

Airports & Innovation

The Role of Competition & Regulation

Donagh Cagney

Air Transport Colloquium, University of Antwerp

6 December 2014



What We Talk About When We Talk about Innovation I

The Economist | World politics | Business & finance | Economics | Science & technology | Culture

Gulliver

Business travel



Previous | Next | Latest Gulliver | Latest from all our blogs

Flexible seats and coat checks

Innovations in the flying world

Nov 19th 2013, 14:34 by N.B. | WASHINGTON, DC

[Like](#) 540 [Tweet](#) 12

TWO RECENT innovations—one on the service side, and another on the technology/infrastructure side—show just how much better air travel could be. The first innovation, championed in a *New York Times* column last week by Joe Sharkey, the paper's veteran business-travel columnist, is [the airport coat check](#). Tired of lugging your winter jacket from Frankfurt to Tenerife for a week in the sun? You can check it at the airport—Frankfurt airport, that is. (Korean Airlines offers a similar service at Incheon airport.) Here's Mr Sharkey:

“ Yes, it's a tiny amenity, but to me it helps underscore how airports have evolved in recent decades from basically giant, glorified bus stations to places where customer service and marketing innovation often shine. At many airports, the managers are thinking creatively about these things — and for all customers, not just the premium-status ones the airlines focus so much on. ”



What We Talk About When We Talk about Innovation II

*“Innovation differs from improvement in that **innovation refers to the notion of doing something different** rather than doing the same thing better”*

Better, but more than just ‘better’

*“Innovation differs from invention in that **innovation refers to the use of a better and, as a result, novel idea or method**, whereas invention refers more directly to the creation of the idea or method itself”*

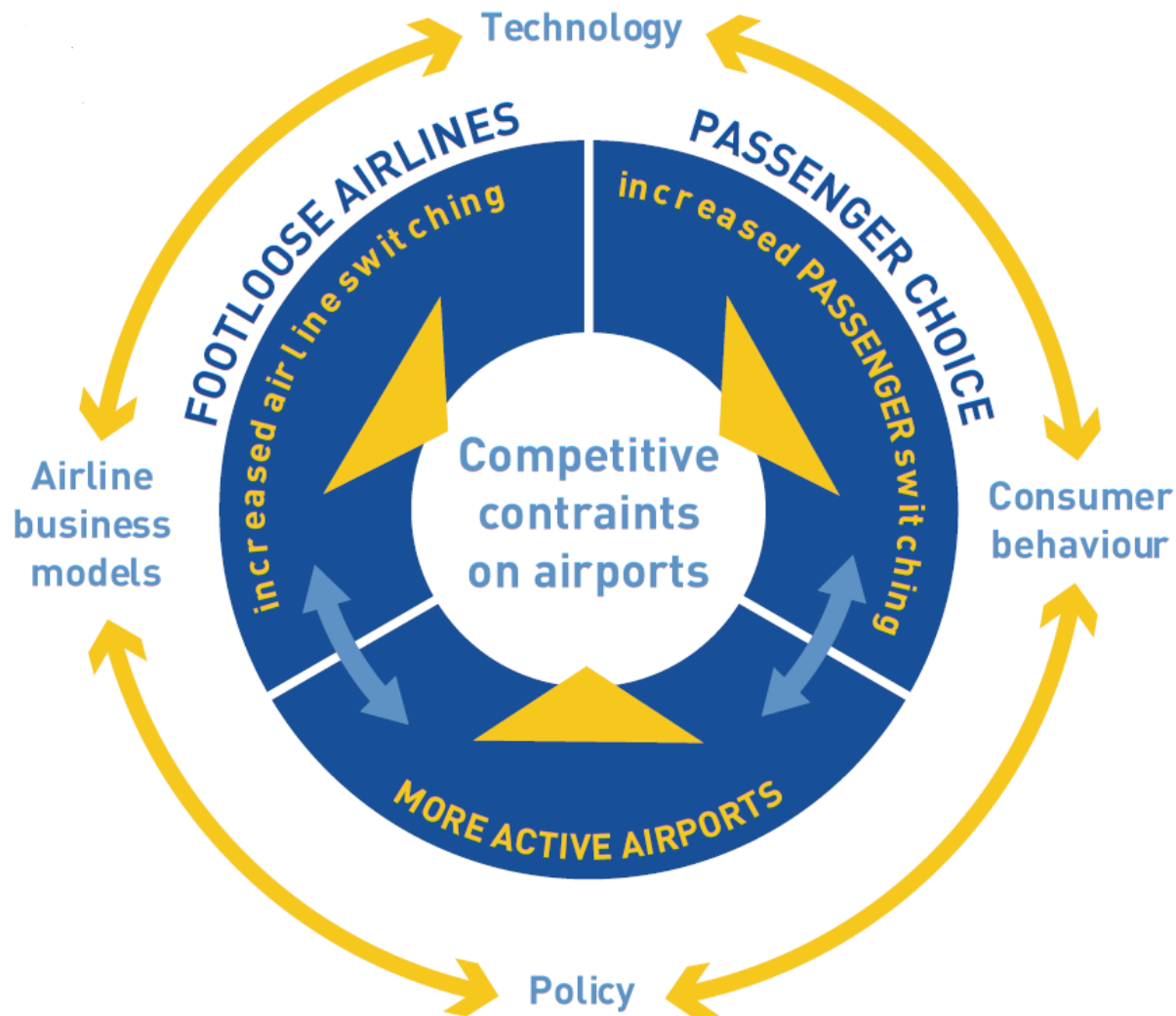
Different, but not too ‘different’

