



Airport Marketing

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Airport Planning and Management

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Outline

- **Rise of Airport Marketing**
- **4 P's of Marketing**
 - Creating the Airport **Product**
 - **Pricing** the Airport Product
 - **Placing**/distributing the Airport Product
 - Air Service Development
 - **Promoting** the Airport Product
- **Not covered**
 - Commercial and land development
A separate lecture
 - Pricing/Fees
covered in other lectures

The Rise of Marketing in Airport Management



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 is Subject to Planning by the Passenger**

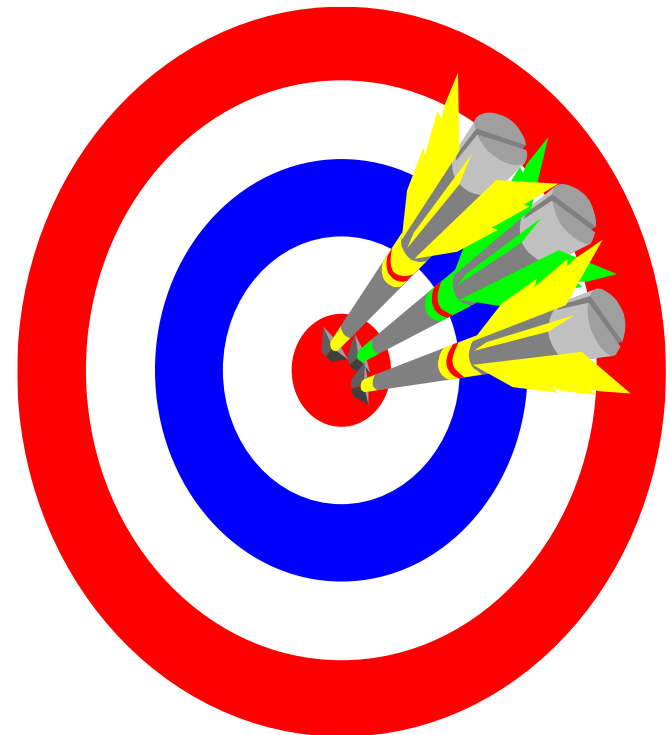
Marketing Plan

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

Airport Marketing ?

But carriers do respond to

- prices
- connection opportunities
- information on traffic opportunities
- growth potential
- service reliability
- marketing commitment by airport

Airport Marketing: Oxymoron?

Privatization changed role of marketing

- Airport operator seeking maximum return on investment
- Unable to earn profit on aeronautical services
 - Due to regulation of aeronautical services
- So profit must be earned from non-aeronautical services

- But potential for commercial profit depends on level of passenger traffic
 - Hence key airport marketing focus is Air Service Development

Why Airport Marketing ?

- **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
 - Airport income from sales
 - Other charges: \$2,000
- **Total per flight: \$15,260**
- **Annual: \$5.6 million**
 - Annual total w/of LF, TF \$2.3 million

Carrier Impact of Airport Marketing

- **Air Carrier Revenue Opportunity with a good airport product**

- ex) 50 new connections per day
 - connections
 - new o/d
- Average Revenue: \$200
- Daily revenue: \$10,000
- Annual 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 food/beverage/retail
 - 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 on passenger
- landing or terminal charge based on # passengers rather than aircraft capacity
- Retail/food/beverage/parking
- “Exposure” revenues
 - Such as advertising and concession fees from food/beverage/retail

Passenger Driven Revenues

Conclusion:

- It is the availability of airline services which determines the 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 based revenues

Airport Marketing

- Most airports now have active marketing departments
 - 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

