



Commercial is key as airports combat crisis



As airports feel the squeeze on their aeronautical revenues from an under-pressure airline industry, commercial revenues are playing an increasingly critical role, says ACI World Director General **Angela Gittens**. In this interview with **Dermot Davitt** she assesses the impact of the economic crisis on the airports industry, and the evolving role of non-aeronautical incomes.

Q The Moodie Report: Can you quantify the impact that the current downturn has had on the airports business, and on industry revenues to date?

Angela Gittens: We're looking at an average fall of -5% to -10% in terms of total revenue among our members during this downturn, which is actually less than the reduction in traffic at most airports.

Many of our members are doing a very good job of improving their commercial offer and are holding their per-passenger spend rates steady, with some even increasing it. That's down to how many have adapted their retail and services offer to changing passenger needs.

We're seeing too how airports are focusing more on their commercial activities, because the aeronautical side of the business at best breaks even for many – and in many cases even that is a struggle. As the airports business becomes more competitive, there's a great deal of pressure from airlines to push down their charges – and airports

are agreeing to that, because their communities expect them to deliver air services that bring in revenue-generating customers to the local area. And airports disappoint those communities at their peril.

Q And that pressure on revenues is only going to increase, making commercial incomes even more vital for airports...

Absolutely. We see many of Europe's airports taking a lead in driving their non-aeronautical revenues; some of the Asian hubs are leaders too, and North American airports are focusing a lot in recent times on the commercial side. That trend will develop more around the world, because airports recognise that they can't rely on aeronautical revenues.

For a start, aeronautical income is very volatile: airlines can make very abrupt changes to their business model and many of them are in a battle for survival. And those changes can have a very damaging effect on the airport,



if it has not moved to diversify its revenues – either through expanding its airline base, or just as importantly through widening its commercial base.

Airport managers really need to look at commercial as a business, and not as an adjunct to other airport operations. Once upon a time retail was just tucked in around the operations, particularly when airlines were very involved in planning terminals. Their prime interest was in moving planes and baggage, and retail was an afterthought. Now this is a recognised customer service, and customers definitely expect a high standard – but airports also need commercial revenues to survive.

That's why these days, when terminals are planned, commercial is very much at the table along with operations, security, airlines and other users.

And once you are thinking commercially about your airport, then you have got to constantly refresh yourself, and you've got to understand the changing market dynamics. We in aviation are involved in a very dynamic business, and anybody involved in aviation and in retail has to keep their fingers on the pulse of several different market systems – aviation on the one hand and retailing on the other.

Q The past year has been a traumatic period for the airports business, but how would you compare this to other crises that the industry has faced?

It's not over yet, so it's difficult to fully compare with previous crises. But I think what is different about this crisis – for airports and airlines – is the economic downturn combined with the freezing of the capital markets. We've seen the freezing of capital before, and we have seen economic downturns that affect passenger traffic before. But this combination of the two is unprecedented.

The issue for airports is that they have to make capital investments even in a downturn. It takes between five and 25 years to develop airport facilities, depending on the type of facilities they are. So even if your traffic

forecast is put back by two to five years through the fall in passenger demand, that only gives you two to five years more to create those facilities over the long term – and that is proving very hard because of the inability to secure financing.

We have seen airports defer projects because of financing issues even when they were not planning to defer them because of slowing passenger demand. Now though, on the positive side, access to capital is starting to become a little easier, and the traffic declines are easing too. I wouldn't say we are at the turnaround stage just yet, but we know there is an end coming.

“ These days, when terminals are being planned, commercial is very much at the table ”

In Asia and in Latin America they have seen growth on the domestic side, though international traffic remains down worldwide – apart from the Middle East which has held its own very well right through this crisis. So there are some encouraging signs, but we are not through it yet.

Q Are there any measures that the airport community can take to minimise the impact of the downturn, short of waiting for consumer and business confidence to return?

Just as airports are taking a much more sophisticated approach to commercial revenues, they're also taking a more sophisticated approach to marketing to airlines.