“Successful innovation ultimately succumbing to the pressure of new inventions commercialised by competing entrants”

An inherent driver & product of competition



→ Airport Competition in Europe



→ Airport Competition: Context



Competition between airlines was introduced by the

liberalisation of the European airline industry in the 1990s.

This competition allowed new **powerful airlines business models** to



€ €€ €€€ €€€€

emerge, and imposed new **cost pressures** on all airlines and their suppliers.

LOOKING AHEAD

New aircraft technology, such as the B787 and upcoming A350 has expanded the number and type of airports available to airlines, increasing their **choice of airports**.



Changing Consumer Behaviour



→ Airport Competition: Pax Switching

63%
of European citizens
live within 2 hrs of
at least 2 airports.



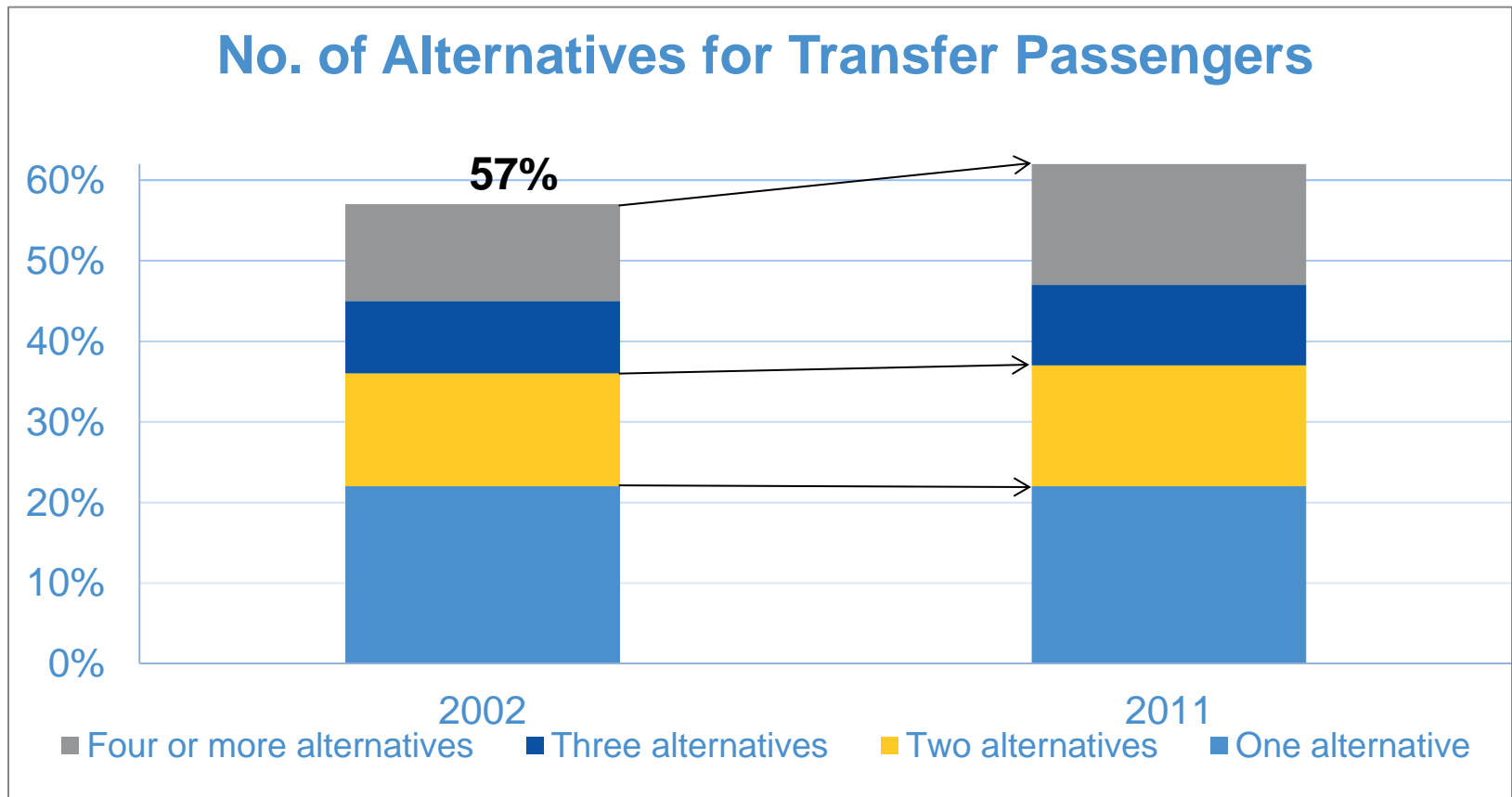
‘Reasonable Alternative’ Choice Available to Passengers

	Total number of airports	Avg. Share of Passengers with Choice	
		2002	2011
ACI Category 1	10	36%	44%
ACI Category 2	20	35%	43%
ACI Category 3	32	50%	57%
ACI Category 4	188	51%	57%

Note: The four ACI categories are based on number of passengers Analysis covers intra-European destinations for the 250 largest airports in Europe.
Source: Copenhagen Economics based on SEO Economic Research choice model analysis.

→ Airport Competition: Pax Switching

Choice for Transfer Passengers



Airport Competition: Airline Switching

Point-to-Point

we are currently in discussions with over 50 airports, so competition for Ryanair growth is fierce.