The 4 P's of Marketing



Marketing

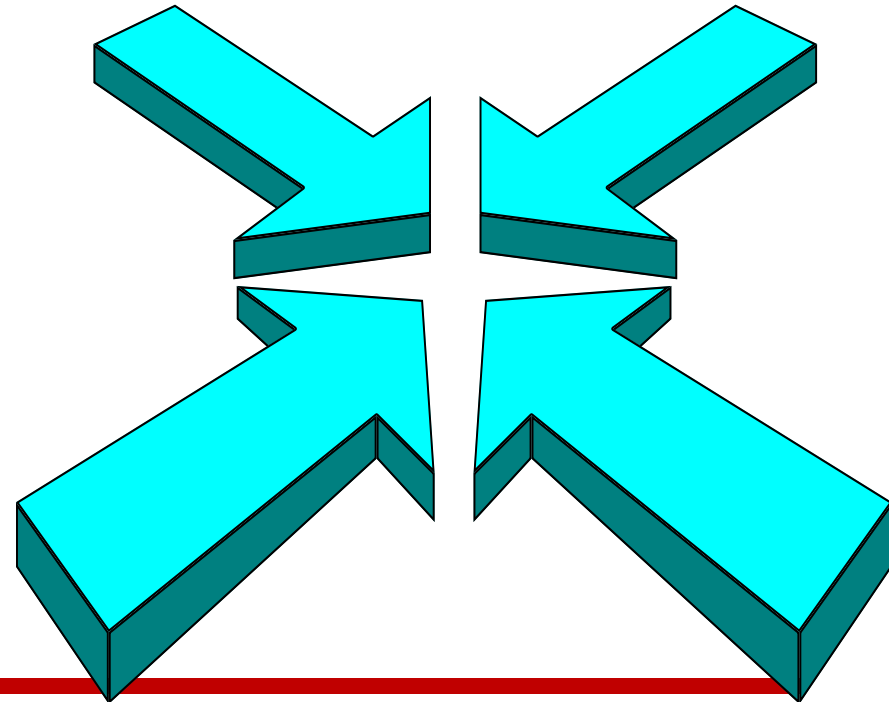
Product (define/create the product to be sold)

Price the product

Place (Distribute) the product

- Business to business
- Business to consumer

Promote the product



Product Creation



The Airport Product

Physical Product

- Runway capabilities
 - Airports lengthen runways to accommodate new aircraft
 - E.g., to attract intercontinental freighters
 - Small airport to grow from RJ/turboprop to mainline jet
 - 777-200ER
- Runway capacity
 - Congested airports
 - cannot grow traffic
 - Cannot facilitate a broader range of flight connections
- Terminal capacity
 - Gates, security, customs hall

The Airport Product

Processing capability

- Customs available?, hours, capacity
- Capacity of customs hall
- Processing rate of security

Destruction of a Product



Destruction of a Product

Montreal

- 1970 4.6 million pax
vs. 6.4 million for Toronto
Montreal was Canada's premier international gateway
- 1975: 2nd airport opened
YUL: (Trudeau Dorval): domestic and U.S. traffic
YMX (Mirabel): overseas traffic
- 1980
Toronto is premier gateway
Montreal was Origin/Destination only
Ranking eventually fell from #1 to #4

Destruction of a Product

Montreal decision to segregate N. America traffic from overseas traffic resulted in loss of ability to offer a gateway product

Today:

- Toronto: 39 million passengers
- Montreal: 12million passengers
now #3
Montreal has consolidated overseas traffic to Dorval

Product Creation

Intermodal services

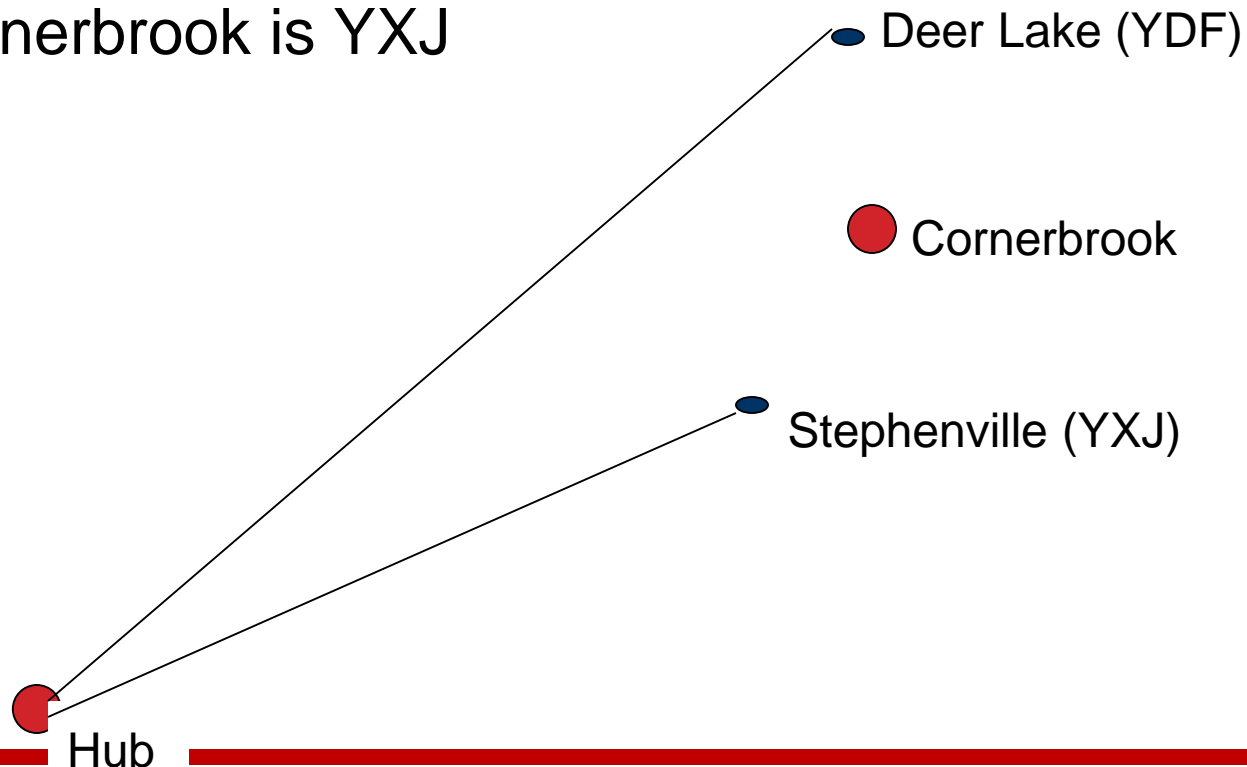
- Air/rail
 - ex) ADP/SNCF fly/rail
- Cruise ship linkages
 - ex) Vancouver cruise: cruise terminal check-in
 - next phase: on ship check-in
- bus services
 - through service on bus

