# AIRPORT MARKETING

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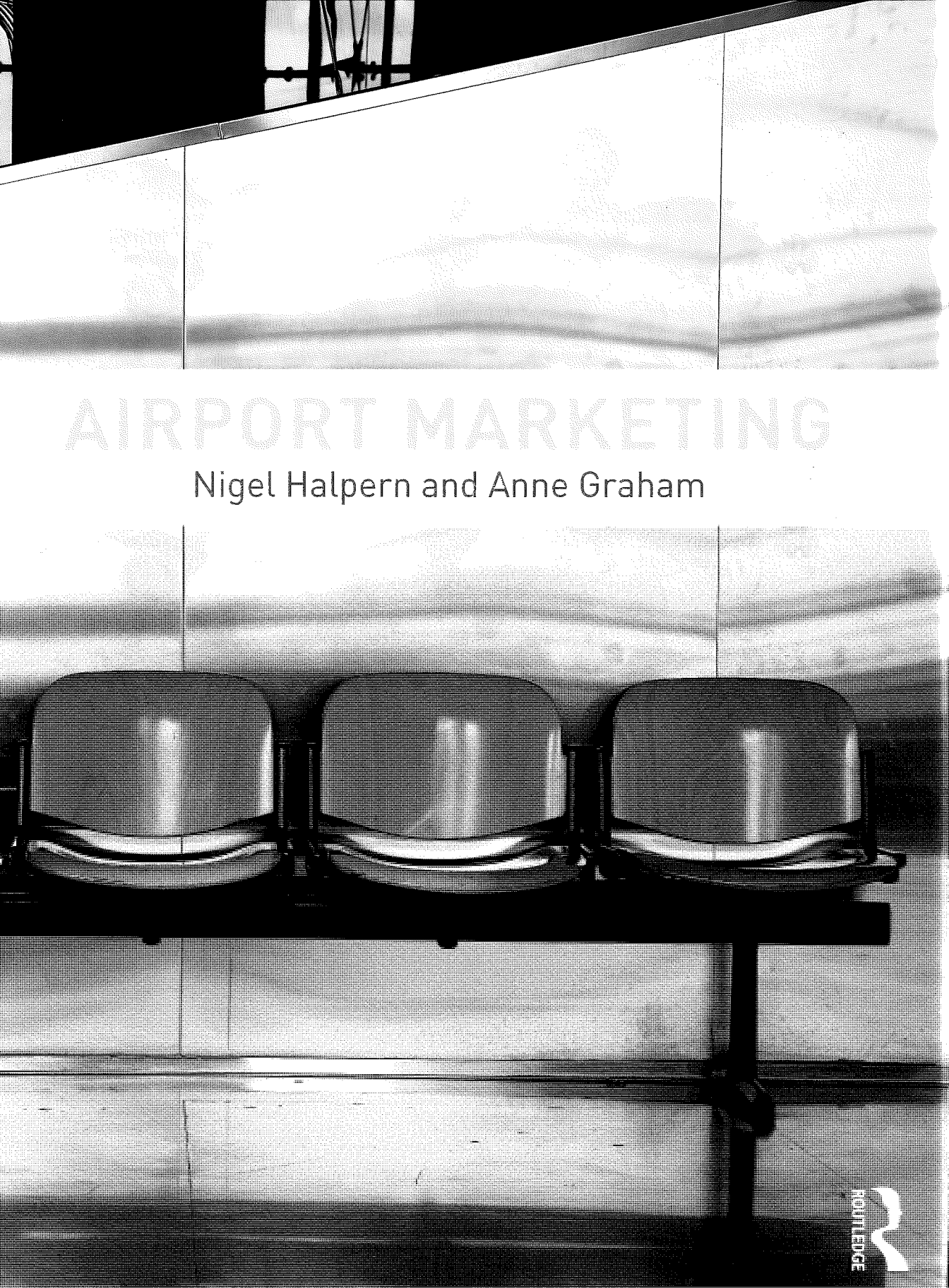

