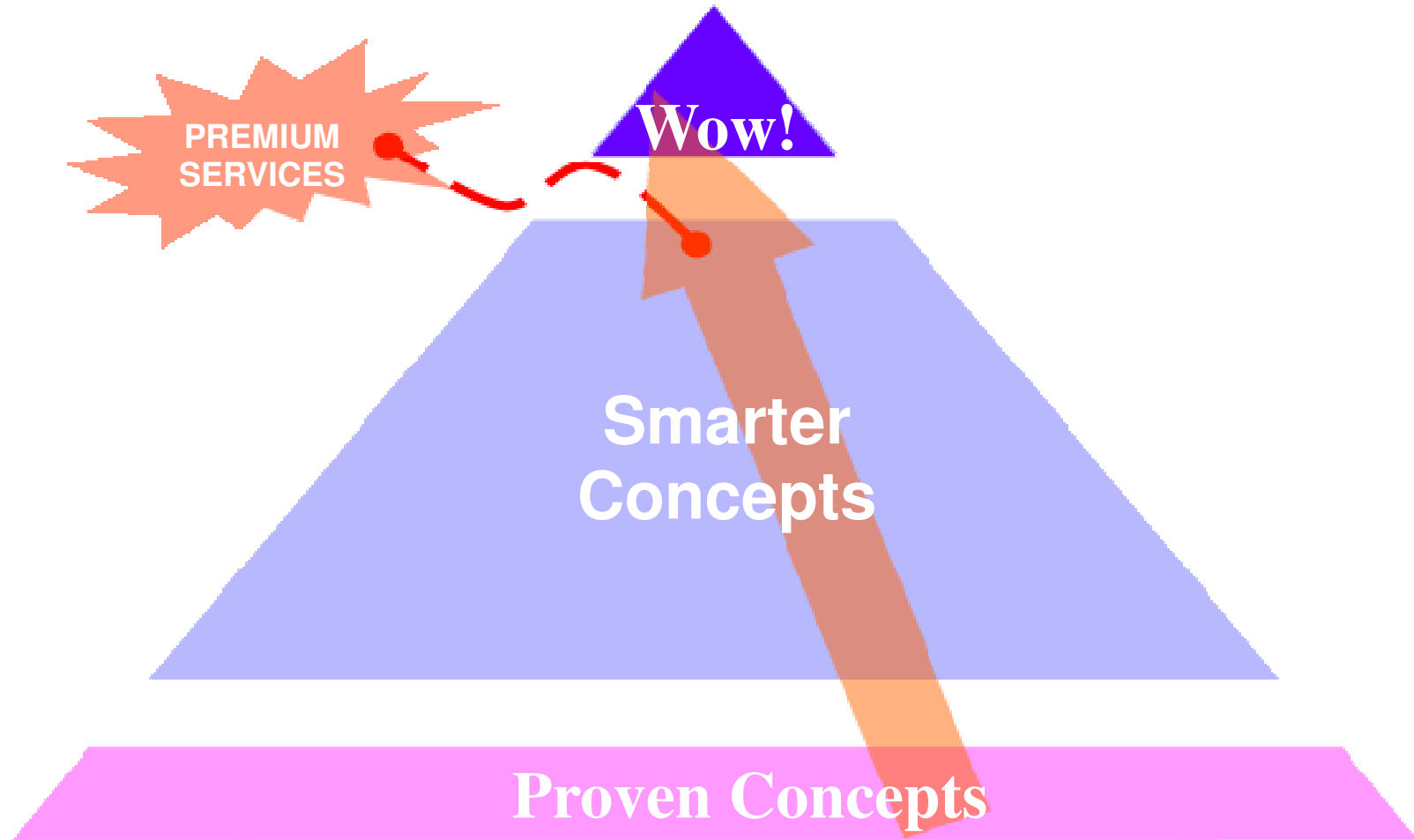
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Concessionaire Management

Partnership Commitment

- **Need to Achieve Innovation and Excitement**



Partnership Commitment

- **Cooperation Key**
 - Partnerships between partner/brand and airport
 - Franchise best-in-class operators
 - Joint venture balances risk and rewards
 - **Business models evolving**
 - Fixed fee versus variable performance based
 - Range from 5% to 40%+ in select categories
 - Contract duration growing beyond 2-5 years
- <http://airportdynamics.tv/videos/watch/192>

