



Through severe turbulence to new heights: The future of regional airports is tangible for those actively mastering the challenges

Regional airports are gateways to local areas and important infrastructures for communities of people and businesses. The current crisis widely questions the necessity of regional airports as they struggle to operate profitably.

December 2, 2020

By Sascha Vogel

Hundreds of small airports face insolvency and loss of significance

News headlines for the entire aviation industry have become vastly negative. The latest consternation report was released by ACI Europe, warning of nearly 200 airports facing bankruptcy by the end of the year¹, if there is no additional governmental aid. Many of these gateways are regionals that are significantly affected by the crisis. The German regional airport in Paderborn has filed for insolvency already and plans to restructure², by offsetting two third of staff and reducing the annual capacity for the future to only 300,000 passengers per annum. Meanwhile the European Commission approved the Polish government to pay 32 million Euro of aid to airports³ for the losses due to the corona pandemic crisis. And airports in Texas are cleared to receive financial support under the CARES Act Airport Grant Program⁴ to prevent the smaller airports from vanishing.

The smallest airports suffer the greatest losses

Airports with up to five million passengers per annum are considered to be regional airports. These aerodromes are mainly focused on point to point routes and hub feeder traffic to connect their respective region to metropolitan areas of their country and beyond. Overall, more than 85 percent of all airports worldwide are regional airports, while only 16 percent of global passengers depart from or disembark at a regional airport. High costs for infrastructure and operations lead many airports into serious financial constraints that are nowadays being aggravated with decreased air traffic volumes, redundant facilities and resources. Before the crisis, 66 percent of airports worldwide operated at a net loss, whereas 92 percent of loss-making airports⁵ handled less than one million passengers per annum. Hard times. And times are getting even harder since traffic is not returning as expected.

¹ Airport World Magazine, October 2020

² CAPA, September 2020

³ European Commission, September 2020

⁴ News Break, April 2020

⁵ Facts and figures by ACI



Regional airports could not profit from global air traffic growth over the past decade

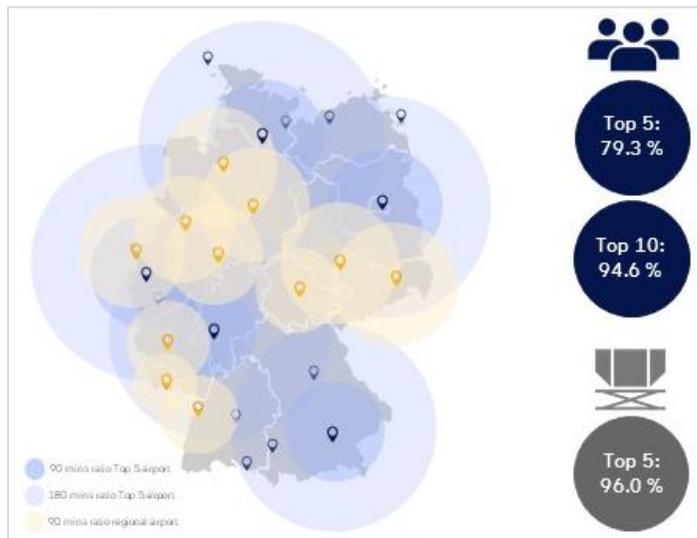
The past decade (2009-2019) in the global aviation industry was characterized by a constant growth of 5.67 percent per year. Yet, mainly larger airports with high passenger and cargo volumes participated in the progression of air traffic. Small airports with up to one million passengers per year lost traffic on a large scale: worldwide 22.7 percent grew negatively, in Europe even 34.5 percent of airports in this category could not record any increase in traffic over the period of time. Why is it harder for regional airports to participate in an overall growing industry and how will they be able to make it through the crisis to better days?



Development of airports by size 2009-2019. Source: ACI.

Density of airports snatches positive development of individual aerodromes

In some regions of the world it seems that several airports are springing up within a relatively small area. The European continent, smaller than Russian' soil, registers 685 airports of which more than 600 are considered regionals with scheduled air services. This leads to high competition, in particular where road and rail infrastructure is well developed.



Density of airports in Germany and market shares of top performing airport. Sources: Oalley, ADV, German Federal Statistics Office, Lufthansa Consulting.

Germany is an illustrative example of how airport density and overlapping catchment areas impede the growth of aero infrastructures. The top five passenger airports in Germany accumulate nearly 80 percent of traffic, for air cargo the largest five airports even handle 96 percent of the nations' volume. When it comes to accessibility, these top five gateways can be reached within a three hours ratio by car from almost anywhere within the country – not considering the high-speed rail connections which are also available. Nevertheless, Germany lists a total of 24 airports. The density is extreme and the airports' spheres of action heavily overlap due to their proximity, divesting mutual growth opportunities.