Ex) Bus Connection

Stephenville (YXJ) provides bus to Cornerbrook

Applies to IATA code

- Airport code on lookup for Cornerbrook is YXJ



Product Creation

Downtown services

- downtown bus services
 - potential revenue source to airport
- downtown check-in facilities
 - channels traffic onto airport bus
 - relieves terminal congestion
 - target high volume points
 - convention centre
 - not: originating downtown business travellers

Product Creation

Expedited Customs Hall handling

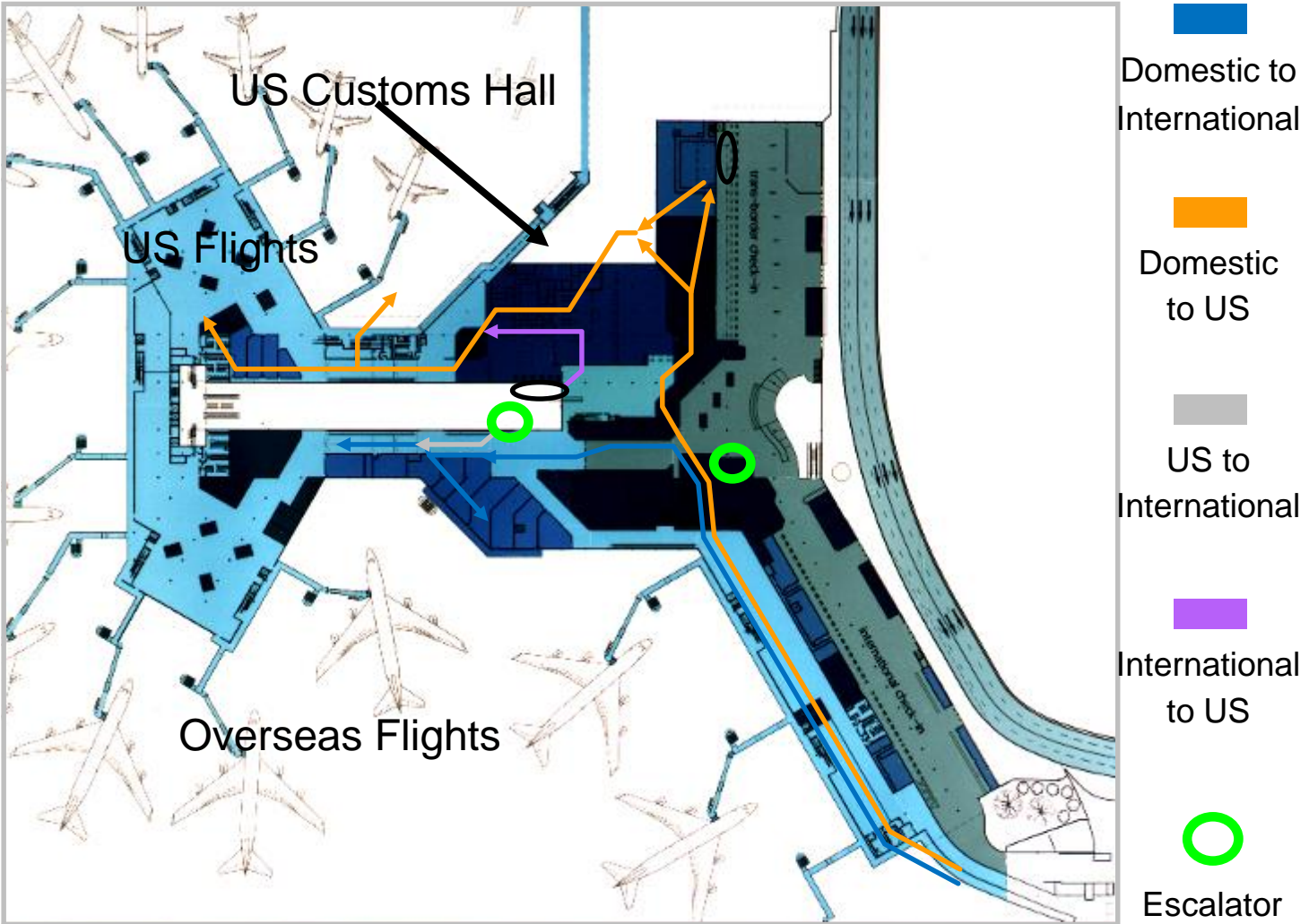
- LHR/KUL premium services
 - faster service
 - And passenger processing generally faster as premium customers tend to be lower risk
- Automated immigration processing
 - Vancouver: airport owned technology, sells to others

