Managing Airports

An international perspective

Anne Graham

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The importance of non-aeronautical revenues

A key development in the evolution of the airport industry has been the increase in the dependence on non-aeronautical or commercial revenues. This chapter will discuss the generation of non-aeronautical revenues by looking at the market for commercial services and assessing how the facilities can be planned and managed. It will consider factors which influence commercial performance. The most significant development of the late 1990s, namely the abolition of intra-EU duty- and tax-free revenue, will also be discussed. The focus of this chapter will be on individual consumers who buy commercial goods/services at airports. There are, of course, other consumers such as the airlines and handling agents who also generate concession and rental revenues by paying for the use of office space, check-in-decks, lounges, in-flight kitchens and so on. These activities are covered in Chapter 5 which considers the airport–airline relationship.

There have been a number of factors which have contributed to the growth in dependence on non-aeronautical revenues. First, moves towards commercialization and privatization within the industry have given airports greater freedom to develop their commercial policies and diversify into new areas. A more business-oriented approach to running airports has also raised the priority given to commercial facilities. Such facilities were traditionally considered to be rather secondary to providing essential air transport infrastructure for airlines. Managers are now eager to adopt more creative and imaginative strategies and to exploit all possible aeronautical and non-aeronautical revenue generating opportunities.

Moreover, the airlines have been exerting increasing pressure on the airport industry to control the level of aeronautical fees which are being levied. A more competitive environment and falling yields have forced many airlines to focus on major cost-saving initiatives such as out-sourcing, reductions in staff numbers, and the pegging of the level of wages. Increasingly airlines are demanding that airports adopt such cost-cutting and efficiency saving measures themselves, rather than raising their charges to the airlines (Doganis, 2000). Thus airport charges have become subject to more and more scrutiny from the airlines – particularly from the new breed of low cost airlines in Europe. In addition the ability of some airports to increase aeronautical charges is now restricted by government regulation as has been the case with BAA plc and Australian airports post-privatization (see Chapter 5). The impact of these pressures on the level of aeronautical charges, either from the airlines themselves or regulatory bodies, has encouraged the airports to look to alternative ways of increasing their revenues and growing their businesses by giving greater attention to commercial facilities. In effect the airports have had to broaden their horizons in managing their businesses.

At the same time, increasing numbers of people are travelling through airports and making more frequent trips. Hence passengers are becoming more sophisticated and experienced airport shoppers, and are generally much better informed. As a result of this, airport shoppers are becoming more demanding not only in the quality of service which is provided, but also in the range and value for money of the commercial facilities on offer. This reflects general trends in the high street where consumers have become more discerning with quality, value and choice at the top of their priorities (Freathy and O'Connell, 1998). Admittedly it is difficult to determine entirely whether the raised expectations at airports have been caused by a genuine need or desire of the consumers for expanded facilities or whether an airport's drive to maximize its commercial income by becoming a shopping centre has merely changed the expectations of passengers. It is also true to say that this increased emphasis on commercial facilities has not been welcomed by all the travelling public with significant groups of passengers, particularly those from the business community, often desiring a quick route through the airport as uncluttered as possible from the distraction of numerous shops and catering outlets.

Increasing airport competition, especially between airport hubs, has also played a role in the development of non-aeronautical revenues. The main reason for why a passenger will choose a certain airport will, of course, be the nature of air services which that airport offers and the convenience of the airport's location. Consideration of the retail and other commercial facilities is bound to be secondary. Transfer passengers may, however, be more influenced by the commercial facilities if they cannot perceive any significant difference between the convenience and quality of the choice of connecting flights at different airports. Certain airports, such as Amsterdam Schiphol and Singapore Changi, have run high-profile marketing campaigns emphasizing the quality and good value of the commercial facilities on offer to transfer passengers. Other airports have gone one stage further. For example, Manchester gave discounts on duty-free purchases to transfer passengers as part of their 'Manchester Connects' strategy to increase the use of the airport as an interline hub. In the Middle East a number of the airports such as Abu Dhabi, Dubai and Bahrain try to use their duty- and tax-free shops as a way of capturing competing traffic, particularly by using incentives like raffles with high value prizes, such as luxury cars.

The market for commercial facilities

Who buys at airports?

The airport environment is a unique location for shopping and other commercial facilities. The main shoppers, the passengers, make up a large captive market. They often tend to be more affluent than the average and they may have time on their hands to have a quick meal or snack. They may spend spontaneously to acquire the last minute essential or discount purchase for a holiday, or souvenirs and gifts while returning. They may even spend just to dispose of the last of their foreign currency. Airport retailing is, however, fundamentally different from high street retailing since passengers are going to the airport to catch a flight rather than to shop. Consequently the passengers will be far less familiar with the airport shopping environment than with their neighbourhood shops and this, coupled with a fear of missing the flight, may impose a sense of anxiety on the passengers.

To fully harness the commercial development potential of the airport traffic, the range of facilities on offer and even the product selection should match very closely the preferences and needs of the specific passengers types at the airports. To achieve this aim, airports, together with their retailing and catering partners, have increasingly been devoting more resources to getting to know their customers. At the most basic level this involves an analysis of the air services offered and the origin and destination of travellers. Even this detail of information about the market, which is automatically collected at airports, is the envy of most high street retailers. In addition, duty- and tax-free retailers can get information about travellers from their boarding passes which are shown when purchases are made. In many cases this is supplemented by market research, of varying degrees of sophistication, which will investigate the demographic, geographic and behavioural features of the passengers. Such research will often aim to determine who shops at airports and what they buy, who does not shop at airports and why, and attitudes towards the range of facilities on offer and the value for money of the products. This type of research needs to be updated regularly as customer demands and perceptions are continuously changing.