Partnership Commitment

- **Airport Role**

- Define commercial strategy
- Portfolio management and concessionaire mix
- Space density
- Category mix
- Work with specialists to define retail space configuration
- Integrate with overall airport marketing strategy
- Anticipate traffic mix changes

Partnership Commitment

- **Operator Role**
 - Define brand / product mix
 - Purchasing and logistics
 - Define marketing policy
 - Staffing engagement
 - Information systems



<http://airportdynamics.tv/videos/watch/105>

Partnership Commitment

- **Co-Manage Offering**
 - Adapt brand, product, and pricing to traffic mix
 - Optimization of space configuration and density integrating both operator and airport expertise
 - Consistency of marketing, price and promotion policies with airport operational priorities
 - **Understand aviation Life-Safety systems**
 - Joint performance analysis through IT reporting transparency to define action plans

Concession Model

- **Make or Buy Decision Factors**
 - First and foremost which model best aligns with airport Mission and Vision
 - Airport owner skills
 - Potential contractor capacities and reputation
 - Investment capital
 - Operational controls
 - Risk management
 - Corporate structure

Concession Model

- **Airport Owner / Operator**
 - + All revenues to owner
 - + Integrate overall operations
 - + Market position without external influence
 - + Customer service managed across divisions
 - + Decides what is sold and price
 - + Strategizing how best to share revenues
 - No risk, no reward
 - Gaining and maintaining skills not simple
 - Investment in facilities and store merchandise

Concession Model

- **Arms-Length Management Contract**
 - + Similar to direct control
 - + Contractor performance can be monitored independently
 - + Contractor will/should have access to global expertise
 - Similar to direct control
 - Risk of managing deliverables through 3rd party contractor without fee risk

Concession Model

- **Master / Partial Concessionaire Role**
 - + Global access to best-in-class operators
 - + Delivers investment capital
 - + Streamlined operational management
 - + Consistent customer service / facility standards
 - + Contractor assumes space and customer risk
 - + Can establish differing goals for 3rd party vendors
 - + International, national, regional, or local focus
 - + Rent formula linked to performance

Concession Model

- **Master / Partial Concessionaire Role**
 - Owner not involved in service offerings
 - Bidding process limited to capable competitors
 - Creativity avoided / formula used repeatedly
 - 3rd party vendors have own / external priorities
 - Requires long contracts to offset big investment
 - Pressure to change contract as markets change
 - Outright failure cause enormous complications
 - Incremental management fees paid by customers or translates into lower return for airport

Concessionaire Operational Framework

- **Generally preferred vs direct operations**
 - Airport owner must retain strategic and coordinating role across both commercial and operational systems
 - Goal is to obtain expertise that will take responsibility for business outcomes, not just fee for service
 - Hiring entrepreneurial expertise which demands strict limits on owner control of business outcomes

<http://www.airportdynamics.tv/videos/watch/237>

Concessionaire Operational Framework

- **Engagement principles**

- Hire best that can be afforded - 2nd best alternative can be way more expensive in long term
- Hire demonstrated innovators that create new futures
- Hire creative problem solvers that see customers in different ways than mainstream
- Hire with proven financial record, but may not be the most important criteria in fast changing market