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general aviation), geographical coverage (e.g. domestic, international or by world region) or business area (e.g. airline affairs, market research, route development). For example, East Midlands Airport has a dedicated Aviation Development Team with separate contacts for dealing with enquiries from scheduled operators and charter/tour operators, while Zurich Airport has a dedicated Aviation Marketing Team to assist airlines in launching and promoting new services. The team includes a Manager Airline Affairs, Manager Aviation Analysis and Research and Key Account Manager. Airports increasingly use online services such as The Route Shop and Route Exchange in support of route development (see Chapter 8), but such services are largely used to promote opportunities at the airport (e.g. by advertising routes required on The Route Shop and unserved key routes on Route Exchange), as opposed to distributing the airport product. Transactions are still likely to take place directly between the airline and airport operator, unlike in the airline industry where intermediaries such as travel agents and online travel planning portals may be used to sell flight tickets on behalf of the airline.

Airlines wanting to operate at a particular airport will need to agree to the airport's conditions of use. These form the basis for a legally binding agreement between the airline and the airport. At London Heathrow Airport, this includes operational conditions, payment terms, data requirements and the schedule of charges for landing, emissions, departing passengers, parking, peak/off-peak, and noise and weight categories (London Heathrow Airport, 2011).

Airlines wanting to operate at airports in the US typically have airport use agreements in addition to conditions of use. Airport use agreements traditionally included long-term lease agreements of between 20 and 50 years, which provided airlines with effective ownership of gate and counter space, or even their own terminal. A good example of this is the development of John F. Kennedy International Airport in the 1950s. The airport master plan provided each major airline at the airport with a space to develop its own terminal; this initially resulted in five terminals for individual airlines, one to be shared between three airlines, and an international arrivals building. Some airport use agreements include a majority-in-interest (MII) clause, which means that signatory airlines with a significant share of traffic are able to influence investment decisions, and will be required to approve planned developments at the airport. The MII clause may be considered anti-competitive, especially if non-signatory airlines are not able to gain access to terminal space and gates. As a result, some airports have introduced a 'use it or lose it' clause, which returns the control of assets to the airport if an airline does not use the facilities as intended. Airports have also tried to reduce the powers of MII airlines (e.g. by requiring MII disapproval versus approval or limiting their involvement to development projects of a certain scale), or by discarding MII clauses altogether (Graham, 2008).

Recent agreements in the US between airports and their airlines suggest a move towards the model widely used outside the US, which involves joint-, multi- or non-exclusive-use gates and ticket counters (Karp, 2010). In October 2010, Dallas/Fort Worth International Airport reached a ten-year use agreement with carriers to replace a 35-year agreement that had been signed in 1974, while Indianapolis International Airport reached a new five-year deal with airlines. Both agreements emphasise a shift away from long and exclusive agreements to shorter agreements for mixed-use facilities. Recent agreements also emphasise the airports' desire to keep as much non-aeronautical revenue as possible. This is related to the discussion on single/dual till or residual/compensatory approaches to airport charges in Chapter 7.

As Starkie (2011) observes, the airport–airline relationship has evolved in recent years. Air transport markets are increasingly deregulated; as a result, airlines are less tied to particular airports. Also, new airline business models have emerged, and competition between airlines has intensified. This means that airlines increasingly have different and stronger demands from airports in terms of the facilities they provide but also their standards and service levels (e.g. for baggage and passenger handling, gate availability, and aircraft turnaround times). Such factors





can have a significant impact on airline operations, and airlines are increasingly seeking to include them in their contracts with airports, alongside the standard airport charges and conditions of use. At the same time, airports are increasingly seeking commitments from airlines, especially long-term commitments that allow them to reduce their exposure to risk and make necessary investments in their facilities. This may include commitments on the number of based aircraft, guaranteed volume and plans for growth. As discussed in Chapter 7, airports may try to include different airport charges under one charge per departing passenger or per freight tonne so that the airline and airport share the impact of changes in volume. Contract duration is a challenging issue, given that airlines want the flexibility of short-term contracts (e.g. between 1 and 5 years) so that they can adapt to changes in the market, while airports want long-term contracts (e.g. between 10 and 20 years) that provide stability in a changing market. Starkie suggests that one way forward may be:

> to develop a market in contracts whereby the unexpired term of a contract can be bought and sold between airlines. The analogy here is the sale of a lease held on the assets of a residential or commercial property. And like the property market, one might expect intermediaries to facilitate the transactions as indeed, they have done in relation to the trading of slots at congested airports.
>
> (Starkie, 2011)

In addition to terms of contract, management processes are important when distributing airport products and services to airlines, especially at larger airports or airports that belong to an airport group where management decisions may be made at different levels and involve a number of departments. Some airports, such as Aberdeen Airport, have been known to use a so-called 'entry into service' process consisting of an assigned project manager who acts as a point of contact and provider of assistance to airlines establishing new routes or expanding existing services at the airport. Key account managers will assume a similar role. This might not be necessary at smaller independently owned airports, where the organisational structure may be less complicated than at larger or group-owned airports.

Part of the distribution process is the way a product or service is made available to target markets; for some airports, availability of capacity for airlines is constrained and subsequently subjected to regulatory or non-regulatory procedures for allocation. This is especially the case for allocating slots at busier airports. A slot refers to permission to land and take off at an airport at a specific date and time. As air traffic has grown, many busier airports around the world have become capacity constrained, which has resulted in a scarcity of slots.

Outside the US, the main mechanism for allocating slots is through the IATA schedule coordination conferences or committees. These are held twice a year and aim to agree on how schedules, planned in six monthly seasons, can be coordinated at airports with constrained capacity. The idea is that slots are distributed in an equitable, non-discriminatory and transparent manner. For the purposes of airport coordination, airports are categorised by the responsible authorities according to three levels of congestion (see Table 9.1).

According to IATA (2012a), there are currently 155 fully coordinated level three airports in the world. The majority of these are in Europe (98 airports) and Asia-Pacific (45 airports); the remainder are in North America, the Middle East and South Africa. Demand for runway and gate access exceeds capacity at level three airports, where slots need to be allocated through the slot coordination process. Level two airports have slot controls in place at peak times only. Slots are allocated on the principle of grandfather rights along with the 80/20 rule, meaning that airlines are entitled to slots that they operated at least 80 per cent of the time during the previous equivalent season. If new slots become available, they go into a slot pool. Half of that pool must

**Table 9.1** Levels of congestion at airports

| *Designation* | *Description* |
|---|---|
| Level one | Capacity of airport infrastructure is generally adequate to meet the demands of airport users at all times. |
| Level two | Potential for congestion during some periods of the day, week or season, which can be resolved by voluntary cooperation between airlines. A facilitator is appointed to facilitate the planned operations of airlines using or planning to use the airport. |
| Level three | Capacity providers have not developed sufficient infrastructure, or governments have imposed conditions that make it impossible to meet demand. A coordinator is appointed to allocate slots to airlines and other aircraft operators using or planning to use the airport as a means of managing available capacity. |

*Source*: adapted from IATA (2012a)

be made available to new entrants currently operating less than two pairs of slots per day. Airlines can swap and exchange slots through a secondary trading process. Many actors are involved in slot allocation including airlines and other aircraft operators, air traffic control, coordinators or facilitators responsible for slot coordination at the airport, government authorities and the airport. The airport's role in the slot allocation process varies according to its level of designation (see Table 9.2).

In Europe, the EC's 1993 regulation on common rules for the allocation of slots at community airports (further amended in 2004) provides a legal basis in Europe to the voluntary IATA scheduling committee rules used in other countries (see EC, 1993). In addition, IATA's slot allocation mechanism is not used in the US, largely because it would be in conflict with antitrust laws. There may be certain operational constraints such as environmental limitations, but otherwise there is open access to airports. This sometimes results in heavy congestion during peak periods and airlines need to take this into account when designing their schedules (Graham, 2008). The exception is airports that are subject to the FAA high density traffic airports rule (HDR). Currently, the HDR applies only to Ronald Reagan Washington National Airport. The regulation limits the number of operations during certain hours of the day and requires a slot, which the FAA allocates for a specific 60-minute period for each scheduled operation (FAA, 2012).