Terminal Design for Connections

YVR new ITB

- Transit terminal designed to reduce connection times
 - terminal design reduced connection times by 45 minutes
 - resulted in 500,000 annual increase in connecting gateway passengers

Rapid International Connections

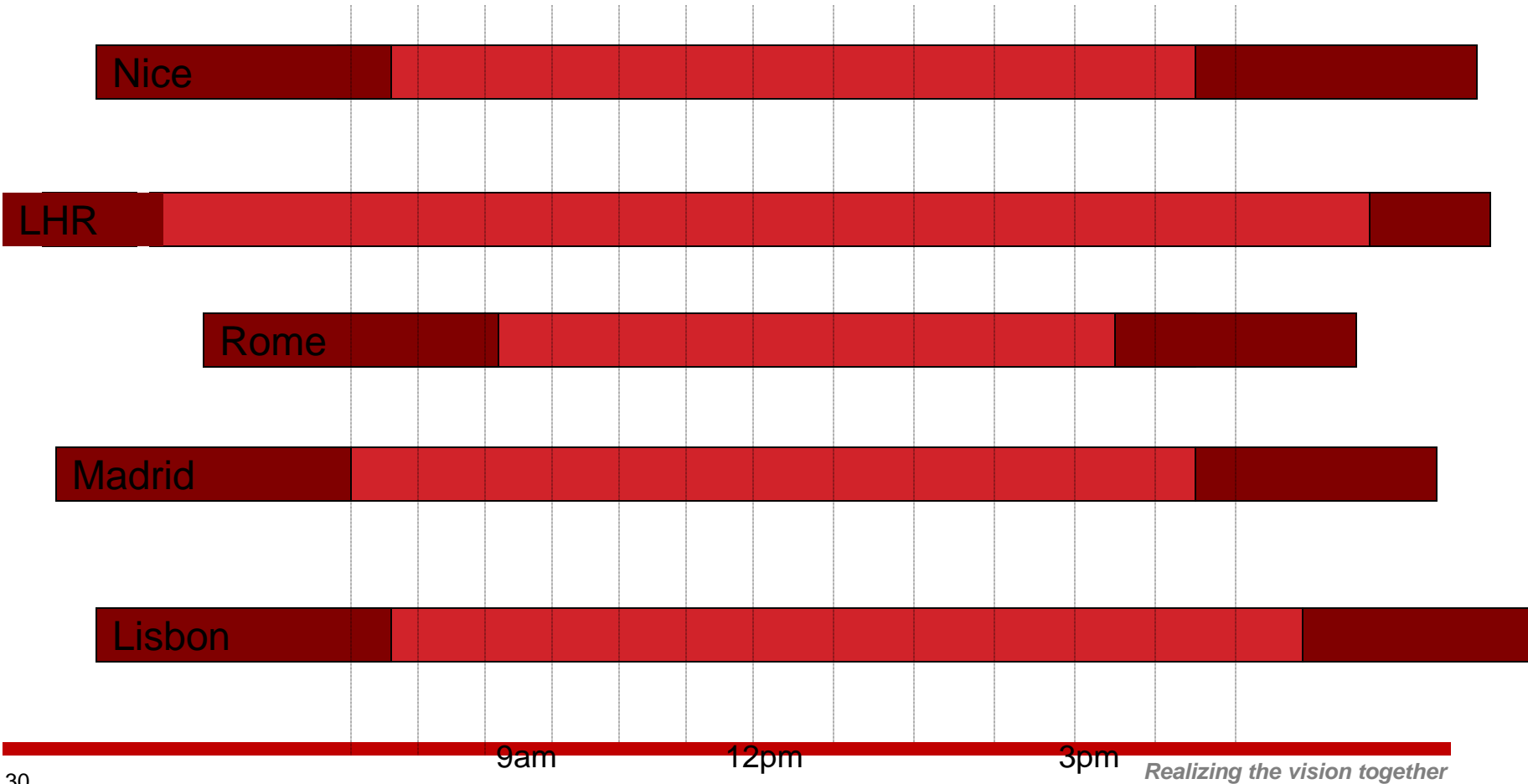


The Terminal as a Destination

Schiphol (AMS)

- development of meeting rooms
- publish schedule of European destinations
 - earliest departure from each city and time of arrival
 - last departure

Terminal as Meeting Destination



Terminal Design for Retail

High retail spend rate when passengers walk by retail outlet

- 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
 - include crooked paths

Product Creation

Intermodal services

- ex) ADP/SNCF fly/rail
- cruise ship linkages
- bus services

Downtown services

- downtown bus services
- downtown check-in facilities

Pricing the Airport Product



Pricing

Two Traditional Pricing Methods

- **Compensatory**
 - The airport operator assumes all financial risk for airport capital and operating cost
 - Airport allowed a normal return on capital invested
 - Aeronautical charges cover ALL aeronautical costs
 - Airside system
 - Aeronautical portions of terminal building
 - Excludes spaced leased to other
 - Retail/food/beverage
 - Airline office rental, lounges, ...
 - Any dedicated use facilities
 - Such as space costs of dedicated airline ticket counters

Pricing

Two Traditional Pricing Methods

- **Residual**
 - The airlines effectively assume financial risk for airport capital and operating cost
 - Landing Fee =
All airport costs – revenues from nonaeronautical
projected traffic for the year
 - Airlines assume risk but
 - They benefit 100% from non-aeronautical
 - Airport gets higher bond rating, thus lower borrowing rate

Price Unbundling

Traditional:

- Landing Fee