<http://www.airportdynamics.tv/videos/watch/241>

Concessionaire Operational Framework

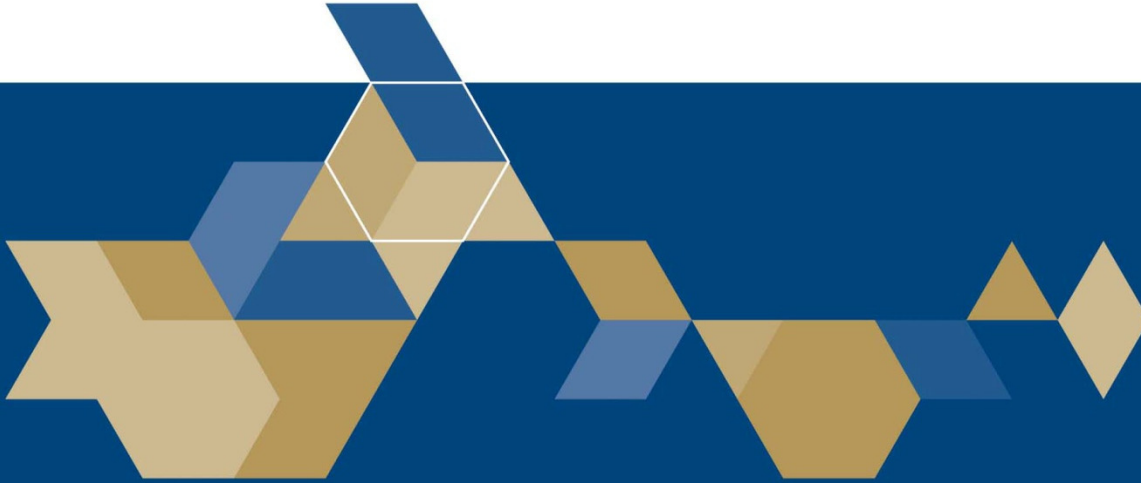
- **Concessionaire Responsibilities**
 - Level of investment
 - Product and service lines
 - Sales methods and techniques
 - Promotional programming
 - Human resource functions (hiring, training, promotion)
 - Local / off-site management structure
 - Allocation of market and customer service risk

<http://www.airportdynamics.tv/videos/watch/91>

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Customer Sales Relations

Customer Sales Relations

- **Corporate-wide Strategy**
 - Demands organization alignment to ensure service outcomes drive all customer outcomes
 - Achieving sales objectives cannot be achieved by assigning responsibility to a single department
 - Must be priority for entire organization with the proper tools to align all managers to understand their role in service delivery to customers
 - Create internal conflicts between narrow “return-on-investment” focus versus operational success vital to long-term customer satisfaction

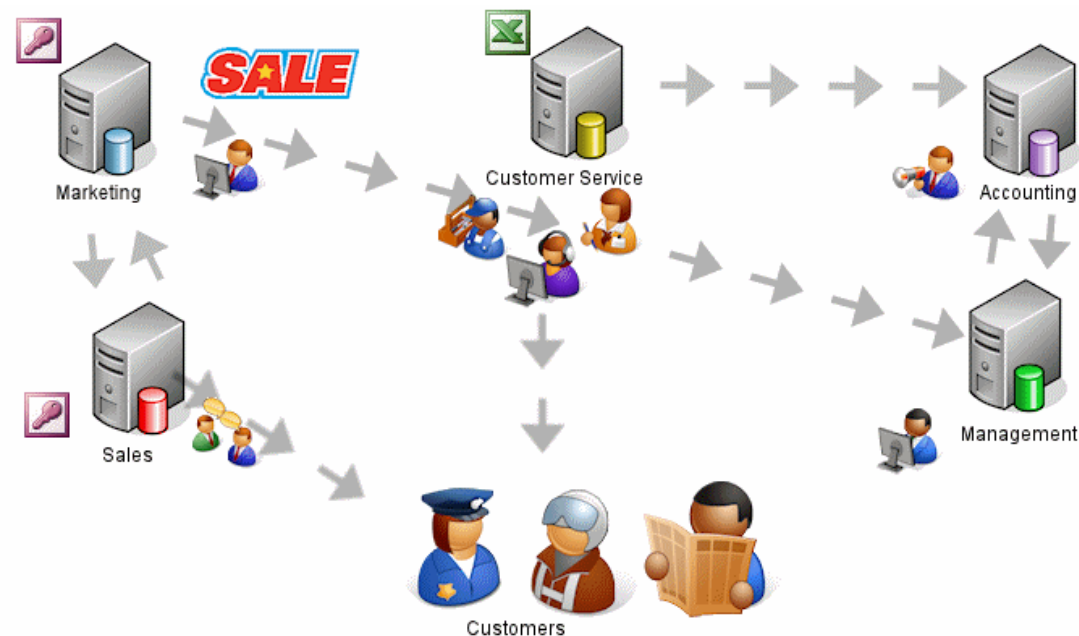
Customer Sales Relations

- **Program Checklist**

- ☐ Organizational commitment
- ☐ Understand customer decision-making
- ☐ Create customer loyalty
- ☐ Establish operational program
- ☐ Deliver promises (Service Level Agreement)
- ☐ Engage Customer Champions throughout
- ☐ Respond to Customer Perceptions
- ☐ Recognize performance
- ☐ Build system resiliency
- ☐ Learn from outcomes – good or bad