BAA plc, like other large European airport operators, regularly undertakes market research regarding commercial facilities. Results have shown that on

average 53 per cent of passengers considered airport shopping to be important or very important. It was considered more important to certain subsegments such as eighteen to twenty-four year olds (64 per cent) and less important for others such as UK business travellers (34 per cent). Overall 70 per cent of passengers considered catering to be important or very important. The UK leisure market gave it a higher rating (77 per cent) while the European business market gave it a much lower rating. BAA plc has also investigated the non-buying share of the passenger population at its airport and the factors which might entice them to buy. Price was the key reason given, with 12 per cent of the sample claiming that they would shop if the prices were reduced by a tenth. A further 47 per cent, many of whom were UK leisure passengers, would have shopped if the prices were reduced by a quarter. Prior knowledge of the prices on offer would have encouraged 22 per cent more passengers to make purchases. Sixteen per cent said they would shop if they had more time (an extra hour) at the airport. Twenty-two per cent of the passengers, a significant share of whom were UK business travellers, claimed that they had no interest in the shops and would not be persuaded to buy (Maiden, 1995).

These examples illustrate the different spending profiles and preferences of different types of passengers. Leisure passengers have traditionally been favourites for impulse buys and the use of catering facilities. The new breed of leisure passengers on low-cost carriers often tend to have a lower spend profile, since they are more cost-conscious customers. Long-haul leisure passengers tend to spend more than short-haul leisure travellers. Regular business travellers typically have a shorter dwell time and are less likely to browse in shops. Moreover, the widespread adoption of airline lounges for business and first-class customers has further discouraged these passenger from having spare time to visit the main terminal shops. As a result of this business travellers make purchases relatively infrequently – although their average spend on a purchase tends to be high. Business travellers also tend to make high use of certain facilities such as banks, car hire and airport hotels. Within the business market there is an increasing number of women travellers who have different needs and preferences from the more traditional male traveller.

Then there are transfer passengers. They are unlikely to make use of facilities such as banks and post offices, and obviously will not need car hire or car parking facilities. They may want to make some retail purchases, particularly if the duty- and tax-free prices are competitive, but this will only be possible if there is sufficient time between flights. It is hard for an airport to maximize the commercial opportunities from transfer passengers if it also wishes to maximize its efficiency as a hub by providing swift connections. At most major hubs there will also be passengers who spend a considerable length of time in the airside area. Various airports have developed some quite imaginative airside facilities and services which can be shared between these and local passengers. For example, Singapore Changi airport has a swimming pool, a sauna, a karaoke lounge and a putting green and, if the transfer passengers stay for longer than four hours, they can go on a bus tour of Singapore. Amsterdam airport has an art gallery and casino. Most airports have business facilities such as meeting rooms, secretarial support, internet access and so on. A number of airports also have fitness and health centres. Vienna airport, for instance, opened its Wellness Plaza in 1999 where passengers can experience different massage techniques and make use of the fitness bar, solarium and showers. Bangkok airport offers head and foot massage, Frankfurt airport provides dental, optical, and foot reflexology services and a clinic which has become a specialist centre for laser operations to repair damaged shoulder and knee joints!

BAA plc has identified four key traveller groups associated with UK nationals – each of which have different shopping characteristics. First, there is the mass market leisure flyers who travel just once a year and are in the mood for treating themselves. They are impulse buyers and they tend to buy duty-free if they can. Then there are the young upmarket leisure flyers who travel several times a year and are high spenders. They will be brand conscious and prepared to pay for quality products. Older upmarket leisure flyers again travel several times a year and have a high disposable income. They will treat themselves at airports although they will be price-conscious buyers. They will make duty-free purchases if they can, and perfumes will be popular. Finally, there are the time-starved frequent business flyers who will be attracted by 'one-off' promotions and electronic products. They will use the airport as a convenience place to shop (Maiden, 2000). Another way of looking at passenger shopping is by segmenting the customers by behaviour. For instance, distinctions can be made between entertainment shopping (gift/novelty purchasing), purposive shopping (confectionery, books, toiletries), time-pressed shopping (last minute/emergency purchases), convenience shopping (wide choice of known brand names), essential shopping (restaurants/cafeterias, foreign currency exchange, insurance) and lifestyle shopping (high-quality international brand purchases) (Institute for Retail Studies, 1997).

Factors such as nationality, age, occupation and socio-economic group will also influence spending and shopping behavioural patterns. Nationals from countries in Scandinavia, which have relatively high taxes on alcohol, are favourites for buying such products at airport shops. A survey at Heathrow in the mid-1990s showed that 54 per cent of Scandinavians bought duty-free goods compared with 27 per cent of Japanese, 25 per cent of UK residents and 7 per cent of US residents. By contrast with tax-free goods other than perfumes and cosmetics, 35 per cent of Japanese made purchases, compared with 20 per cent of Scandinavians and 10 per cent of both UK and US residents (Maiden, 1995). The Japanese have traditionally been very high spenders at airports especially on gifts to take home to friends and relatives – although this is not so common for the younger more independent Japanese travellers. Americans, however, although being very fond of shopping have traditionally not expected to do their shopping at airports. As regards age differences, younger travellers tend to make much heavier use of facilities such as electronic entertainment zones and internet cafés which are becoming commonplace at many airports.