 - Weight based, with rate for 1000 kilos increasing

Price Unbundling

Unbundled

- Landing fee
 - Only recovers costs of airside system
- Terminal fee
 - Recovers costs of aeronautical parts of the terminal
 - Not paid by cargo carriers
 - Typically based on standard seats for each aircraft type
 - But can be based on actual onboard passenger counts
- Other fees
 - Fees for flights that use customs facilities
 - As the customs/immigration authorities typically do not pay rent
 - Domestic pax do not have to contribute to these costs
- Fees for use of Common Use Terminal Equipment
 - CUTE fees can be per flight
 - Or per ticket counter per 15 minutes
 - Encourages more efficient use of airport assets
 - CUTE reduces airport size and investment, but airlines prefer customer service with dedicated facilities

Price Incentives

Quantity 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
 - But it can be justified if carrier/airport can demonstrate genuine efficiencies in airport costs

Price Incentives

New Services

- Some airports offer landing fee reduction or rebate or waiver for new air services
 - Justified for encouraging development of new air service
 - Airport may have net gain due to increase in non-aeronautical revenues
 - With residual pricing, other airlines could benefit, in theory

Price Incentives

Issues with Price Incentives

- Must be nondiscriminatory
 - Any airline bringing new service to airport should be eligible, including dominant incumbent carrier(s)
 - Brussels South Charleroi Airport (CRL) incentives were judged discriminatory
 - Ryanair had to pay back
- Incentives should not be subsidy
 - Incentive is temporary incentive for new service
 - Subsidy would be ongoing payment of part of airport revenue
 - E.g., if ULCC receives a portion of annual airport revenue typically including nonaeronautical revenues