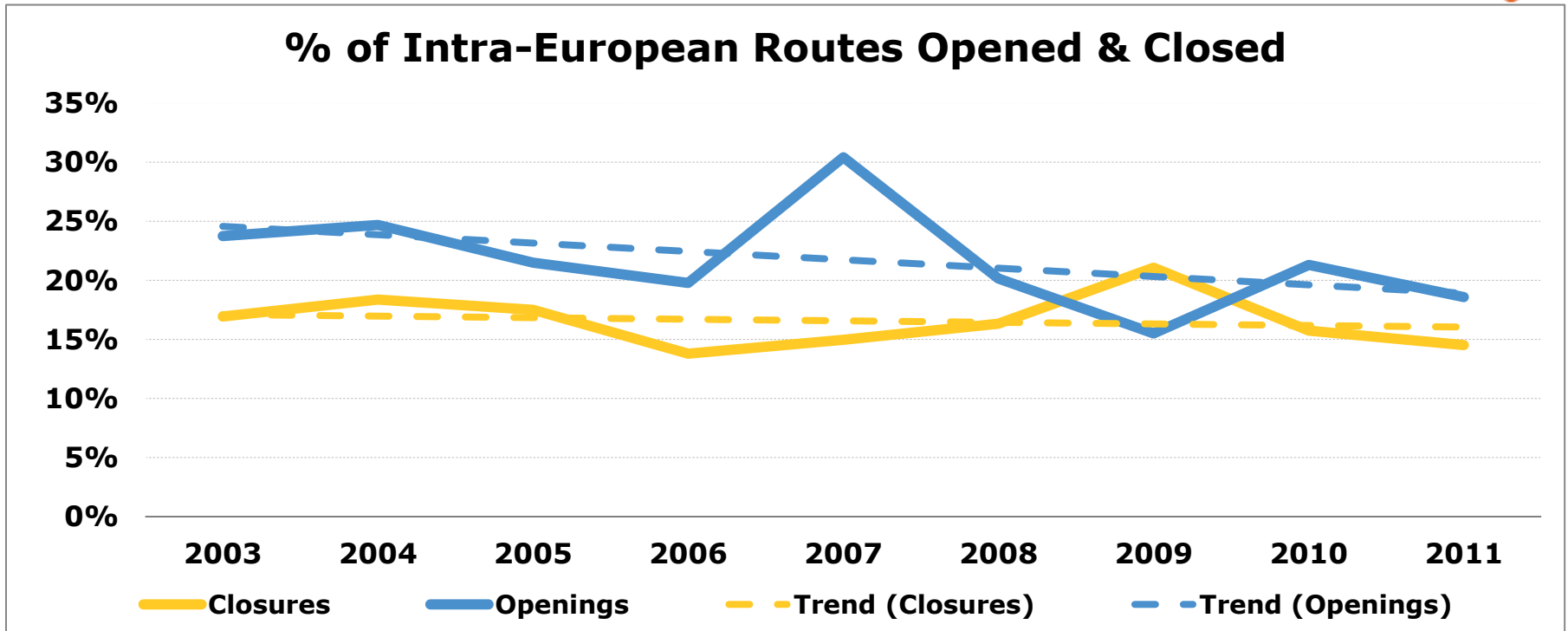
Ryanair, October 2012

RYANAIR

"We are going to be very, very tough on routes that aren't working."