Most of the airport commercial facilities historically were provided for passengers. Many airports, however, have now recognized the commercial opportunities which exist with other consumer groups which use the airport and have introduced facilities wholly or partially for their needs. The airports have thus exploited their commercial potential of being business or commercial centres which generate, employ and attract a large number of visits – rather than just providing facilities for passengers who choose to use the airport. For

example, staff employed by the airport operators and by the airlines, handling agents, concessionaires and governments agencies may wish to use airport commercial facilities, particularly as they may not be able to combine a visit to their local shops and their working life at the airport. Workers from nearby office complexes, or from airport industrial estates, may find the airport facilities useful. Popular services include supermarkets, banking services, hairdressers, chemists and dry-cleaners. Some of these services may used by arriving passengers – another potential market sub-segment which is generally considered to have significant spending potential but has only more recently been recognized by most airports.

Airports may also be attractive to the local residential community as an alternative shopping centre – especially if the airport is relatively uncongested and easily accessible with good road and rail links. Sometimes local residents will be encouraged to the airport by free parking or a certain period of free parking if a purchase is made. The growing popularity of the use of initiatives to encourage public transport use, however, may be in conflict with such commercial strategies. Indeed for certain large airports with severe surface access problems, encouraging additional visits to the airport will be the last policy that they want to adopt. Opposition may also be voiced from nearby local shopping centres as has been the case at London Gatwick airport with shopping facilities at the neighbouring town of Crawley. Environmentalists, such as the Friends of the Earth in the UK, consider such developments to be flouting government policy, which is against out-of-town retailing.

Airports may be particularly popular as alternative shopping centres if there are legal restrictions on shopping hours imposed on the high street. For example, Frankfurt airport was one of the first airports to develop its landside shops into a shopping mall concept, benefiting from downtown shopping hour limits which were only relaxed in the mid-1990s. Amsterdam airport opened its landside shopping 'Plaza' of forty shops in 1995. This has a shopping area of 5400 square metres and is easily accessible by private and public transport. Many of the shops are well-known quality international branded outlets which are relatively difficult to find elsewhere in the Netherlands. Only around 30 per cent of the Plaza's customers are passengers (Gray, 1998a).

Meeters and greeters and other visitors to the airport will also need catering services, and, perhaps, additional facilities such as florists and gifts and souvenir shops. Car-parking revenue can be generated from them. Air travel still holds a strange fascination for certain people and for these enthusiasts specialist shops and merchandise can be sold. Viewing platforms, tours and exhibitions can also be provided on a commercial basis. They can have a dual purpose in acting as a public relations function or service to the community. For instance, Munich airport visitors park is one of Bavaria's most popular day-trip destinations, consisting of an interactive multimedia centre, an observation hill, a 'behind the scenes at the airport' display, guided bus tours and catering and retail facilities. Visitors may also be attracted to airports if leisure facilities are provided. A notable example is the new Kuala Lumpur airport. Within the boundary of this airport there is a Formula One motor-racing track, an adventure park, rock climbing, a shooting range, golf course, cinema and equestrian park!

For the business community, conferences and meeting facilities can be provided (Table 6.1). Most major airports offer these. The good transport links

Table 6.1 The different markets for commercial facilities at airports

Market segment	*Facilities provided*
Passengers (departing/arriving, terminal/transfer, business/leisure, different nationalities, ages etc.)	Wide range of retail, catering and other essential and leisure services dependent on passenger type
Workers at the airport and in the surrounding areas	Convenience shops, banks, chemists and other essential services
Local residents	Shops, catering and leisure services
Visitors – meeters and greeters	Catering, gift and souvenir shops
Visitors – air transport enthusiasts	Specialist aviation shops, tours, visitor terraces, exhibitions, catering
Local businesses	Office/meeting facilities, land for business development/light industry

which airports generally possess can make them ideal for international business events. These facilities can be shared by business passengers, local businesses and other customers. For example, Munich airport opened its new commercial centre in 1999 consisting of offices, conference facilities, medical clinic, catering and shops – aiming to appeal to a number of the different consumer groups at the airport. The new offshore Inchon International airport in Korea will have a business centre with two hotels with over 1000 rooms, a shopping mall of 12 000 square metres and six office buildings on 39 000 square metres (Kim, 2000). Numerous airports have also expanded beyond the boundaries of the traditional airport business by using neighbouring land for hotels, office complexes, light industries, freight warehousing, distribution centres and business parks. The small UK regional airport of Southend relies on its property business for its survival and, unusually, is involved in buying electricity in bulk and then reselling it. Cork airport in Ireland, is one airport of many which opened a business/technology park in 1998. One of the larger developments is Brisbane airport which, in partnership with other organizations, has created the Australia TradeCoast economic development area which uses 2 700 000 square metres of airport-owned land.

While airports can measure their potential passenger market quite accurately, it is much more difficult to obtain meaningful figures for the other consumers at an airport. A 1995 survey of forty-seven European airports showed that on average meeters and greeters made up 34 per cent of the customer volume (Schwarz, 1996). At individual airports the size of this market is quite varied, which must partly reflect traffic and cultural characteristics but also the methodology used to estimate the figures. For example, in 1999 it was assumed that in addition to the 8.5 million passengers, there were 8.5 million visitors and meeters and greeters and 3 million staff/employees at Ben Gurion airport in Tel Aviv (Kostelitz, 2000). At Frankfurt airport it was estimated that 46 million passengers were joined by 7 million meeters and greeters, 8 million other visitors and in addition there were 60 000 employees at the airport (Middecke, 2000). In the same year Malpensa Milan airport was predicted to handle 3.25 million meeters and greeters and 15 000 airport staff along with 13 million passengers (Amore, 1999).