European Commission Guidelines

- Apply only to public airports
 - Private airports not constrained
- These are guidelines, not law
 - CRL ruling by EC was overturned in court
- Selected elements
 - No incentives on routes with high speed rail service
 - Time limited, can only cover start up costs
 - Less than 50% of fees
 - Must be non-discriminatory
 - Must be limited to 30-50% of costs

Other Incentive Issues

- US FAA also provides guidelines
- Some airports offer bundle pricing
 - Combined incentive for landing/terminal fee office space, ground handling and other services
- Airports can work with tourism and chambers of commerce to add their own incentives
 - Often it will be marketing promotion to benefit of the airline
- Carrier typically must make a route commitment for a year or two
 - Could be required to reimburse airport for early withdrawal

Types of Incentives

- Landing/terminal fee waiver, reduction, rebate
- Travel Bank (revenue guarantee)
 - Businesses in community deposit funds in a bank trust account
 - They withdraw from it when they purchase tickets
 - Any unused amount paid to airline at end of year
 - Greatly lowers airline risk on new route
- Airport guarantee of airline revenues
- Airport commitment to marketing expenditure to create awareness of new service
- Tourism partners may promote at route end
- Preferential gate access

Incentive Prevalence

15 years ago

- Rare

Today

- Very common (over 70%)
- Now seen in developing nations

Placing the Airport Product With its Customers



Placing the Airport Product with its Customers

Business to Business

- Airline Customers
- Air Service Development

Business to Consumers

- Passenger marketing via travel trade
- Cargo marketing

Air Service Development



WHAT IS AIR SERVICE DEVELOPMENT?

Service to new destinations

New carriers

Convert multi-stop or connecting flights to non-stop service

Upgrade existing service to larger aircraft

Improved scheduling

ASD steps

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
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

Success Factors

Commit resources

- people and management
- budget to execute program

Long term commitment to program

Strategic but realistic approach

Well-defined targets

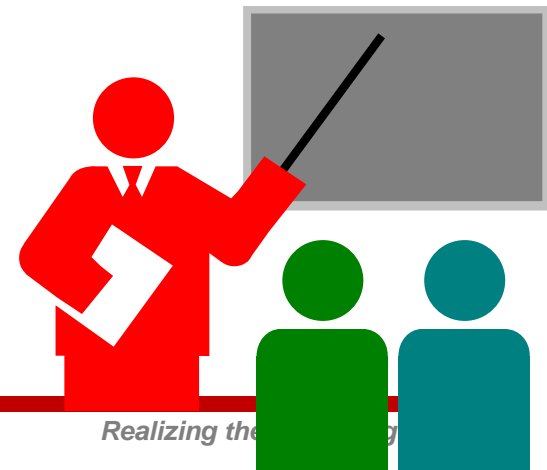
Knowledgeable approach

thorough knowledge of your market

Success Factors

Detailed and accurate data to support air service proposals

A knowledge of how your air service proposal affects the economics of the airline



Program Components

Value added data on your target markets

Community support

Effective airline contacts

Effective proposal to air carriers

Appropriate incentives

Value Added Data

Size of total market

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, city presence, ...
 - E.g., role of frequent flyer loyalty

Trends in local market

- E.g., high tech sectors in Ottawa, Nice – link to SJC/SFO

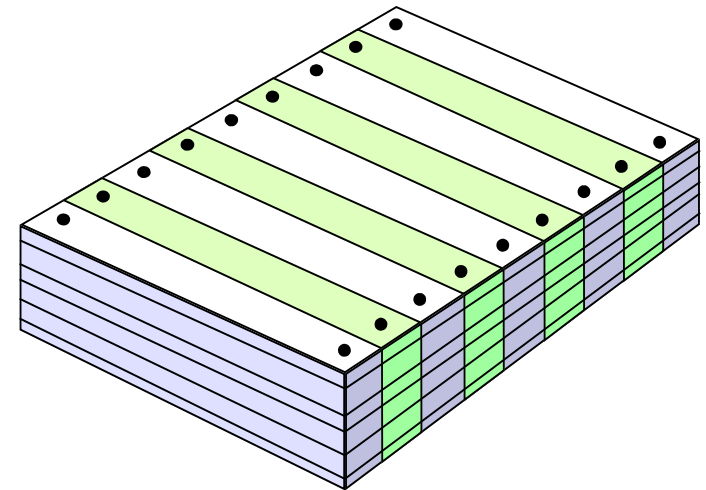
Build Data Base

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
- But it is often incorrect
 - As today large share of traffic does not go through BSP or GDS