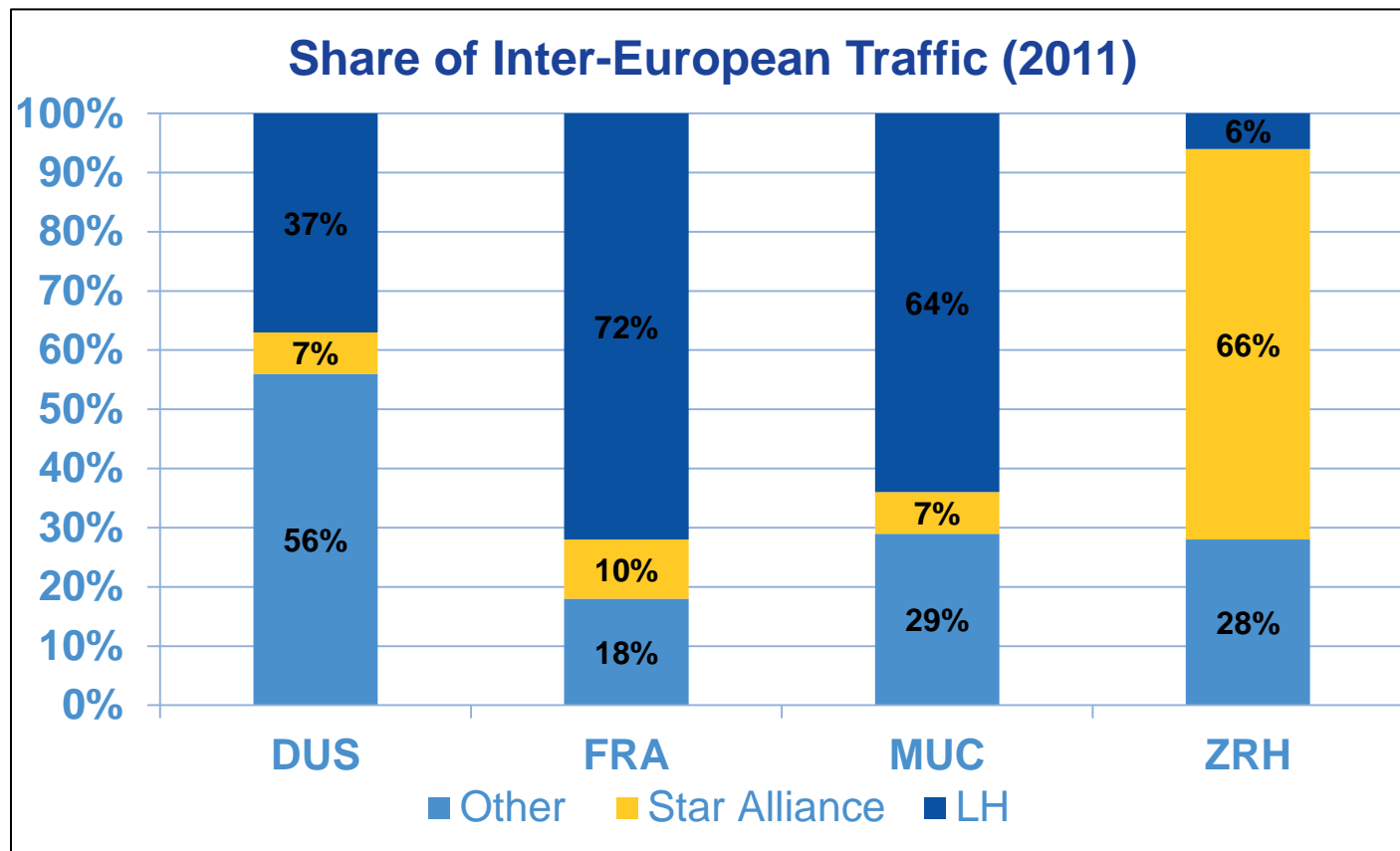
Carolyn McCall, CEO easyJet

easyJet



Airport Competition: Airline Switching

Hubs



Buyer Power

> 84% of European airports have an airline with >40% of capacity

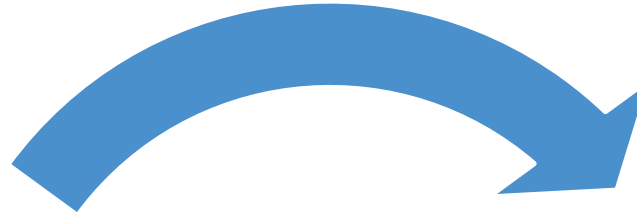


→ Airport Competition & Innovation

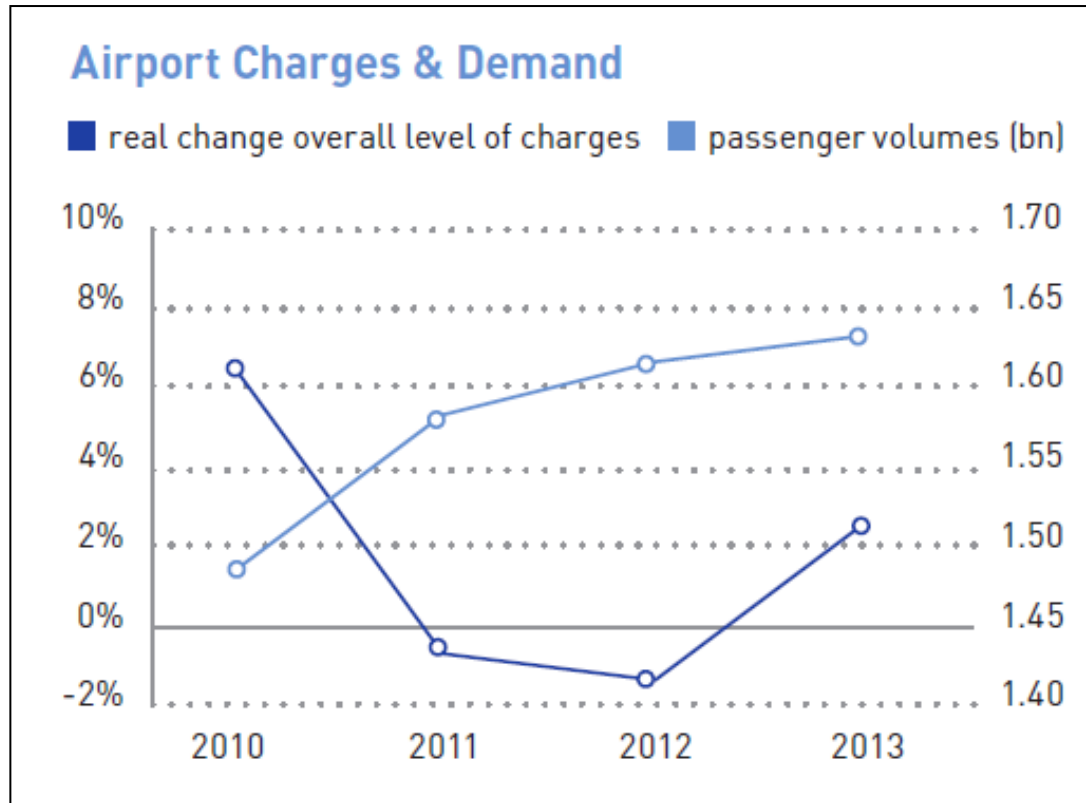
Driver of
Competition

Innovation

Evidence of
Competition



→ Innovation - Price



Source: 'ACI Airport Charges Survey 2013', ACI EUROPE, October 2013

Challenging in a context where 80-90% of airport costs are fixed
-8% reduction in staff costs since 2009 (24% of cost base)
.... BUT +29% increase in capital costs (31% of cost base)



→ Innovation – Price II

Table 1. Distribution of airport incentive programmes and bilateral agreements according to airport size and ownership

Airport type	Airports	Incentives offered overall		Official incentive programme		Bilateral agreements			
		Absolute	Relative (%)	Absolute	Relative (%)	Airport–airline		Government–airline	
						Absolute	Relative (%)	Absolute	Relative (%)
According to passenger throughput p.a.									
Primary: > 10 Mio.	27	18	67	16	59	0	0	2	7
Secondary: 5 Mio. ≤ airport ≤ 10 Mio.	27	19	70	13	48	3	11	4	15
Tertiary: 2 Mio. ≤ airport ≤ 5 Mio.	47	32	68	14	30	13	28	9	19
Quaternary: < 2 Mio.	99	51	52	23	23	17	17	11	11
Sum	200	120	60	66	33	33	17	26	13
According to ownership									
Fully public	128	76	59	41	32	19	15	21	16
Mixed	48	31	65	19	40	10	21	2	4
Fully private	24	13	54	6	25	4	17	3	13
Sum	200	120	60	66	33	33	17	28	14

Notes: Some airports employ more than one incentive. Therefore, numbers do not always add up to 100%. Ownership information was obtained from ACI Europe (2010) and annual reports from individual airports. Mio., Million.