At most airports, however, it is the sales in the airs[ide areas] which still brings in the most revenue for the airport operator although the abolition of Intra-EU duty- and tax-free sales may have a major impact on this in the future. A study of fifteen airports of varying size in Europe in 1998 showed that on average landside shops occupied 37 per cent of an airport's retail space but only 22 per cent of total sales. Airside sales per square metre were 6.8 times greater than in landside shops, and sales per passenger were thirty-two times greater. At these airports, 64 per cent of the landside purchasers were passengers, 16 per cent employees, 13 per cent meeters and greeters, with the remaining 7 per cent being local residents and others. (Meznarsic, 1999). Some landside facilities such as post offices, travel agents or booking agencies may not bring in huge amounts of revenues to the airport but may be perceived as adding value to the airport product from the point of view of the passenger and other consumers.

Geographical characteristics

Many of the most successful airports in terms of non-aeronautical income generation are situated within Europe. This is due to a number of general factors such as the large international traffic volumes within Europe and the relatively high income per capita. European airports have also led the way in terms of commercialization and privatization trends with the development of non-aeronautical revenues being one of the most notable outcomes of these more advanced evolutionary stages of the airport industry. The 1999 ACI airport economics survey (ACI, 2000) shows that European airports as a whole generated US$10 per passenger from non-aeronautical sources in 1997 compared with a global mean of US$7 (Figure 6.1). Concession income is the most important non-aeronautical revenue source. Shopping generates the most concession income and is likely to continue to do so in spite of the abolition

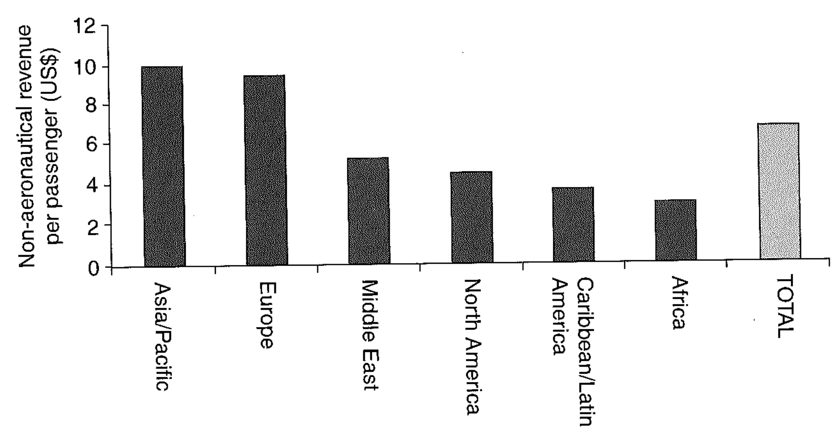

Figure 6.1 Non-aeronautical revenue per passenger at ACI airports by world region, 1998
Source: ACI (2000).

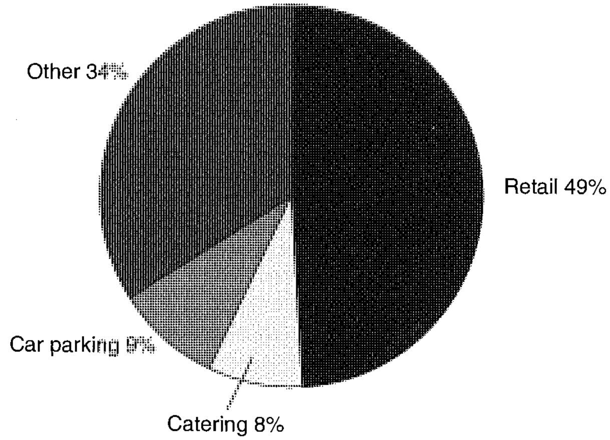

Figure 6.2 Concession revenue: Brussels airport, 1999
Source: Annual report.

of EU duty- and tax-free sales. For example, shop or retail sales accounted for 49 per cent of all concession revenue at Brussels airport in 1999 (Figure 6.2).

According to ACI non-aeronautical revenue per passenger for North American airports was much less than in Europe – averaging only US$5. These airports are dominated by domestic passengers who spend less. Also at hub airports, emphasis is placed on swift efficient connections rather than providing passengers with the time to browse and shop. The dependency on the car and the lack of adequate public transport access to many airports means that the two single most important non-aeronautical sources were car parking (US$1.87 per passenger) and car hire (US$0.99 per passenger). Shopping was much less important, with a revenue per passenger value of only US$0.66 compared with US$6.47 in Europe. Again the important role that the car plays can be seen when looking at the concession sources at the Washington airports (Figure 6.3). Car parking and car hire together accounted for three-quarters of the concession revenues compared with much less at Brussels airport. For the Washington airports, the ratio of catering to retail revenue was also much higher. This is typical of most US airports, which have relatively more of the total commercial area being allocated to catering concessionaires. This also reduces the overall concession income per square metre for US airports.

It is surprising that the USA, which is world famous for its shopping malls, only began to fully recognize the commercial potential of airports in the 1990s – well behind the European airports. Branded shops and catering outlets were rarely found at US airports until this time, in spite of their widespread use elsewhere in the country. The turning point came about in the early 1990s at around the time when BAA plc acquired a fifteen-year contract to manage the commercial facilities at Pittsburgh airports. The company replaced the typical newsagent outlet and general store with well-known brands and developed other concepts which it had used with its European airports, such as

