Creating a profitable business model

Lufthansa Consulting's Martin Neuser on how creating a customer-centric portfolio aimed at boosting non-aeronautical revenues can bring out the best in regional airports.

"With user charges paid by airlines not covering the full cost of operating and developing airport facilities, revenues from non-aeronautical activities are a vital component of any airport's bottom line," ACI-Europe's director-general, Oliver Jankovec, stated in March 2019.

According to ACI's latest economic report for the financial year 2017, global airport revenues grew 6.2% to reach US$172.2 billion while passenger traffic grew 7.5%. Aeronautical revenue streams contributed 55% of this revenue while 39.9% have been derived from non-aeronautical revenue streams. Revenue growth, primarily induced by growth in passenger numbers, has traditionally been focused on hub airports such as Frankfurt Airport (FRA) or Dubai International (DXB). Benefiting from significant shares of transfer passengers with generally higher purchasing power and dwell time, these airports generate 43% of their total revenues by means of non-aeronautical income.

However, 80% of airports worldwide have fewer than a million passengers per year, and 94% of these small, regional airports are making a loss (Airports Council International, 2019). They struggle primarily with changing customer expectations and the omission of decentralised business travel offers. Today's leisure passengers, representing their key customer group, are more price-sensitive, informed, empowered and seek personalised experiences. In particular, low-cost carriers have recognised the signs of the times and and have successfully managed to take over the routes formally flown by regional airlines which generally paid higher aeronautical charges.

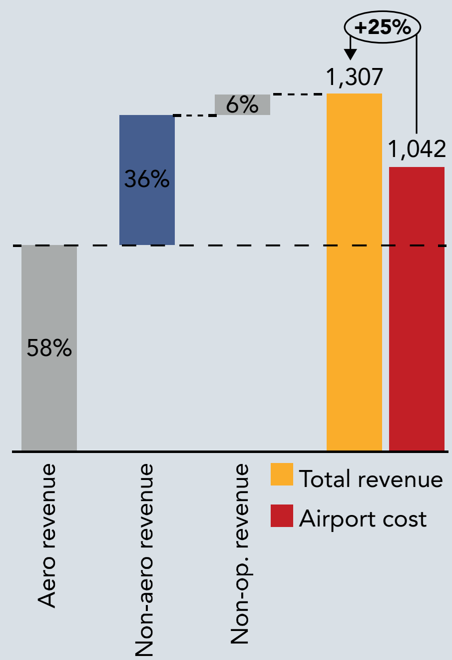
COVERING THE SHORTFALL

As a result, regional airports operate under severe cost pressure. **Figure 1** shows that aeronautical revenues, universally capped by single-till, dual-till or hybrid-till mechanism, do not suffice for cost coverage. Non-aeronautical revenues, primarily driven by Food and Beverage (F&B) and retail concessions, support regional airports in becoming profitable. Although not located at the heart of air travel growth, these airports exhibit significant potential with regard to exploiting commercial opportunities. As becomes apparent in **figure 2** (over leaf), regional and mid-sized airports are merely inferior in terms of F&B, retail and rental car concessions regarding year-over-year percentage change in key non-aeronautical revenues compared to the large hub airports.

For regional airports, local market insights, comparably low rental and concession rates, as well as generally strong low-cost airlines as partners, bring along various business opportunities, when focusing on customer expectations. Therefore, a customer-centric approach is key to success.

How to successfully and sustainably take part in the growth of non-aeronautical revenue streams can be seen when looking at the examples set by Milan's Orio al Serio International Airport (BGY) and Budapest International Airport (BUD). Induced by the entry of Ryanair in 2002, passenger numbers at BGY airport have grown to 11 million a year (2018), a rate six times higher than the regional average. While explicitly expanding into secondary airports, low-cost carriers have opened up new

Figure 1: Revenue and cost contrast per ATM for airports with 5-15m PAX p.a



Source: Airports Council International, 2019 markets for travel retail. Wizz Air and Budapest Airport (BUD) together with Gebr. Heinemann, one of the most important distributors and retailers on the international travel market, have proven that customer engagement at every step of the journey is an enabler for commercial revenue sharing and success within their BARTA (Brands, Airports, Retailers, Technology and Airlines) campaign in 2018. By means of Wi-Fi sales onboard, the partners joined forces to increase penetration and raise spend per passenger.

