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InterVISTAS CONSULTING INC.

## Competition Between Airports in the New Millennium:

*What works, what doesn't work and why*

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## The Changing Airport Environment

- Traditionally, airports considered to be monopoly providers
- Deregulation changed the environment and opportunity
  - Airlines now free to operate from airports of their choosing
  - LCCs seek lower costs and many use secondary airports
  - In some cases, airports were divested or privatised and now actively market
    - ♦ e.g., UK, Australia, Canada, Germany

In the new environment airports compete With each other

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## Competitive Airport Markets

- Competition for shared local catchment areas
- Competition for connecting traffic
- Competition for cargo traffic
- Destination competition
- Competition for non-aeronautical services
  - retail, food&beverage, etc
- Competition with other modes
  - Eurostar, TGV

6 dimensions of airport competition

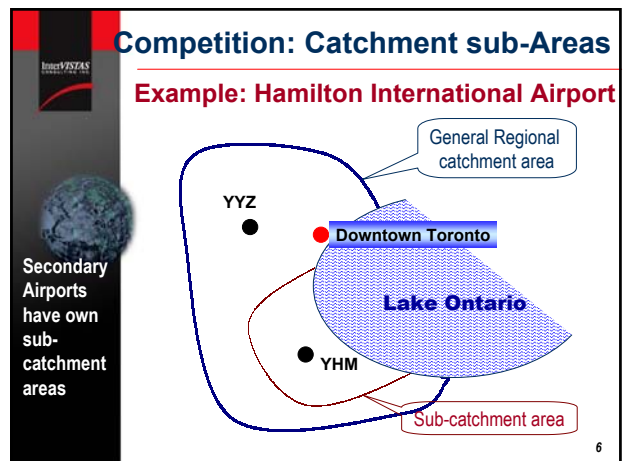
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## Competition: Catchment sub-Areas

- Shared local catchment areas
  - Examples:
    - ♦ London (Heathrow, Gatwick, Stansted, Luton, London City)
    - ♦ Hamburg (Hamburg Airport and Lubeck)
  - Airports can serve the same destinations but still have different products
    - ♦ e.g., London City and Stansted to Paris
  - Secondary airports have their own catchment sub-areas

Secondary airport will be favored in sub-catchment area

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## Competitive Connecting Traffic

- **Connecting traffic**
  - Can constitute a major share of total airport traffic, even for secondary airports (Midway, BWI are Southwest hubs)
  - Almost all connecting traffic has alternative connect points
    - ♦ some of this traffic will shift to cheaper/more convenient options
  - Dependent on airlines
    - ♦ e.g., Pittsburgh - U.S. Airways
    - ♦ but airports can have an impact through price, capacity, etc



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## Competitive Cargo Traffic

- **Cargo traffic**
  - 17% of airport revenues (ACI)
  - Both O/D and transshipment traffic are highly competitive
    - ♦ this traffic can shift to alternative connect points or alternative gateways to obtain lower costs or more capacity
    - ♦ e.g., Hamilton - 100,000 tonnes passes through this airport that otherwise would go through Toronto

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## Destination Competition

- **Destination Competition**
  - Aviation is one part of the travel/tourism package
  - Quality, cost and scope of air service at an airport can impact on the overall attractiveness of the destination
  - Examples:
    - ♦ convention market - air service is a key factor in destination selection
    - ♦ cruise market - cruise line consider air service in selecting embarking / disembarking ports

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## Airport Competition Strategies

- **Four P's Marketing**
  - **Product**
    - ♦ developing a product that is attractive to the market
  - **Price**
    - ♦ maximising revenues
  - **Promotion**
    - ♦ creating awareness, marketing
  - **Physical distribution**
    - ♦ includes time as well as space
    - ♦ applies to service industries too

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## Airport Product Characteristics

Primary Airport	Secondary Airport
Closer to the city	More remote location to the central city(not always the case), but closer location to some parts of the metro region
High frequencies	Lower frequency
Wide range of non-stop destinations	Limited non-stop destinations
Enables connecting traffic	Focused on point-to-point traffic
Higher fares	Low fares
Wide range of retail and food & beverage	Limited retail and food & beverage offered
Capacity constrained (due to physical or political limitations)	Ample capacity, uncgested
May be subject to night curfew or noise quotas	Typically 24 hour operations
Wide range of handling equipment and facilities	Some handling equipment may be unavailable (E.g., wide body main deck cargo loaders)
Higher airline operating costs due to long taxi times, congestion, higher labour rates	Lower airline operating costs due to short taxi times, lack of congestion, lower labour rates

## Airport Product

- **Infrastructure**
  - Core element that impacts on the airport's competitive position
  - Should reflect the marketing strategies of the airport, for example:
    - ♦ Kamloops, Cranbrook in BC; airports seek to extend runways for A320 service - essential to ski market aspirations
    - ♦ A380 - will the airport receive sufficient service, or will it increase costs which are then passed to carriers?