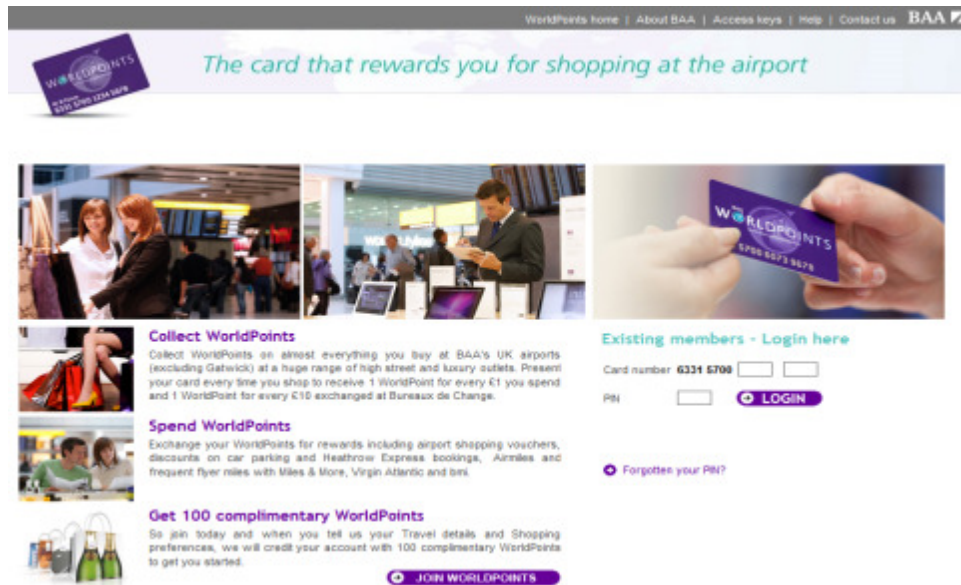
Sales Management Information System

- **Technology Support**
 - Online advice for customer enquires
 - Data warehouse and analytics
 - Automated revenue enhancement tools



Airport Sales Outreach

- **Co-create with customers**
 - Enable customers to build loyalty through interactive engagement and beneficial trade-offs



<http://airportdynamics.tv/videos/watch/190>

Airport Sales Outreach

- **Loyalty Programs Gaining Prominence**

- Know your customer
- Needs Management Information Systems
- Invest in quality and people