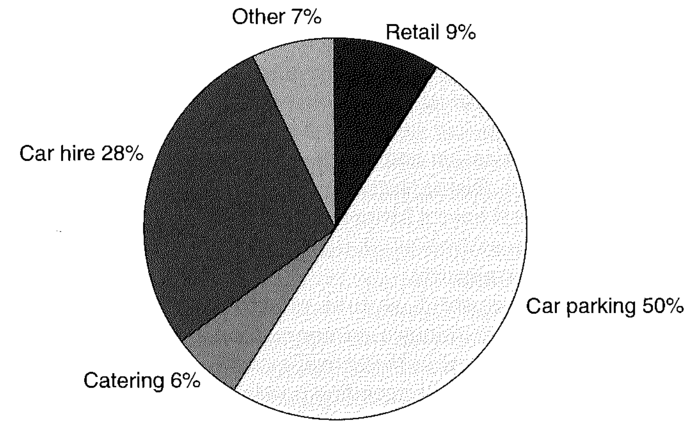

Figure 6.3 Concession revenue: Washington airports, 1999
Source: Annual report.

pre-ordering products. Similar practices have been introduced by BAA plc at Indianapolis, Newark and Harrisburg airports. Another forerunner in airport commercial development in the USA was Portland airport which was of the first airports to introduce a mall concept to the airport with its 'Made in Oregon' mall (Citrinot, 1999a).

Duty-free and tax-free sales are not very significant at most North American airports with the exception of certain airports such as San Francisco, Los Angeles and Honolulu which handle a large proportion of Asian traffic. The situation in Asia is very different where duty-free and tax-free income is much more important. Compared with in Europe, where traditionally most of the sales have been associated with core products such as liquor, tobacco and fragrance, in Asia the duty-free and tax-free revenue is generated from a much wider range of products. There are also arrival duty-free and tax-free shops at many of the major Asian airports. Singapore Changi airport has built up a worldwide reputation for good shopping – a reputation which new airports such as Kuala Lumpur's Sepang and Hong Kong's Chek Lap Kok also wish to acquire.

The passenger profile at these airports is changing with the upper-class high-spending Asian nationals being joined by an increasing volume of Asian travellers who are of a younger average age and are from the rapidly growing middle classes. Moreover, inbound passengers are now a much more diverse, more cost-conscious group of travellers (O'Conner, 1999). Spending patterns are consequently changing, with more emphasis being placed on 'value-for-money' goods. Nevertheless the ACI survey still found that the average non-aeronautical spend per passenger in this region was the highest globally – albeit that the sample was dominated by large airports such as Singapore and Seoul which handle international passengers who have higher spending patterns. The Asian sample also included the major airports from Australia who have been developing their commercial facilities because of privatization and also due to the downward pressure on airport charges due to regulation.

The Middle East is an interesting area where there is a considerable amount of competition between airports and where shopping is used as a major marketing tool to attract passengers. For instance airports such as Abu Dhabi, Bahrain and Dubai have developed extensive duty-free facilities. In Abu Dhabi and Dubai prices can be kept low since the shops are operated as a division of the Department of Civil Aviation and can be subsidized. In Bahrain, the management expertise of Aer Rianta International has been brought in to run the shops. All three airports have a history of launching major marketing initiatives to strength passenger awareness of the shopping services and to encourage passengers to use their airports.

In other areas of the world, such as in Africa and South America, there generally tends to be less reliance on non-aeronautical income. This is partly because many of the airports in these regions have relatively small numbers of passengers and also because the spending power of the local population is more limited. The airport management, often closely tied to its government owners, has neither the expertise nor the commercial pressures to fully exploit the non-aeronautical opportunities at these airports. The developing economic conditions in some countries, particularly in South America, are encouraging growth in traffic and broadening the customer base for commercial facilities. In addition in a number of these countries the airports have been privatized and have brought in experienced European and North American airport managers who are introducing many tried and tested commercial strategies which have been used elsewhere.

Approaches to the provision of commercial facilities

Most airports have come a long way since they just provided the generic newspaper, book and gift shop, the traditional duty-free shop with its internationally branded products and the bland catering services with no recognizable identity. In the 1980s many European airports began to recognize the attraction of speciality retail outlets and the advantages of using familiar brand names such as the Body Shop, Tie Rack and Sock Shop. The specialist retail chains which had grown so quickly in the high streets started to appear at airports. The branding provided reassurance for the traveller, who was aware of the quality and price level of the goods within the branded outlet. More variety was also introduced into the catering outlets by again bringing in famous brand names as McDonald's and Burger King. The catering area began to be split into a number of different, sometimes competing individual outlets. In most cases, the large sit-down restaurant, which took up considerable valuable floor space, became a relic of the past.

However, the widespread adoption of branding at airports has meant that there is now greater similarity between the shopping facilities at many airports and less diversity. Brand fatigue can become a problem – particularly for the frequent traveller who can find that airport shopping can become rather dull and boring. Hence most airports are trying to blend together famous brand outlets with local outlets which can give the airport some kind of identity and can distinguish it from other airports. The character and the culture of the city or the country which the airport serves can be represented by selling local

merchandise or gourmet products such as cheese from Switzerland, chocolates from Belgium or Parma ham from Italy. A flavour of the local environment can also be provided by theming the commercial facilities. For instance, at Las Vegas airport a number of the outlets are themed after hotels in the city and at Orlando airport there are shops representing the major theme parks in the area. The skill is in finding the correct balance between international recognized global brand retailers and local shops and catering outlets which give the airport an individual identity.