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## Airport Product


- **Passenger Facilitation**
  - Passenger and baggage processing
  - Can enhance the airport's competitive position for O/D and particularly connecting traffic:
    - ◆ airport more attractive to passengers - less time and hassle
    - ◆ more attractive to airlines - shorter turnaround times and less missed connections

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## Airport Product

- **Passenger facilitation, examples**
  - Canada transit pre-clearance
    - ◆ U.S. customs/immigration performed at Canadian airports
    - ◆ Transit pre-clearance allows bypass of Canada customs for int'l to int'l connect
  - Vancouver cruise market
    - ◆ Straight-to-ship baggage transfer
    - ◆ On-ship check-in
    - ◆ Sterile transfer from ship to aircraft
  - U.S. transit visa requirements
    - ◆ traffic now connecting through Canada <sup>14</sup>



## Airport Product

- **Third party vendors**
  - e.g., ground handling, warehousing, fuel
- **Should airport**
  - a) provide services itself, or
  - b) allow 3rd party vendors
    - a) increases revenues and possibly allows monopoly rents
    - b) lowers costs, and provides greater service range for airlines also, airport can focus on its primary product (landing, processing) and still receive some revenues from rents or fees <sup>15</sup>



## Airport Product

- **Curfews and noise quotas**
  - Curfews impact on an airport's product
    - ◆ e.g., certain long-haul flights, cargo
  - Airports can reduce pressure for curfews
    - ◆ community relations (open days, press)
    - ◆ work with local government (zoning)
  - Noise quota dilemma
    - ◆ 1 Nightflight = 2 Dayflights
    - ◆ use quota to maximise competitive advantage

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## Airport Product

- **Air cargo**
  - Has its own economics and requirements
    - ◆ 24-hour operations
    - ◆ customs processing
    - ◆ transshipment facilities
    - ◆ value-added/FTZ, etc
    - ◆ very price sensitive
  - Examples:
    - ◆ AirportCity - Amsterdam, Hong Kong, Fraport
    - ◆ Niche - Calgary has specialised in livestock <sup>17</sup>




## Airport Pricing

- **Two-stage pricing**
  - Similar to a durable good, (e.g., car, printers)
  - Initially airline is very elastic
    - ◆ small change in fees can have a major impact on viability
    - ◆ Normally reflected in start-up agreements
  - Later airline becomes inelastic
    - ◆ route established and profitable
  - When does this change in the elas. occur?
    - ◆ Does it occur for every airline on every route?
    - ◆ Will other airports undercut it? <sup>18</sup>



## Airport Pricing

- **Lowering airline costs**
  - **Faster turnaround times**
    - ◆ lowers unit costs and increases revenue generation
    - ◆ dual boarding bridges
    - ◆ shorter taxiways
    - ◆ swing gates
    - ◆ at-gate hydrant fuelling
    - ◆ dedicated shuttle/commuter facilities
  - **Lower fuel costs**
    - ◆ e.g., provide ground power



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## Airport Pricing

- **Incentive pricing**
  - **Airports can be more creative in pricing**
    - ◆ provide a range of pricing options to meet different airline's needs
  - **Example: per day gate rental rather than per use charge:**
    - ◆ airline incentivised to achieve higher gate utilisation
    - ◆ airport receives same revenues, airlines reduce unit costs, better capacity use
    - ◆ may not be attractive to all airlines, may need to provide a choice



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## Airport Promotion

- **Air Service Development**
  - **Demonstrates to carriers that there is sufficient demand and facilities to support air service**
  - **Targeted to the airline, matching their needs with the opportunities**
  - **Attempts to attract fairly scarce airline capacity from other airports**



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## Airport Promotion

- **Passenger marketing**
  - **Secondary airports**
    - ◆ must make passengers, travel agents, shippers aware of the service range and the advantages of using the airport
    - ◆ press advertising (local, national and industry), attend conferences, road shows
  - **Spoke-end awareness**
    - ◆ create awareness of destination and connection potential
    - ◆ e.g., YVR visits travel agents, companies in Asia (alternative to LAX and SFO)



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## Airport Promotion

- **Integrated marketing**
  - **Aviation just part of tourism package**
  - **Work with other players**
    - ◆ airlines, tourism authorities, hotels, cruise lines, etc
    - ◆ integrated/co-ordinated effort
  - **Can play an important co-ordinating role**
    - ◆ e.g., airlines may be focussing on Asia while tourism authority is focussed on North America




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## Promotion

- **Naming**
  - **"International"**
  - **Including the nearby (or not so nearby) city:**
    - ◆ *Hamburg Lubeck*
    - ◆ *Baltimore/Washington International*
  - **Branding**
    - ◆ Little evidence it works
    - ◆ May be confusing given the airline/alliance branding



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## (Physical) Distribution of Product

- **Computerized Reservation System**
  - CRS ranking of flights based on price, flight times, connections, etc
  - Generally, only the first few options are viewed and chosen
  - Reducing the connect time can move the airport up the rankings
  - Naming can also have an impact
    - ◆ e.g., BWI appears as an option for flights from Washington, DC as well as Reagan and Dulles

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## Physical Distribution

- **Travel agents**
  - Still a major proportion of travel bookings
  - Secondary airports need to create awareness with travel agents
    - ◆ keep supplying information on services
    - ◆ some have even bought travel agents (Norwich, Cardiff)
- **Websites**
  - Disseminate information about the airport, gives it a presence
  - Some enable booking of flights from the airport (e.g., Hamburg, Brussels)

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## Conclusion

- **Airports compete in a number of markets**
  - Not all airports in all markets, but many do
- **How airports can compete:**
  - Product - affects both carrier and pax choice
  - Price - two-stage pricing, lowering airline costs, incentive pricing
  - Promotion - create awareness of services and product advantages
  - Physical distribution - deliver services to carriers and passengers through CRS, internet and travel agents

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# Thank You

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