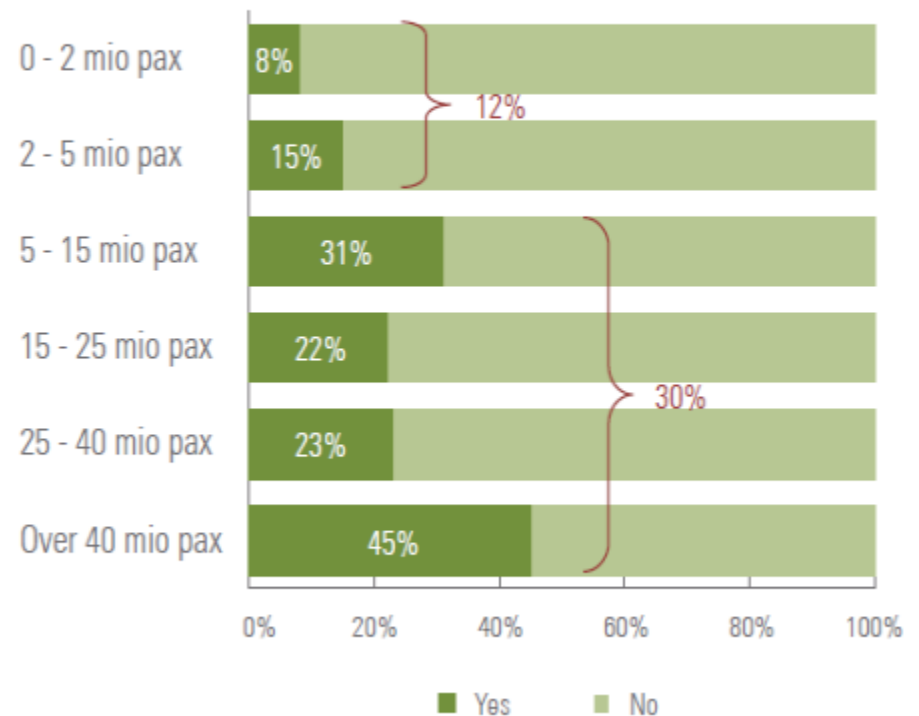
Airport Sales Outreach

- **Loyal Customers More Profitable**
 - Customers who are more familiar with the product / service require less assistance
 - Customers who have already purchased a product are more aware of its benefits and tend to be less price sensitive
 - Customers satisfied with product / service are likely to buy other products from same company
 - Loyal customers likely to recommend product / service to others – positive “*word of mouth*”

Airport Sales Outreach

- **Loyalty Not Free**
 - Loyalty programs can drive spending
 - But, airports face more competition
 - Investment to deliver loyalty promises
 - Small airports at disadvantage, so be creative and partner with travel supply chain

By airport size category...

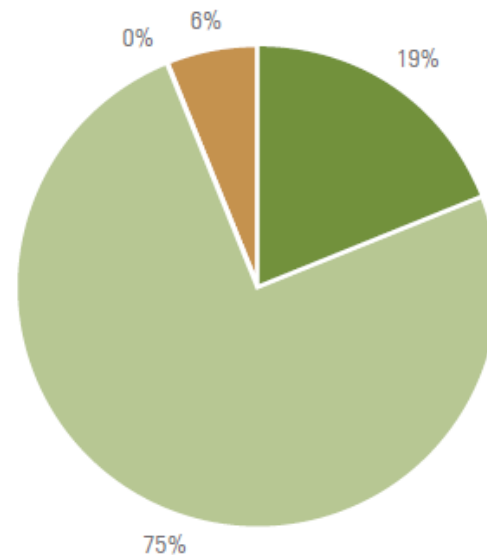


Airport Sales Outreach

- **Free or paid Model?**
 - More travel or spend at airport, more benefits / rewards received
 - Discounts for retail, food and beverage
 - Can redeem points for rewards or gift cards
 - Paid membership common, but service levels must be higher and consistent

How does your loyalty programme work??

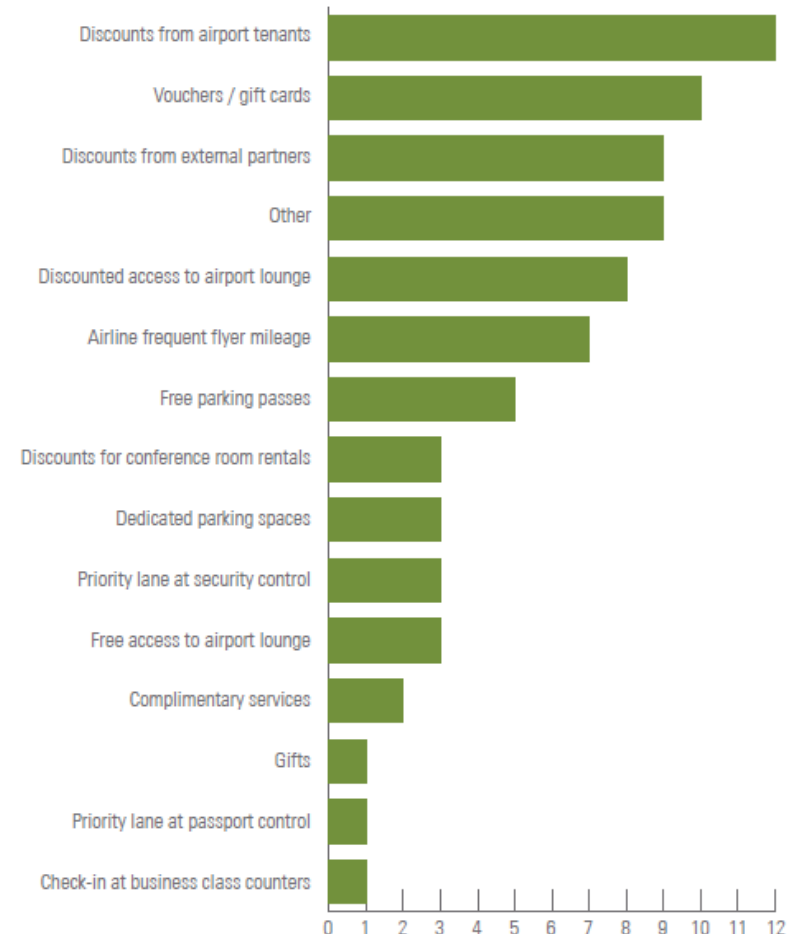
- Members receive benefits as soon as they join
- Benefits depend on the amount spent at the airport
- Benefits depend on the number of trips
- Other scheme