### 9.3.2 Aviation service providers

In order to facilitate the safe and efficient movement of aircraft, passengers and cargo, airports offer a range of aviation services. Ground handling activities are particularly important because they impact on the operating costs and service quality of the airport's main customer: the airline (Graham, 2008). Ground handling typically includes ground administration and supervision, passenger and baggage handling, freight and mail handling, ramp handling, aircraft services, fuel and oil handling, aircraft maintenance, surface transport, and catering services.

Airports have a number of options available to them: provide all or some of the services themselves, perhaps through a subsidiary company; establish a joint venture with one or more





**Table 9.2** Role of airports in slot allocation

| *Designation* | *Role of the airport* |
|---|---|
| Level one | Monitor demand for airport infrastructure and develop additional capacity when required. Work with handling agents and other authorities to avoid constraints that impact on airline operations. Collect information from airlines on planned operations. |
| Level two | Provide support to the facilitator in seeking full airline cooperation. Provide infrastructure necessary to handle planned airline operations within agreed levels of service. Keep the facilitator and all interested parties informed about current or expected capacity limitations. After consultation with stakeholders, inform the facilitator of any capacity changes and of the coordination parameters. |
| Level three | Ensure that appropriate coordination parameters are agreed with stakeholders and updated twice each year. Examine capacity and implement capacity enhancements to allow for a re-designation to level two or level one at the earliest opportunity. After consultation with the coordination committee, inform the coordinator of any capacity changes and of the coordination parameters. |

*Source*: adapted from IATA (2012a)

companies such as other airlines or handling companies; grant licences to airlines to self-handle; or grant licences to one or more handling companies in a concession agreement. Airlines and handling companies may create a subsidiary and/or enter into a joint venture to bid for a concession. For example, AI-SATs and Menzies-Bobba currently operate handling concessions at Rajiv Gandhi International Airport. AI-SATs is a consortium that includes AI (Indian Airlines and Air India) and SATs (a subsidiary of Singapore Airlines); Menzies-Bobba is a consortium that includes ground services providers Menzies Aviation and The Bobba Group.

Providing the service allows an airport to maintain full control and any profits, however, the airport is responsible for investment and any loses. Airports may lack the necessary resources, experience and expertise, and lack economies of scale that might be enjoyed by airlines or handling companies with operations at multiple airports, but may be able to exploit synergies (e.g. between ground handling and other operational functions at the airport). An advantage of offering the services themselves is that they can offer airlines a 'one-stop-shop' and a contract that includes airport charges and ground handling fees. The airport will also be able to develop a closer relationship with the airlines and passengers it handles, and have more control over service levels. The downside to this is that failure to achieve any service level agreements will place a strain on the airport's relationship with its main customers. Creating a subsidiary company may allow the airport handler to develop its own corporate identity and develop the necessary experience and expertise; however, the subsidiary will probably need to be of a certain size in order to compete with any other handling companies at the airport.

Joint ventures often allow airports to maintain a general level of influence (e.g. over service quality), although day-to-day management and operations will be through the company created

by the joint venture. They can help the airport to raise funds for investment and share risks or losses, but also mean that any profit will be shared. The joint venture company can transfer its experience and expertise to other airports, allowing for expansion into new markets.

Concession agreements allow airports to devolve responsibility for management and operation of services to other companies. This makes it important for airports to include service level agreements and certain minimum standards in the contract, but reduces airport exposure to investment and risk. Specialist handling companies can operate at multiple airports, allowing them to achieve economies of size, and develop the necessary resources, experience and expertise. Airports may not share in any profits but will receive a regular income from any fees levied. Competition can be encouraged by using a tendering process for the concession as well as by allowing multiple handling companies to operate at the airport. This may result in lower prices for airlines, and act as an incentive for airlines to operate or expand at the airport.