PLANNING FOR PROFIT

Regional and secondary airports must take action to create a profitable business model which uses the advantages of a smaller scale, regional environment. Patently, it is about planning their non-aeronautical offering based upon customers' preferences and decision elements, systematically collecting and using consumer market data and actively partnering with retailers and airlines for the benefit of all stakeholders. Optimising the commercial offer may not necessarily mean going it alone. Airlines are the compulsory stakeholders for airport retailers to achieve direct engagement with travellers e.g. by selling retail offerings onboard. Preferences and spending behaviour of new customers need to be understood by airports, airlines and commercial entities to respectively cross-sell non-aeronautical services. To create attractive retail for passengers at regional airports seven factors (**figure 3**) have to be considered which influence the purchasing decision process: Quality of products; price/discount of products; range of products offered; in-store experience; time available to shop; in-store appearance; and the role of others on shopping.

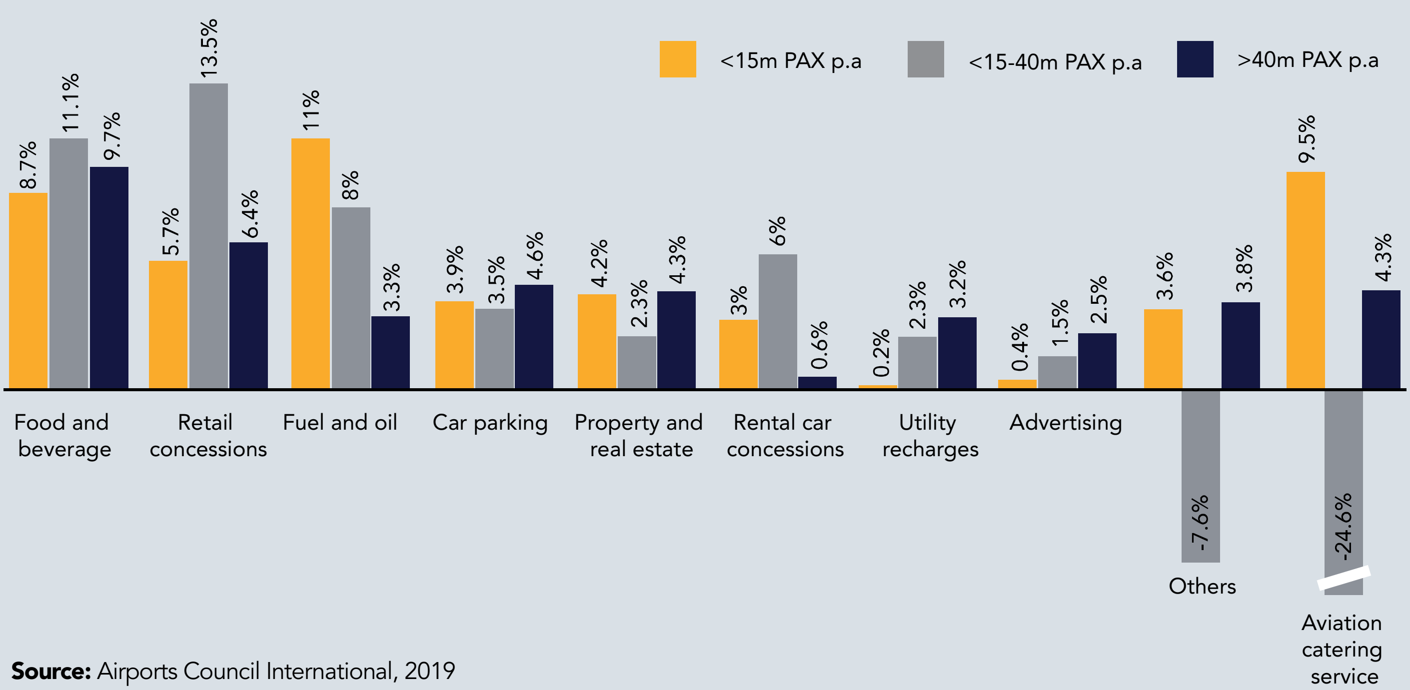
Figure 3: Decision elements for airport retail

Source: Lufthansa Consulting

Passengers flying from regional airports have a range of typical wants and needs. They also generally have specific expectations in terms of price, product range and the 'atmosphere' during the time they spend at the airport.

Using a customer-centric approach, regional airports are in a good position to create retail opportunities that reflect a sense of place and local flair. Not only are these targeted at their customers but they cannot be easily imitated by their larger counterparts.

Figure 2: Year-on-year % change in key non-aero revenue sources



Source: Airports Council International, 2019