Regional airports cannot be abandoned though, as countries with great distances between provinces and cities and those with poor road or rail infrastructure, need regional gateways for air traffic. Russia – the world’s largest country by territory – registers only 97 airports with scheduled traffic. And even the relatively small state of Chile is reliant on its seven airports, because the country spans 4,200 kilometers from the North to the South.



Airport density of selected world regions. Source: ACI, Lufthansa Consulting research.

The airline customer base is fading away

Not only there are many regional airports in some areas of the world, but often there are few potential airline customers to make the airport business model work. Within the interesting sector of regional carriers that provide the demanded capacity and are able to fly nonstop between cities and provinces, many exited the market, went bankrupt or were acquired by large market players. Leisure airlines contributing to in or outbound tourism at regional airports are consolidating and thus focus on compressed origin and destination portfolios. The network carriers are often organized in airline groups and fly to selected hubs from regional airports. Lastly, the fast growth of the low cost carriers, initially



Exemplary airlines by business model in Europe (non-exhaustive). Source: Lufthansa Consulting.



started their success journey at regional airports, but remain difficult customers to generate profitable results for a lot of small airport operators, as the LCC oligopoly heavily dictates the economic conditions or their operations.

Airport success factors are a field of challenges for regionals

The major levers influencing the airport's success, constitute great challenges for many regional airports in the long-term. The combination of market demand, customer and route network potentials, state-of-the-art infrastructure, high performance, competitive cost structure, low competition and diverse service and revenue portfolios set successful airports apart from those which are struggling. Caught in the circle of challenges, regional airports often have a hard time to overcome difficulties and implement individual success levers. In the past, governments funded losses, but with the transformation of the aviation industry and the regulation of subsidies developing in more governing bodies, airports are pushed to leave their comfort zone and become more dynamic businesses.

On the positive side: regional airports work creatively on coming back

No doubt, the corona virus pandemic has intensified the burdens of regional airports, but that the bigger got bigger and the smaller suffered the greatest losses isn't something new. Thus, airport operators and investors are now at the brink of reinventing regional air traffic.

Lufthansa Consulting's workshop on the future of regional airports at the Global Airport Development Conference (GAD) in November 2020 revealed the fears of airport managers and yet the creative approaches to conquer the current challenges. During an interactive and collaborative session, aviation executives produced ideas reaching from cost cutting to boosting revenue, founding regional airlines and taking over operations, creating community spaces and getting business travelers back through carefree travel measures. Airport managers are racking their brains about: how to re-gain or attract significant passenger and also cargo traffic and how to do it profitably.

A structured approach to route development is the key

For airports in general and regional airports in particular, active management of route development is a must-do to become visible towards airlines. In a structured process, regional airports first need to analyze the market potential of leisure and business traffic as well as the currently strongly recovering cargo demands. The following route strategy development will assess the passenger and cargo revenue potential and estimate the route profitability. In combination with further measures, such as effective incentive schemes, regional airports can be successful in contracting new airlines or developing the presence of existing airline customers. Finally, airlines expect airports to support sales for the implementation of routes through strong stakeholder collaboration and continuous negotiations between airline, airport and further business partners.



New partnership models reveal new market opportunities

More than ever, the current downfall showcases the need for a new understanding of partnership between all relevant actors. Not memorandums, but real fruitful collaboration. Dozens of companies are involved in the sales, preparation and operation of flights at airports. By using the local networks and business relations regional airports uphold, they can join forces to turn challenges into success for every player involved. This does not only refer to aviation stakeholders, like ground handlers, passengers, catering or fuel providers, but particularly to local enterprises, trade associations and tourism boards. Together they must comprehend the importance of each individual contributor to the existence of the whole system. Primarily in smaller markets.

Thinking outside of the box in conquering challenges

In light of the regional airports workshop at the 2020 GAD Conference, executives were exploring the frontiers of the airport business. The goal of the session was to encourage thinking outside of the box in order to produce new approaches to the airport business model. And airport managers, investors and regulators delivered ideas to which experts in their respective fields contributed to form complex practical efforts. Most apparent is the need for collaboration and coordination amongst institutions, the private sector and aviation businesses to create solutions that all can benefit from in the short-term and build new knowledge and thus courses for action in the medium and long run.

Sharpening the competitive edge for regional airports

Regional airports can reach new heights in all markets by applying innovative, transformative and integrative business solutions. Together with a can-do attitude that is facing forward and keeping customers in the focus of their actions, through strong and lasting business relationships, airport managements will be able to achieve sustainable and measurable results. This will also radiate towards internal and external cost optimizations and thus savings which support the overall risk mitigation for operators and investors alike. Public and private partnerships within the region of airports will foster connectivity from a co-operation level, down to ground accessibility, flight destinations and even far beyond to mutual empowerment.



Exemplary measures for regional airports to conquer current challenges. Source: Lufthansa Consulting.

Sascha Vogel is a Consultant at Lufthansa Consulting, former business development manager at regional airports, and an expert in airport management and airport operations. He is a member of the Solution Group Infrastructure and Operations.

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