In Airport Passenger Surveys

- Demographics
- Travel patterns (e.g., annual frequency)
- Determine reasons passengers use competing airports/gateways
- Identify decision factors in travel decisions
 - ex) importance of frequent flyer program
 - ex) importance of parking rates
- Determine passenger preference for airlines
- Inbound to outbound travel ratio
- Most airports do not know what percent of their traffic is connecting traffic

Traffic Stimulation

The 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 ...

Identify Total Market Size

Air Service Review

Air Travel Market Estimate Methodology*

$$\boxed{\text{Air Travel Market Estimate}} = \boxed{\text{Origin \& Destination Passengers}} + \boxed{\text{New Service Stimulation}} + \boxed{\text{Gateway Traffic Feed}}$$

☎ Origin & Destination (O&D) Passengers:

##,###

☎ New Service Stimulation:

##,###

- Stimulation consistent with YYY-PHX experience
- First year of service YYY-PHX **+130%**

☎ Gateway Traffic Feed:

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- Enplaned & Deplaned (E&D) passengers include gateway traffic
- YYY-PHX E&D traffic relative to O&D **+86%**

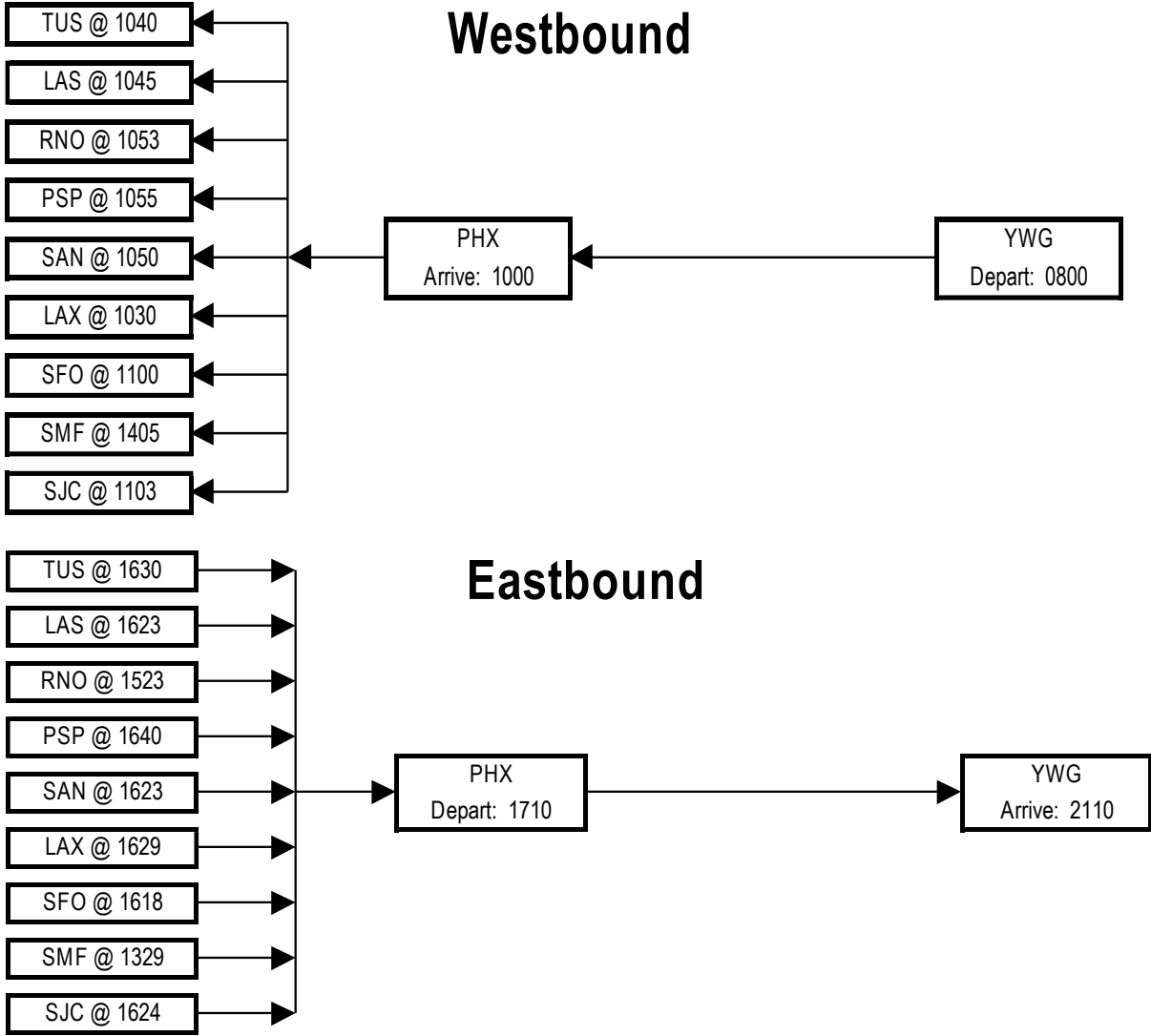
☎ First Full Year of New YWG - PHX Air Service:

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* Based on YVR-PHX experience
Source: Statistics Canada & America West Airlines (YVR on-board passengers)



Propose Service Schedule



Airline Contact Program

PRIMARY COMPONENTS:

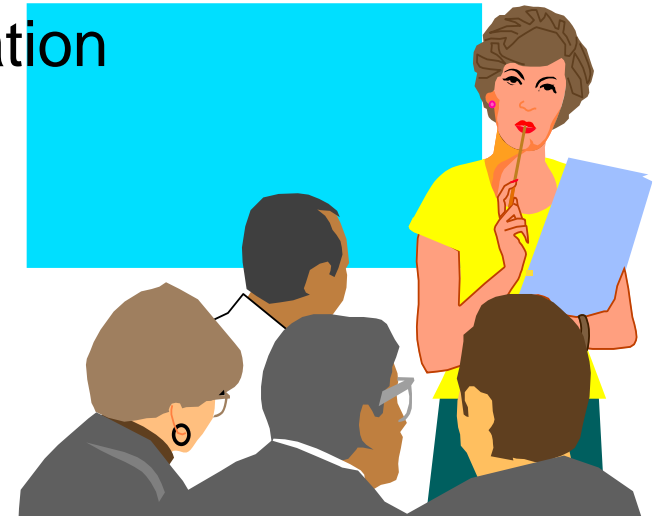
- Identify the right contacts within the carrier
 - HQ route developers
 - Airline marketing
- Develop analysis and presentation
- Follow-up Contact



Airline Contact Program

PRIMARY COMPONENTS:

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Passenger Marketing /Promotion of the Airport Product



Marketing Communications

- **Target: Potential Passengers**
- **Target: Intermediaries**
 - travel agents
 - tour operators
 - cruise ships etc.

Marketing Communications

What to promote to passengers:

- Patronize your airport
 - Especially important for fringe airports in a catchment region
 - Services
 - Convenience
 - parking
- Food/Beverage/Retail
- Prices, if appropriate

Increasing Importance of Social Media

Marketing Communications – Cargo

Target: cargo

- shippers
- Freight forwarders
 - Forwards today have critical role in cargo decisions
 - Will seek to consolidate as much freight as possible to get best rate
 - Will truck in order to build cargo mass
- Foreign Trade Zone operators

Cargo Services Marketing

Facilitate Strategic Advocacy for Policy

- ex) Foreign Trade Zone regulations
- Intermodal sufferance warehouse
- recognize small fragmented nature of cargo industry

Supplement capacity of nearby airports

Marketing Partnerships for Tourism and Economic Development



Marketing Partnerships

- **Partner with Tourism and Economic Development Agencies**
 - Joint Strategic Advocacy
 - taxation
 - promotion
 - Joint promotional activity
 - I'll display yours if you display mine !
 - Consolidate \$
 - Ensure marketing strategies are consistent
 - E.g., tourism agency marketing in India will have little payoff if there are no nonstop services to India or no visa offices

Passenger Services Marketing

Technique: communicate service offerings

- Local Travel Agents
- Travel Agents at spokes
 - especially for connecting services
- Major Organizations
 - E.g., Pacific Area Travel Association
 - Destination/national tourism marketing boards

Passenger Services Marketing

Create New Products

- Stayover packages
- Intermodal services
- Work with tour operators/tourism/cruise ships
- Flight times to work better into attractions
 - E.g., early flights from Central Canada to YVR so that visitor can ski on the arrival day



Thank You!

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