Airport Sales Outreach

- **Measure Benefits**
 - Information about purchasing habits permit customized offers
 - Differentiation allows different positioning and increases attractiveness of commercial offer
 - Increased passenger expenditures and loyalty over competing modes

What are the benefits for the passengers?



Airport Sales Outreach

- **Measure Costs**
 - Program expenditures can be significant
 - Quantifying airport return challenging
 - Do not forget administration and monitoring costs

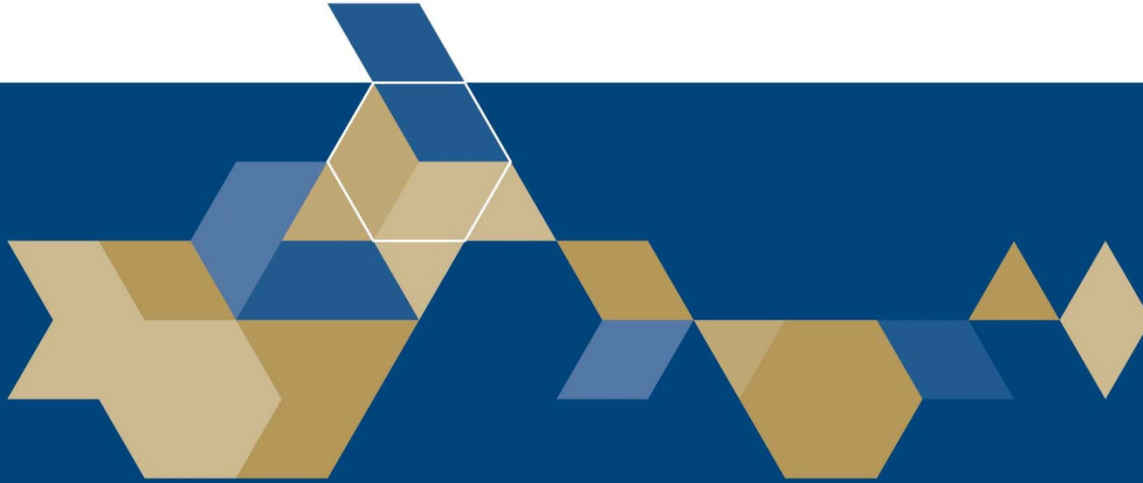
What are the benefits for the airport?



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Sales Team Management

Recognizing an Effective Sales Team

- **Skill Sets**
 - Capacity to recognize feelings of others
 - Plan internal and external interfaces
 - Communicate vision and practices
 - Knowledge of best practice
 - Organize people and projects
 - Fluidity to external environments
 - Professional and personal integrity

Investing in Success

- **Strategic Decisions Required**
 - Contract versus internal staff costs
 - Staff organization or separate business unit
 - Who will control hiring, promotion, and termination
 - Joint marketing and sales expenditures
 - Account for administration costs and expenses
 - Internal or external support

Typical Team Accountabilities

- **Management Responsibilities**
 - Develop and manage budgets
 - Plan and execute quality control programs
 - Manage product / service sourcing including contracting with third-party suppliers
 - Effective vendor relations through life of contract
 - Liaise vendors with airport operational controls
 - Propose new programs to attract target clients
 - Drive innovation in face of industry / customer trends