Source: 'Airport Incentive Programmes: A European Perspective', Malina, Albers & Kroll, May 2012



→ Innovation – Service Quality

Passenger perception

**Average Airport Service Quality score +8%,
2006-2011**

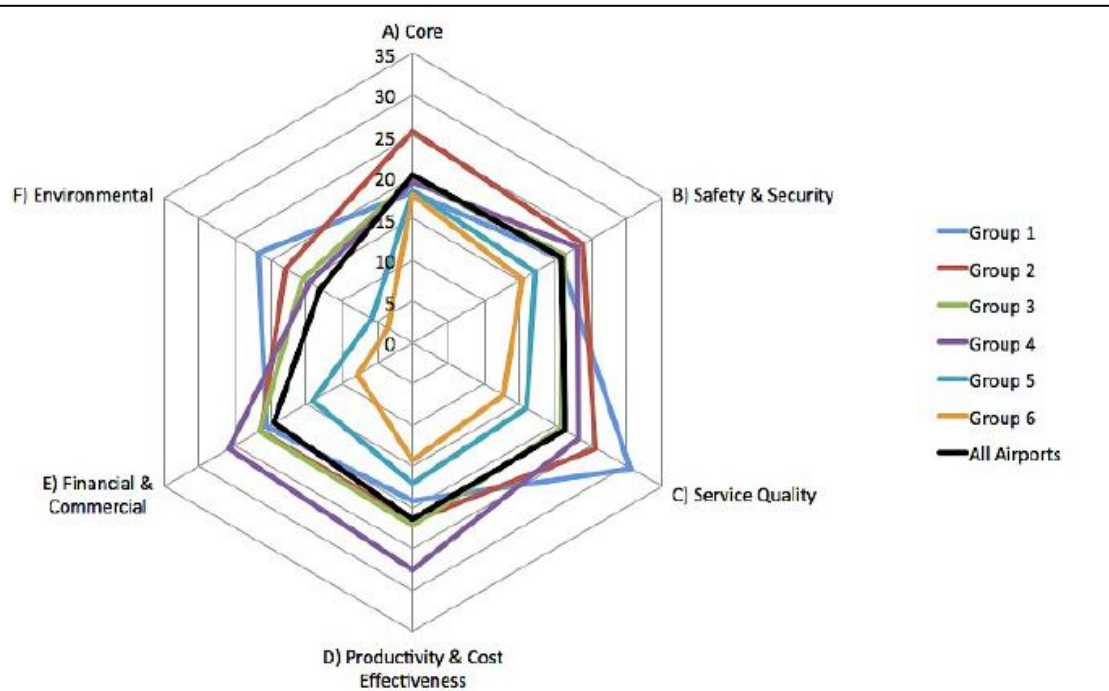
Transfer times

Average Decrease of 10 minutes, 2002-2011



→ Innovation – Overall Performance

Performance Management now the Norm at European airports



- *Balanced Scorecards*
- *KPIs*
- *Strategic Plans*
- *Benchmarking*
- *LEAN techniques*
- *ISO*
- *Value Based Management*
- *Staff Incentives*

> *Airports typically have 2-5 FTEs specifically devoted to Performance Management*