Aeroport de Paris is just one example of an airport company which launched a new retail strategy in 1994. The airport operator decided that it would get rid of its traditional duty-free, tax-free and fragrance shops and replace them with a new retail concept based on the large Parisian avenues called Passenger City. In this area AdP put in world-famous brands such as Hermes, Cartier, and Christofle but also shops representing the tradition of Paris and France such as Musées de France and others selling gourmet French products. Madrid airport has its 'Palaces and Museum's' outlet which has merchandise inspired by Spain's culture and heritage. Hong Kong's Chep Lap Kok airport tries to reflect its unique 'East meets West' culture with a wide range of international retail shops combined with both Asian and western restaurants and fast-food outlets. Manchester airport has its 'Donkey Stone' pub which is stocked with the local beer Boddingtons and it has a Manchester United football club shop. Vancouver airport is themed to represent the physical characteristics and cultural heritage of British Columbia, while the new terminal at Santiago airport in Chile tries to depict Chile's diverse geography from desert to Antarctic conditions (Byrd, 2000).

Some airports have chosen to enforce and promote an airport brand rather than the individual brands of the high street retailers. Amsterdam Schiphol and Singapore Changi airports are good illustrations of such a policy. For example, at Amsterdam airport all the shops in the airside area are branded under the 'See Buy Fly' identity and the outlets are grouped by product type such as electronics, fragrances, confectionery and so on, rather than according to who sells them. All the staff wear the same uniform. All sold products are placed in bright yellow branded shopping bags which have become a very recognizable feature in Europe and beyond.

The development of airport terminals into shopping centres has not been universally popular. Certain passenger types, particular business travellers who are seeking a quick transit through the terminal, favour a more streamlined airport service. Airlines have been responding to these needs by developing automatic ticketing and self check-in which theoretically should speed up the travel process and reduce the time a passenger has to spend in an airport before departure (Conway, 2000). While flight departure 'tannoy' announcements have long since been abandoned at most airports because they have proved ineffective and annoying, a few airports, particularly since the demise of intra-EU duty- and tax-free shopping, have made 'shopping announcements' instead which have further increased resentment to airport shopping from certain passengers.

The airlines, while welcoming the fact that non-aeronautical income can reduce an airport's reliance on aeronautical charges, have periodically expressed concerns that the shopping function of the airport has interfered with the normal flows of passengers through the airports. Clear signage to gates, for example, is difficult to achieve if the airport is cluttered with retail and catering signage and branding. There have been claims that passengers have delayed flights because they have been lost in the duty-free shops – so some airports have now placed flight information systems in the commercial outlets as well. Some airlines have also complained that airports have been giving too much attention to developing commercial facilities while ignoring basic operational requirements. For instance, at Heathrow airport BA complained about the lack of airline information desks at the entrance to the Terminal 1 departure area because the space was being occupied with commercial facilities, while at Gatwick airport Airtours, a major charter airline, was aggrieved that their request for greater space in the gate lounge areas had been refused although extra space had been provided for duty-free outlets (Monopolies and Mergers Commission, 1996). A correct balance between commercial and operational space is needed so that the non-aeronautical revenue is optimized without compromising the operational effectiveness – but this is no easy matter.

As well as adopting high street preferences for speciality shopping and branded products, airports have also been applying other tried and tested retail practices. This has been partly as a result of airports employing professional retail managers from the high street rather than always making internal appointments. Some concessionaires are appointing service assistants to greet customers in an attempt to make the shopping experience a more personal one (Anderson, 1999). Airport operators such as BAA plc and Aer Rianta have encouraged loyalty purchases at airports by introducing loyalty cards such as BAA plc worldpoints and the Dublin airport executive club. At Amsterdam airport, the See Buy Fly retailers are partners in KLM's Flying Dutchman frequent-flyer programme. As with high street shopping, the schemes not only provide the airport operators with a mechanism to encourage repeat buying but also enable them to find out about their customers and communicate with them when new products and services are being introduced. However, the perceived value of such initiatives tends to fall as they are adopted by more and more operators.

Moreover, airports have also introduced value and money-back guarantees which have been commonplace on the high street for many years. These are seen as particularly important because of the perceived expensive 'rip-off' reputation of many airports. For example Singapore Changi airport has two such guarantees:

1 The price of liquor, tobacco, perfumes and cosmetics will be no higher than at other major airports in the Asia Pacific region. Prices for other goods will be no higher than established downtown shops. If higher prices are found at the airport, a refund of double the price difference will be given.
2 A full refund or exchange will be given for any goods whether they are faulty, inappropriate or unwanted purchases.

No discussion about retail activities would be complete without references to the impact of the internet and e-shopping. In some ways, the internet must clearly be seen as a threat because there is a whole new range of discounted goods which are now available and easy to access. It must be remembered, however, that many purchases at airports are made on impulse and form part

of the 'leisure travel experience'. The internet can also bring many opportunities for airports if strategies are developed in conjunction with the terminal facilities. Many airport web sites now give details of the commercial facilities which are available and so passengers can be more prepared when they visit the airport. They may be better able to plan their shopping in the limited time period which they have available. Information provided on the web can complement or replace more traditional promotional methods, such as Amsterdam airport's practice of supplying travel agents and KLM offices with their 'See Buy Fly' catalogues, and can achieve far greater widespread coverage.

With some airports, for example Copenhagen, products can be pre-ordered for collection at the airport. At Vancouver airport, aboriginal arts and crafts can be bought on the airport web site. In the case of BAA plc and some other airports merchandise can be delivered to home addresses and so consumers can, in effect, now participate in 'airport shopping' without leaving the comfort of living room! Such a development will no longer mean that airport shopping has to be limited to what the passenger can carry. E-commerce may also offer other non-aeronautical revenue opportunities for airports in the form of web advertising and the selling of travel related products. BAA plc has already bought a share in the last minute specialists lastminute.com.

