

# Internationalisation of Airport Operators

## Theoretical Background and Industry-specific Motives



Michael Hollenhorst

Justus-Liebig-Universität Gießen

# Internationalisation of Airport Operators

## Theoretical Background and Industry-specific Motives

- Privatisation
- Theoretical framework for internationalisation of companies ...
- ... suitable for adoption to explain the international business activities of airport operators?

# Background: Airport Privatisation

- Objectives
  - financing infrastructure investment
  - increased operating efficiency
  - supporting the general budget
- Enabling operators to
  - decide on investments themselves
  - invest in other airports worldwide
- Since 1987 (privatisation of BAA): 89 privatisations
- Leading countries in the process: UK, Australia
- Many others followed – notable exception: U.S.

# Background: Airport Privatisation

**Fig.: Participants in Airport Privatisation Processes**

	PARTICIPANTS	PRIMARY OBJECTIVE
OFFERER	Public Sector Owners	Supporting General Budget Financing Airport Growth
	Private Owners	Shareholder Return possibly: Development of a Secondary Market for Airport Shares
BUYER	Airport Operators	Utilization of advanced Know-how Growth of Core Activities
	Construction Companies	Access to Building Contracts Additional Margin from Airport Operations
	Finance Investors	Return on Invest

# Consulting as Pathfinder

- Leading the way to internationalisation
- Large operators have been offering consultancy for decades
- Valuable contacts and experience in operations overseas
- Higher value added can be achieved as stakeholder in other airports

# Oligopolistic behaviour: Follow the leader

- Oligopolistic parallel behaviour
  - Interdependency between oligopolists important motive for internationalisation
  - One market participant invests abroad, others follow the leader
  - Reason: imminent loss in market share
- Airport industry
  - First fully privatised operator BAA became first Global Player
  - Success of this efficient market leader an important motive for other operators to develop internationalisation strategy

# Theory of Monopolistic Advantage

Multinational companies have specific advantages over locally oriented enterprises:

- Superior technological and management know-how
- Superior marketing know-how (i.e. established global brands)
- Scale economies

Making use of these advantages is an important motive for internationalisation of business activities

# Theory of Monopolistic Advantage

## Internationalisation of airport operators

- Superior technological and management know-how
  - Operators with international portfolio dispose of it
  - Usable in consulting activities, but higher value added in management contracts or direct investment
- Superior marketing know-how (i.e. established global brands)

First steps: BAA „The world’s leading operator“

Fraport „Frankfurt Airport Services Worldwide“

Schiphol Group – AirportCity

- Scale economies  
Negligible in this context

# Portfolio Theory: Geographical Diversification as Risk Management

- Companies experience exposure to additional risks
- Advantage: international companies spread their overall risk geographically
- Overall risk and long-term fluctuations in profitability are significantly reduced
  
- Airport operators
  - Cyclical contractions in resp. economy reduce growth in aviation industry
  - Less dependent on situation of local hub carrier

# Restricted Growth in Country of Origin

Most important motive for internationalisation

- Capacity increases require advance planning if possible at all
- Nationally dominating operators: substantial growth in home market would face opposition from antitrust authorities
- Growth perspectives at home base have already been put into effect
- Some operators bound by regulation in home market

Result: Development of international business as alternative way to grow

# Internationalisation of Airport Operators

## Theoretical Background and Industry-specific Motives

- Privatisation of airports triggered fundamental change in the airport business – one of them the internationalisation of leading operators
- Theories suitable for goods-producing industries offer only partial explanation for airport operators' internationalisation
- Most important motives for airport operators to venture abroad are industry-specific

Thank you for your attention