Typical Team Accountabilities

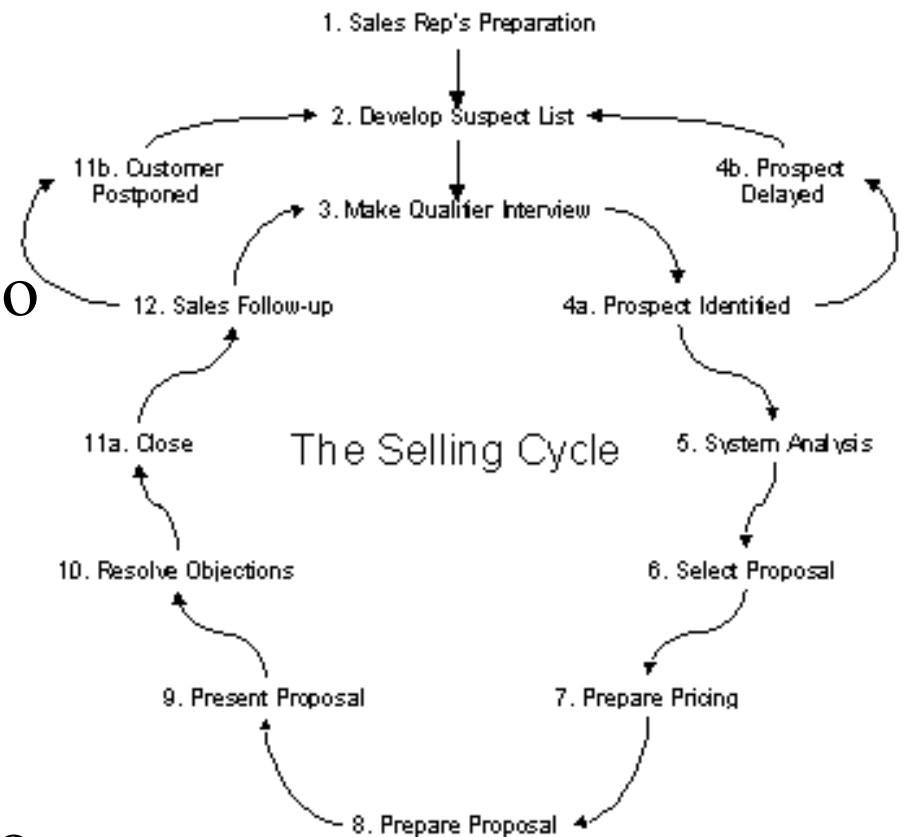
- **Sales Staff Responsibilities**

- Customer oriented
- Innovative
- Brand aware
- Service delivery
- Evaluate engagements
- Operationally fluent
- Product knowledge
- Relationship capacity
- Communicator
- Negotiator



Sales Performance

- **Modern Sales Team**
 - Learn from past successes and mistakes
 - Act under uncertainty so make best choice available, which presumes effective situational analysis
 - Plan for customer change through scenario analysis



Sales Performance

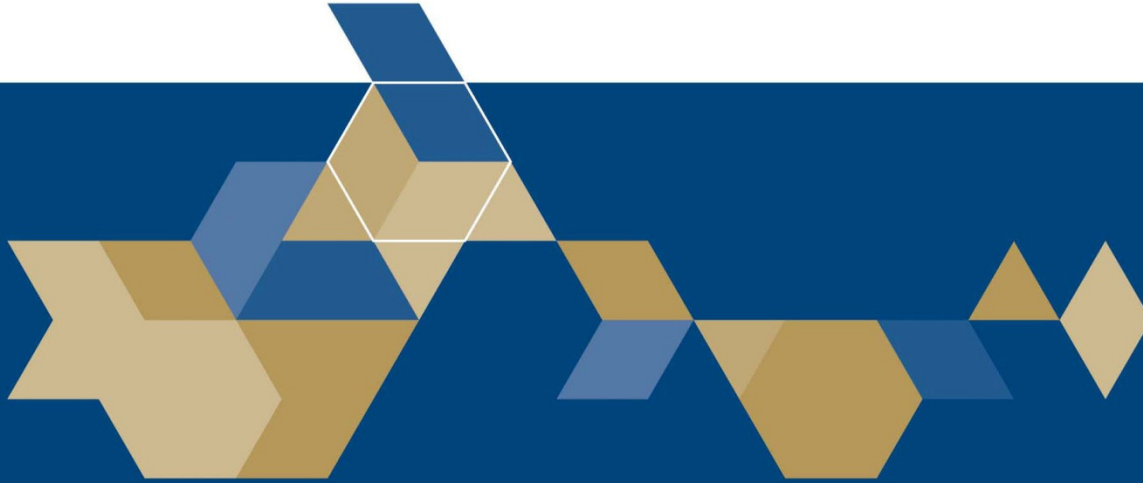
- **Sales Team Objectives**
 - Set performance by recognizing corporate objectives and ability to attract / retain right staff
 - Takes time to adapt skills to desired objectives
 - Need action plan for ongoing sales development
 - Determine expected performance after training
 - Plan transition from current to future capabilities
 - Timeline from initial assessment to high outcomes
 - New skills base is foundation for future objectives
 - Communication needed at every stage, regardless of whether progress or failure imminent