The commercial contract and tender process

There are various ways in which commercial facilities can be provided at airports. Most airports have chosen to contract out these services to specialist retail and catering companies. This lower-risk option is usually chosen because the airport operator does not have specialist skills required or a detailed understanding of the market environment. Some airports, particularly smaller ones, may opt to offer their airports as a total retail package to a master concessionaire who will then in turn seek specialist operators to run the individual outlets. There are a few companies, such as Aer Rianta and BAA plc who have chosen to provide some facilities themselves, such as duty-free and tax-free products. For Aer Rianta this is primarily because it has built up much expertise in this area being directly involved with such operations since the first shops were opened in the 1940s. BAA plc only adopted this approach in 1990s to enable it to have total control over the whole retailing process from suppliers to warehouses to customer purchases and to provide it with opportunities for international expansion. Car parking tends to be the only commercial activity which is provided by a substantial number of airport operators themselves since it generally requires less specialist skills and also greater capital investment by the airport operator.

The contractual details

When airport operators contract out their commercial facilities they usually enter into a concession contract with the companies providing the services. This typically involves the concessionaire paying a percentage of sales to the airport operator often in addition to agreeing a minimum annual guaranteed amount. The turnover fee may vary from as little as 5 per cent for some landside commercial activities to up to 50 per cent for facilities with higher profit margins – notably duty-free and tax-free sales. The fee may also increase at a faster rate than the level of turnover in the belief that concessionaires will be in a better position to pay higher fees once all basic fixed costs have been covered (Freathy and O'Connell, 1998). The airport operator will usually only provide the shell for the outlet and it will be up to the concessionaire to provide the capital investment for fitting out the facility. A typical length for the concession will be around five years, although this can vary quite considerably and there may be options for renewal. Such an arrangement will be relatively low risk for the airport operator which will tend to have little responsibility over the commercial facilities. The airport operator will be assured of a certain amount of revenues. However, since this revenue stream will be linked to the concessionaire's sales rather than profit volumes, there is no guarantee that the concessionaire will aim to maximize its sales as it may be more concerned with profit margins.

Alternatively the airport operator may choose to enter into a management contract with the retail or catering company. These have been used for car-parking facilities at airports for many years. It is currently not a popular approach for other commercial activities but the idea has generated some interest – particularly since the abolition of intra-EU duty- and tax-free sales in 1999. BAA plc used this type of contract with its duty-free retailers in the 1990s before it operated these facilities itself. Other examples include a number of regional UK airports, such as Birmingham airport, which now have profit share style management agreements for several concessionaires (Savage, 2000). This type of arrangement can be on a profit- or sales-sharing basis or a mixture of the two. It should enable the airport operator and the concessionaire to develop a much more longer-term relationship with each other than is typical with a traditional concession contract. They have to work together following common objectives to optimize revenue and profit levels and sharing the risk. This may not be an easy path to go down, however, and such an approach may be costly in management time both while the contract is being negotiated and once the agreement is in place (Gray, 2000).

A third option is to have a joint venture arrangement when the airport operator enters into a partnership with the specialist retailer or some other organization to provide the commercial facilities. Examples of this practice at home airports are relatively rare – Amsterdam airport used to have such an arrangement with its catering facilities. There are perhaps more opportunities for this type of arrangement when an airport operator is wishing to expand its involvement to other airports. Aer Rianta, for example, entered into a number of joint venture agreements in order to provide commercial facilities in the CIS and the Middle East.

Within Europe, North America and Asia an increasing number of concession contracts are automatically put out to tender when they come up for renewal. Such a practice is not so widespread in some other more developing areas but is usually the most effective way of ensuring the best contractual arrangements.

While selection criteria will vary from airport to airport, generally the evaluation of offers will consider both the financial terms (i.e. the concession fee

paid) and the more qualitative terms (i.e. quality, vision, innovation etc.). Some airports will just choose the bid which will generate the highest revenue – indeed, in some countries such as Singapore and Israel they are required to do so by law. This has led to a tendency to overbid in offers, particularly in Europe, in recent years. While in the short run this will benefit the airport operator with high levels of concession revenue, such a situation will not be sustainable in the longer term. The concessionaire will loss money and have to renegotiate conditions with the airport operator or be forced to abandon its airport operations completely.

The problem of overbidding is one of the key reasons behind ACI Europe's attempt to develop a tender code (ACI-Europe, 1999). The objectives of this code are to facilitate tender processes by recommending standardized tender procedures and to establish generally recognized selection criteria based on a combination of qualitative and quantitative factors. A points system is being developed which considers three different areas, namely appraisal of the tenderer's qualities (size and range of activities, specific experience, financial reliability), appraisal of the business plan (market analysis and product strategy, shop design, turnover forecast, organization/personnel/investments) and assessment of the concession fee offered.

Non-aeronautical performance

Factors driving success

Choosing the right concessionaire and negotiating the most appropriate contractual agreement is crucial if an airport is going to fully exploit its commercial opportunities. Many other factors which will also play a role. The airport operator may be able to influence some of these factors – but by no means all of them. Clearly the nature of the airport traffic needs to be taken into account. For instance, an airport handling predominantly domestic business travellers is likely to be in a less favourable position for generating commercial income than an airport with many long-haul leisure passengers. Understanding the mix of passengers and planning the facilities to match as closely as possible their needs and preferences is paramount to maximizing the revenue generating opportunities and return on investment. Also small airports with limited passenger traffic are at a distinct disadvantage since they will not have the critical mass, thought to be around 5 million passengers, necessary to diversify and support specialist retail and catering outlets (Gethin, 1997).

