



Airports en route to the “New Normal” – Rightsizing of infrastructures and operations

Airports’ fight for survival due to the global pandemic. In order to remain operational and get fit for the future, airports have to adjust their way of doing business, their organizations and their infrastructure, while at the same time sharply reducing costs.

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By Sascha Vogel

Costs structures are overwhelming airports while revenue streams suffer

As passenger volumes decreased dramatically, with facilities and resources made redundant and the uncertainty of traffic forecasts, airport operators across the globe warn of worsening financial impact from the pandemic. There are airports acquiring millions of Euros in additional debt or receiving governmental aid to offset the damage from the corona virus outbreak, others file for insolvency and nearly 200 European airports are at risk¹. The balance between revenues and incurred costs has got out of scale. The market and financial situation call on airports and investors to reassess airport assets and manage infrastructures and resources to ensure financial stability of aerodromes.

Rightsizing is the only sustainable option to encounter the funding gap

State-owned, privatized and concessionary airports have three options to meet the current financial challenges to stay in business: apply for financial aid, sell the asset or optimize it. While airlines and airports ask for financial support, cash injections are just a temporary instrument and do not solve the underlying cost issue airports are facing. The option to sell a single airport or an airport portfolio by the state or private investor is affiliated with high capital losses and no chance of recovery. Therefore, the only viable option is to optimize the airport organization, its strategy, infrastructure and operations to achieve a rightsizing. This will lead to initiating a transformation process and preparing for the future of the aviation industry.

The urge for airport rightsizing is clear: the weak market situation will persist mid-term and not return to pre-crisis levels before 2024² or even later, thus capital involvement through cash infusions provides only short-term support. A structural, organizational and operational change at airports is required to stop the cash out and achieve lasting cost savings for the business. Redefining the strategy for the aftermath of the crisis and its “New Normal” conditions is a prerequisite as well.

¹ Airport Council International Europe, <https://airport-world.com/future-of-nearly-200-european-airports-in-jeopardy-without-government-help/>

² International Air Transport Association, <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>



A promising path: from infrastructure providers to full service airports

Historically, the majority of airports have been state-owned infrastructure providers, managed rather as authorities than companies and reacting to the dynamics of the market. By solely providing infrastructure and facilities of aerodromes, business complexity was kept low and most services outsourced to third party providers. What seemed to be of low risk for airport operators, turns into a great dependency on external partners and their continued existence. Whenever concessionaries, retailers, ground handlers and other relevant actors of the airport system fail, the responsibility to keep the airport operational, will ultimately return to the infrastructure provider.

The years of continuous growth prospected full-service airports to be among the most successful operators in the industry. In addition to the provision of infrastructure and facilities, these airports actively manage commercial activities by offering a full range of diverse aero and non-aero related services. By focusing on both quality and revenues, airports with their own service portfolios are more independent and able to steer the airport eco-system in a centralized manner. Critics claim the high business complexity to be unfavorable, yet these airports are more robust in coping with new realities and keeping customers – travelers, airlines, tenants, etc. – in the focus of their actions. Simply, because they have the control. This service portfolio strategy enables an integrated rightsizing approach on the cost and revenue side.

Airport's business models are challenged by industry developments

The corona virus pandemic isn't the first challenge aviation has had to conquer: economic recessions, geopolitical dissents, international terrorism – although the list is long, current developments will not end in a recovery phase, but in a transformation. Airports have to transform as well in this regard. In order to realize their full traffic potential, they must recognize the altered demands of stakeholders. Top priority for passengers is hygiene concepts, social distancing measures at airport facilities, reduced waiting times and a touchless travel journey³. These needs will not only affect dwell times, retail and dining, but also the utilization of facilities. Airlines expect airports to discount or exempt charges and contribute to generating passenger volumes. An organizational setup with efficiency at its core will enable airports to reach sustainable structural changes and implement effective levers to optimize costs and revenues.

The starting point of transforming airports is to optimize them

The “New Normal” situation must be defined by each airport individually to assess the consistency of its business model and to adjust to the future state of the industry. A major role will be the adaption of traffic forecasts and the flexibilization to react to changes. By optimizing resources and facilities, operations will reach higher efficiency. An analysis of the service portfolio will enable a boost in aero

³ Airport Council International, <https://blog.aci.aero/covid-19-what-to-expect-from-your-next-journey-at-the-airport/>



and non-aero revenues, while becoming more customer focused leading to stronger partnerships and greater loyalty.

Successful transformation requires speed, agility and adaptability

The downturn continues, but no longer calls for crisis teams to act on short-term. Instead, the formation of airport transformation teams with a cross-functional approach, driving fast and flexible business adaption and continuous analysis of current and forecasted challenges will lead to an airport organization of the future with agile teams working in a speedy, customer focused and cost centric manner.

Every airport business is different, therefore management must determine their adaption needs and define focus areas from turnaround, to cash management, to continuous improvements and restructuring organizations.

Rightsizing is cleared for takeoff now

The process of rightsizing is inevitable for airports and investors and the only option to remain operational and “make money” sustainably. Now is the time to right-size airport capacity and operations to return to profitability and be well positioned for future challenges in the aviation industry.

Lufthansa Consulting at GAD World and GAD Americas

Lufthansa Consulting is participating in the Global Airport Development Conference (GAD), November 11-13, 2020, presenting a keynote on Transformation to the “New Normal” – Airport Rightsizing. In addition, Lufthansa Consulting’s expert teams will moderate discussions on new traffic forecasting methods and deliver workshops on the future perspectives of regional airports. Attendees may meet with consultants and partners in virtual booths to discuss and exchange on airport development topics. More information: <https://informaconnect.com/gad-world/>.

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Further insights from Lufthansa Consulting’s aviation experts are available at <https://www.lhconsulting.com/insights/news/>