Sales Performance

- **Sales Team Support**
 - Mentor both new and mature sales team members
 - Recognize everyone needs support at some time
 - Coaching for individual and team performance is foundation for many great organizations
 - *Every great athlete has a great coach*
 - Tailor skill development to strengths / weaknesses
 - Senior mgmt not always best suited for mentoring
 - Caution of boundary between “boss” and “coach”
 - Investment in professional coaching support

Sales Performance

- **Sales Team Motivation**
 - “*One size fits all*” performance management flawed as not everyone will fit ideal sales capability model
 - Understand how to encourage desired behaviour
 - Revenue (blunt-tool)
 - Personal growth (better)
 - Self-achievement (best)
 - Understand perceived message sent by performance improvement programs such as training?
 - Lack of attention leads best people to go elsewhere



Conclusion

Conclusion

- **Commercial success underline airport business plan**
 - Competition, fast-changing markets, and technology demands best-practice from within / outside aviation
 - Business development must answer question *“As client, why do business with the airport versus somewhere else or no investment at all?”*
 - Airports have thrown out concession rule book and are building new commercial partnerships
 - Success depends on capabilities of lowest sales person to effectively deliver customer service

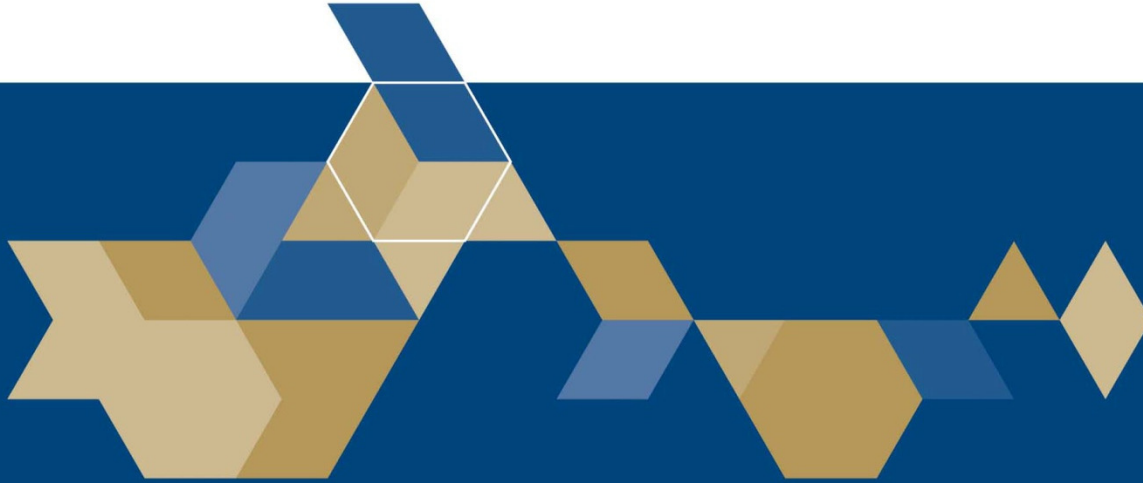
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Questions ?