Airports are in competition with each other much more



Taking a lead: Many airports in Europe (such as Zürich, pictured) and in Asia Pacific (such as Kuala Lumpur International, below) are driving revenue growth through a relentless focus on non-aeronautical activities, notes Gittens

than they were ten years ago, and they are vying for air services to benefit their communities. Air services are one of a range of factors that will help the economy emerge from the downturn. With that in mind airports have been working with their chambers of commerce and the local communities to try to attract new air services that will drive that recovery.

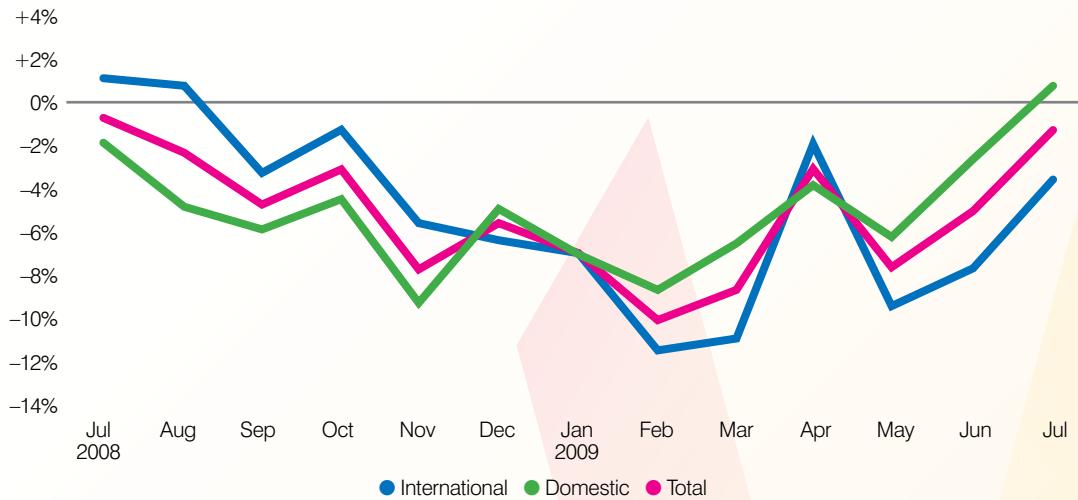
Q How well do you think the airport industry's voice is heard among regulators and the public today?

ACI has found its voice at the international table – through ICAO and also at regional or global level through cross-industry forums – and we are also helping to set aviation industry standards in many areas. That isn't a surprise: more and more airport functions are now controlled by the airport itself rather than by the airlines as previously, from baggage systems to self-service kiosks to ticketing to flight information displays. It's the airports that are creating the systems that all users benefit from.





World passenger traffic trends July 2008 – July 2009



Note: Monthly figures are compared to the same month the previous year.

Source: ACI

The airport and the airline communities also have quite distinct voices. The airlines often tend to be seen as more vociferous than airports. There's probably a good reason for that: although this is a trying time for airports, most of them will survive this crisis, while some airlines will not. So you can appreciate the huge concern in the airline industry as they desperately search for answers.

The airport has made a convenient enemy for airlines over the years – they have been so closely aligned with government traditionally that they were seen as one and the same. But that is changing: many airports are no longer government entities. They don't get any government subsidies, and that trend is only going in one direction.

Q Ultimately airports' and airlines' interests are closely aligned – the issue of security is a headache for everyone, for example. Against that background, what big opportunities do you see out there for the business?

Travel is now seen as a hassle, which isn't good for

anybody in the industry – and it's not good for the communities that airports service, as it curtails commerce.

The movement of people and goods, within countries or between countries and continents, makes up this global economy – and anything that gets in the way of that is bad for everybody.

Among the opportunities I see is the use of IT to improve services as well as to lower costs for everyone at the airport, including airlines and other service providers. We want to see security, for example, made a lot easier through better technology and through collaboration and corporate cooperation between all stakeholders, including policy-makers and regulators.

That is coming; we are moving towards a situation where all of these stakeholders have the same interests in service, in creating the right airport environment and in security. But it can only be implemented if all parties work together, and when all of them see the passenger as a customer. ■