Self-handling by airlines also offers a low-risk option for the airport and may reduce investment needs from the airport, unless the airline is dominant and uses its position to leverage lower fees and/or investment from the airport. Self-handling may also reduce competition and result in higher prices for competing airlines that have to use the services of a self-handling airline. It may also act as a barrier to entry for airlines or handling companies interested in operating at the airport.

Legal and regulatory forces are likely to play a role in how airports decide to provide ground handling services. A good example of this occurs in Europe, where in the past ground handling services were provided by the national airline or airport operator under monopoly or duopoly conditions. For example, the national airline Olympic had a monopoly over handling at airports in Greece, while Iberia had a monopoly over handling at airports in Spain. Some airport operators in Italy, Austria and Germany enjoyed near-monopoly conditions for handling at many of their airports (e.g. at Milan, Rome, Vienna and Frankfurt), and earned significant revenues from such activities (Graham, 2008). Concerns about this monopoly situation gathered pace during the 1990s as air transport markets were liberalised. In particular, airlines were concerned about the potential for high prices and reduced standards and service at airports with monopoly situations (Bass, 1994). The EC introduced a ground handling directive in 1996, which was revised in 2001 to open up competition for ground handling services at community airports. The directive (see EC, 1996), generally stipulates free access for third party suppliers of ground handling services at larger airports in Europe (with >2 million passenger movements or 50,000 tonnes of cargo annually), but states that for certain categories of services (baggage handling, ramp handling, fuel and oil handling, freight and mail handling) member states may limit the number of suppliers to no fewer than two for each category of service. At least one of these suppliers has to be independent of the airport or the dominant airline at that airport. An airline is considered dominant if it carried more than 25 per cent of the passengers or freight at the airport during the preceding year.

Airlines are entitled to self-handle, although member states may allow airports to restrict the number of handlers (e.g. when space or capacity constraints exist). For certain categories of service, member states may limit the number of self-handling airlines to no fewer than two (at airports with >1 million passenger movements or 25,000 tonnes of cargo annually) and may restrict or ban self-handling altogether (e.g. when space or capacity constraints exist). Figure 9.2 provides a summary of the directive in terms of the freedoms and restrictions it has on airports.

The directive has resulted in an increase in the proportion of independent ground handlers at airports in Europe (see Figure 9.3). In addition, prices charged for ground handling services have generally decreased, especially at airports where monopoly or duopoly situations had previously existed (SH&E, 2002). The impact on service quality is less certain, and while the benefits of competition and reduced prices have been welcomed by the industry, there are concerns that