Spending by all passengers will be influenced by the general economic climate. Factors to consider include growth in gross domestic product (GDP) and consumer expenditure, level of taxation, inflation rates and foreign currency fluctuations. Purchasing patterns will also be affected by delays at an airport. A delay of an hour or so for a departure slot may give passengers extra time to visit the shops or catering outlets. Such a delay may be popular with the commercial department but not with anyone else! On the other hand, lengthy operational delays within the terminal, such as long queues for passport control, security or immigration will have the reverse effect, and reduce or even eliminate the dwell time that passengers have for browsing in the shops and having something to eat or drink.

Then there is the competition for airport commercial facilities, which can come from a variety of different sources. First, there are other airports. Notable examples of airports which are in a particularly competitive situation are those in the Gulf such as Dubai, Abu Dhabi and Bahrain and some Asian airports serving destinations such as Singapore, Kuala Lumpur and Hong Kong. There is also competition from the in-flight sales of airlines, particularly the charter airlines. These airlines, for instance the UK carriers Airtours and Britannia, allow pre-booking of goods in order to catch some business before the passengers can see what the airport competitor has on offer. In addition, competition can come from downtown tax-free outlets for international travellers, which are allowed in a number of countries, particularly in Asia. In Europe and North America competition exists with discounted electrical and other high street businesses and from the growth of factory outlets. E-shopping, as previously discussed, is quite likely to develop into a major competitor as well.

Just as in the high street, outlet size and mix is very important as is the location, space and design of facilities. However, a large proportion of the airports which are in use today were designed without taking sufficient account of the commercial opportunities which airport terminals can offer. All too often, concession planners get involved at a much too late stage of the terminal design and development process (Gray, 1998b; Walsh, 2000). This has meant that commercial facilities very often are not ideally situated or have been added on later as an afterthought. Successful concession planning, at least when passenger purchases are being considered, is all about providing facilities close to passenger flows and not in areas which are 'dead ends' or are too far from passengers' view. A change in the flow line of passengers can have a dramatic impact on concessionaire's sales. One option, adopted by Brussels airport to ensure that passengers pass by all outlets, is to place popular outlets like duty- and tax-free shops in the 'weak corners' outside the main flow lines and the less popular outlets in the 'strong corners' (Haugaard, 1998). The outlets should, ideally, be on the same floor levels as the departure gates, as having to go through the inconvenience of changing levels may deter some passengers from visiting the commercial facilities (Doganis, 1992).

Thus many airports cannot maximize their commercial spend because their facilities may have been inappropriately designed, located in secondary sites or because subsequent extensions of the terminal have significantly shifted the main direction of passenger flows. Particular problems can arise from terminals which are of a linear design, such as Munich airport, because very often facilities have to be duplicated which can be costly until there is sufficient throughput of passengers to support all the facilities. This was the situation with the fourth terminal at London Heathrow Airport when it first opened. Problems have also occurred for airports in European countries which have signed up to the Schengen agreement and have abolished immigration controls with other Schengen countries. At some airports this has caused unnecessary duplication of facilities, resulting in reduced custom for each outlets.

The amount of time a passenger has at an airport will obviously influence their shopping behaviour. Different types of passengers spend different average dwell times in the lounge. BAA plc has estimated that in the domestic lounge

in Terminal 3 at London Heathrow the average dwell time for economy passengers is 49 minutes compared with 27 minutes for business class and 13 minutes for first-class passengers (Toms, 2000). BAA plc has also calculated that the incremental airport spend for each additional ten minutes available time is £0.80 for domestic passengers and £1.60 for international passengers (Maiden, 2000). Passengers also need to feel relaxed when they shop and so they tend to have a preference in buying from outlets which are situated within the vicinity of the departure gates – once all essential processes such as check-in and security screening have been completed. They also will not want to walk long distances to be able to shop. Landside shopping is different as convenient locations not only for passengers, but also for staff, meeters and greeters and local residents, must be found. Catering outlets can compete with passengers' dwell time in shops and so they need to be positioned near to the retail facilities but must not interrupt the flow. Shops and catering outlets have to be large enough so as not to give a congested and overcrowded image, but not too large that consumers may be deterred by an appearance of inactivity and empty space.

Measuring non-aeronautical performance

Airports, with their concessionaire partners, have become increasingly active in monitoring their non-aeronautical performance. This is partly due to a drive for better performance monitoring of all aspects of the industry and also because retail experts, with experience of assessing retail performance at other locations, are being bought in to manage airport facilities. Consumer satisfaction levels and perceptions of value for money are assessed by many airports through customer surveys (as described in Chapter 4). In addition, airports use indicators such as sales per passenger, passenger penetration levels and sales per square metre to analyse the economic performance of their commercial facilities. The latter measure has the advantage in that it can be used to compare airport performance with other retail facilities at other sites such as shopping malls.

Making inter-airport comparisons is difficult because of the commercially sensitive nature of the information required and lack of reliable industrywide data. One of the most comprehensive benchmarking studies was undertaken in 1998 by the consultancy group, Centre for Airport Studies. Twenty-four major airports in Europe, Asia Pacific and North America were investigated. The study looked at performance indicators such as retail revenue per passenger and retail revenue per square metre both airside and landside, and analysed various factors which helped explain the comparative results which were obtained. These included geographic location, ownership model, the volume and nature of traffic, the number, size, location, mix, density of outlets and the area devoted to retail (Centre for Airport Studies, 1998; Favotto, 2000). One of the indicators used, retail revenue per square metre, is presented in Figure 6.4 with the average value indexed at 100. This shows the clear dominance of Europe among the best performing airports (Heathrow, Gatwick, Vienna, Copenhagen and Frankfurt) and the USA among the worst performing airports (Orange County and the New York airports of JFK, Newark and La Guardia).