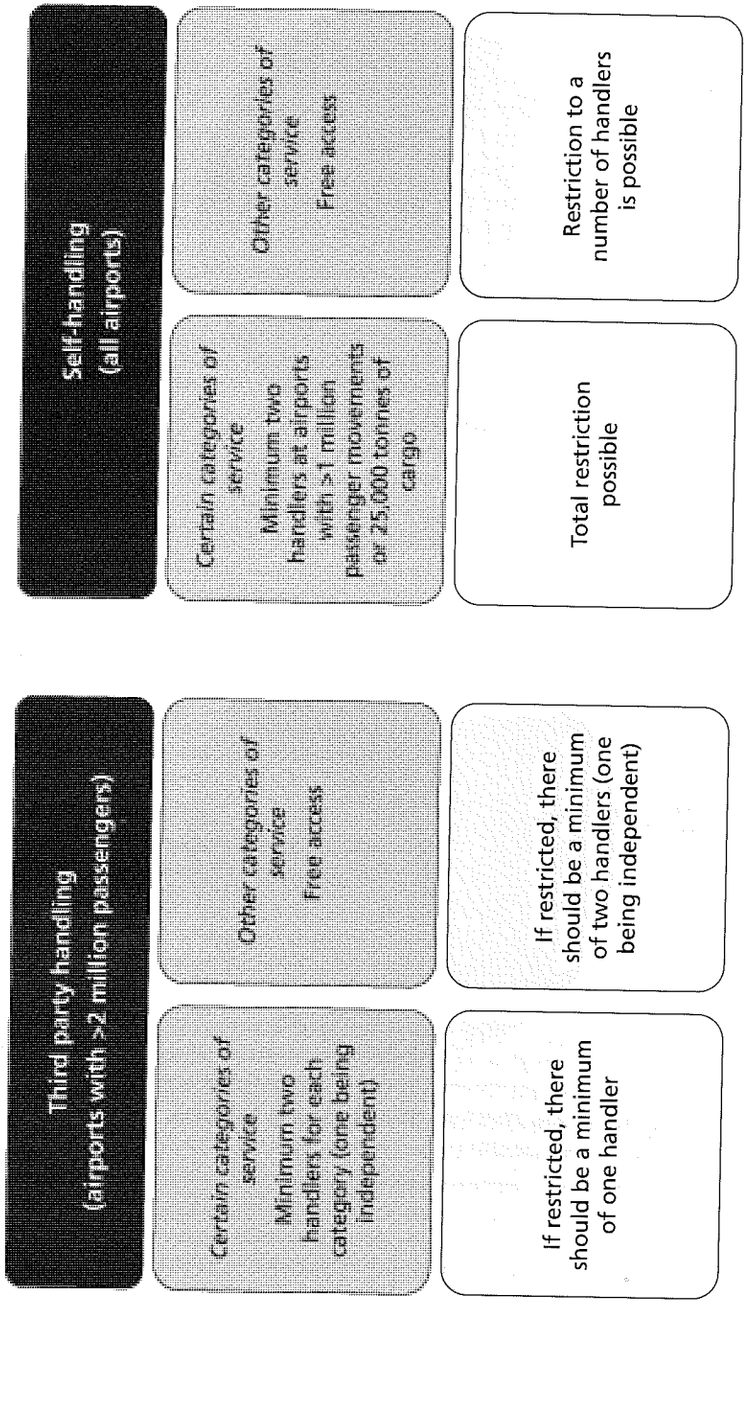


**Figure 9.2** Freedoms and possible restrictions of Council Directive 96/97/EC

*Source*: adapted from SH&E (2002)

*Note*: certain categories of service include baggage handling, ramp handling, fuel and oil handling, freight and mail handling

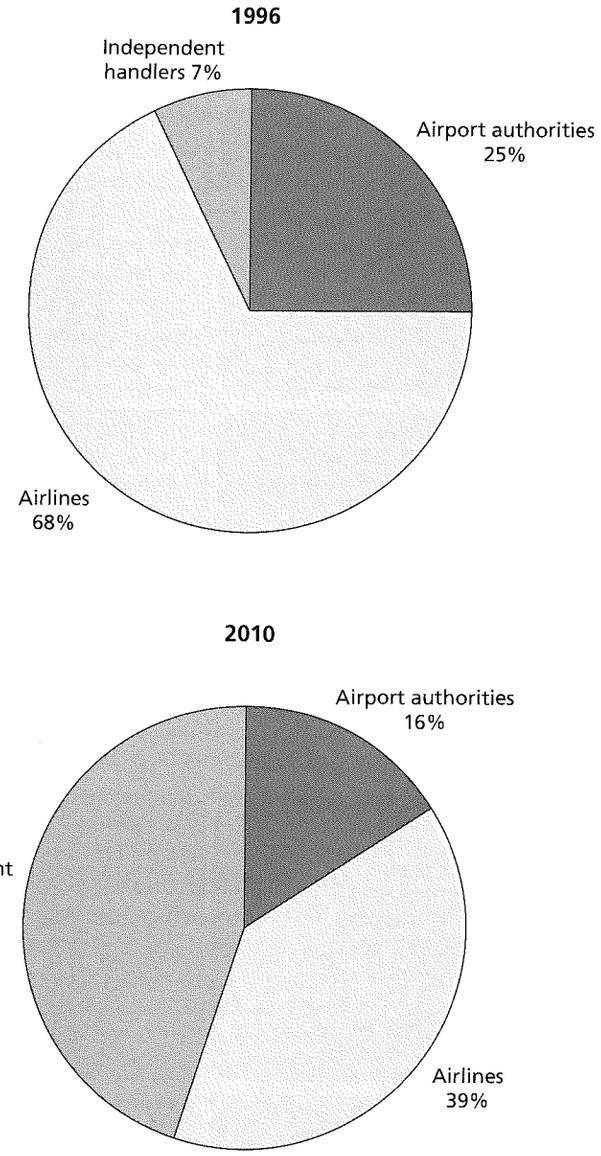


**Figure 9.3** Ground handling market at airports in Europe, 1996 and 2010
*Data source*: ACI Europe (2011)

inadequate controls over service quality can lead to inefficiencies and disruption, and subsequently impede the functioning of air transport. There are also wider concerns relating to safety and security, and the social welfare of ground handling workers who may experience reduced training, job security, and terms and conditions as a result of increased competition in the ground handling market (e.g. see ACI Europe, 2011). This has prompted many airports to introduce or strengthen





standards and service level agreements with ground handling providers, and to include qualitative criteria in tenders such as staff qualifications, commitment to staff training, a social and labour policy, and availability of equipment and expertise. This is in addition to the economic criteria normally used, such as the cost and financial stability of the company.

The EC introduced new proposals in the Airport Package on 1st December 2011 and is currently considering a revision of the ground handling directive. In light of the issues discussed, a number of European social partners in the ground handling sector – ACI Europe, the European Transport Workers' Federation and the Airport Services Association – are arguing against any possible move towards uncontrolled deregulation of the market, claiming that airport managing bodies must be empowered to define and enforce minimum service levels and standards, and that social safeguards in the directive must be strengthened (ACI Europe, 2011).

### 9.3.3 Non-aviation service providers and other commercial businesses

At airports worldwide, 46.5 per cent of total revenue comes from non-aeronautical sources such as those related to passenger services (e.g. retail, F&B, car parking and car rental) and other commercial services (e.g. advertising and real estate) (ACI, 2011). Although non-aeronautical activities have become an important part of the airport business, it has also become more and more difficult for airports to continue generating increased income from them (Kim and Shin, 2001). Maximisation of opportunities is often determined by an airport's ability to negotiate the best contracts with the best mix of concessionaires. Many other factors play a role in determining success, including the space allocated (e.g. total space, design and layout, ambience), traffic at the airport (e.g. total traffic and composite mix of domestic versus scheduled, transit/transfer, scheduled versus charter), characteristics of airport users (e.g. demographic and socio-economic profile and behaviour, dwell time at the airport), competitive intensity (e.g. from other airports, the internet or downtown), and external forces (e.g. the political, economic, socio-cultural, technological, and legal and regulatory environment within which the airport operates). It is difficult for airports to control or even influence such factors; however, airports do have a fair amount of control over the key attributes of their concession programme (see Table 9.3) and the approach they take to concession contracting.

The approach to concession contracting determines the means by which concessions are offered by the airport. Kim and Shin (2001) identify seven main approaches to concession contracting: direct operation, wholly owned subsidiary, direct lease, joint venture, master concessionaire, developer approach and management contract. Of course, some airports – especially larger airports that have a more complex and diversified concessions programme – may use a combination of approaches. This is what LeighFisher (2011) calls a hybrid approach; it is more a strategy than a specific approach because it involves using each approach as a tool to achieve the best overall outcome for the concession programme at the airport. A summary of the main approaches to concession contracting is provided in subsequent paragraphs. Readers should refer to LeighFisher (2011) or Kim and Shin (2001) for a more detailed discussion.

Direct operation is where the airport typically operates the concession itself. This allows airports to maintain control of their concession programme and offers low commercial risk. It can be used in situations where the concession programme requires a certain level of investment that is unlikely to be undertaken by a concessionaire. The downside is that it may not offer the best means for maximising revenue, especially as the concession programme grows and becomes more diversified, because airports may lack the necessary experience and expertise. One solution to this is for airports to create a wholly owned subsidiary to operate the concession programme. For instance, Aer Rianta International (ARI) is a subsidiary of DAA. ARI is one of the world's