Source: 'The KPI Challenge for European Airports', Franken, August 2013



→ Innovation – LCC Facilities



- *Bordeaux*
- *Marseille*
- *Copenhagen*
- *Schiphol*
- *Lyon*
- *Brussels...?*

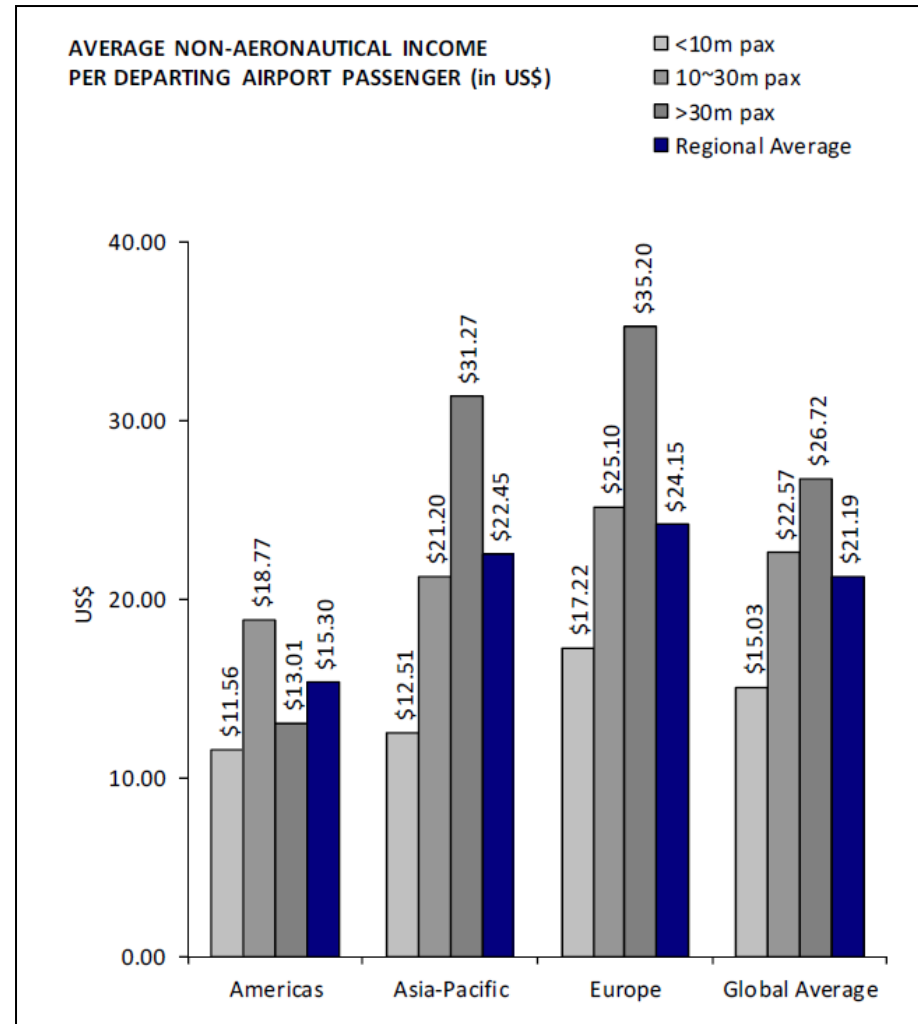


→ Innovation – Commercial Revenues

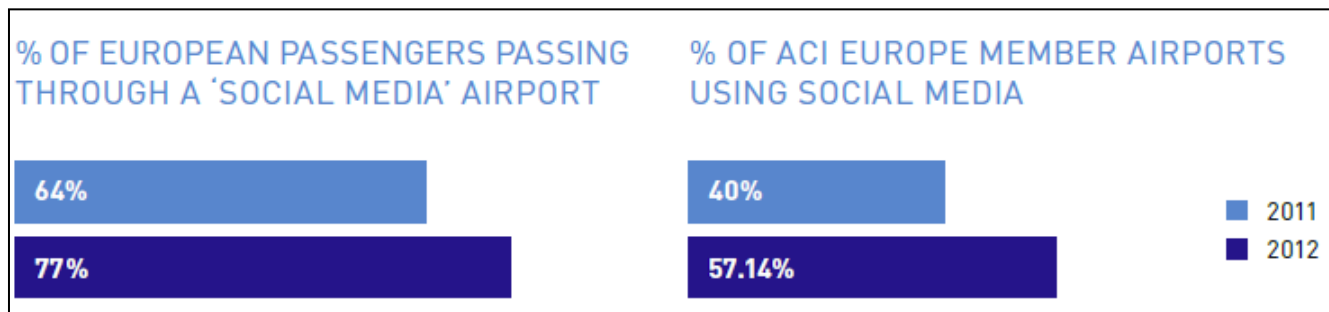
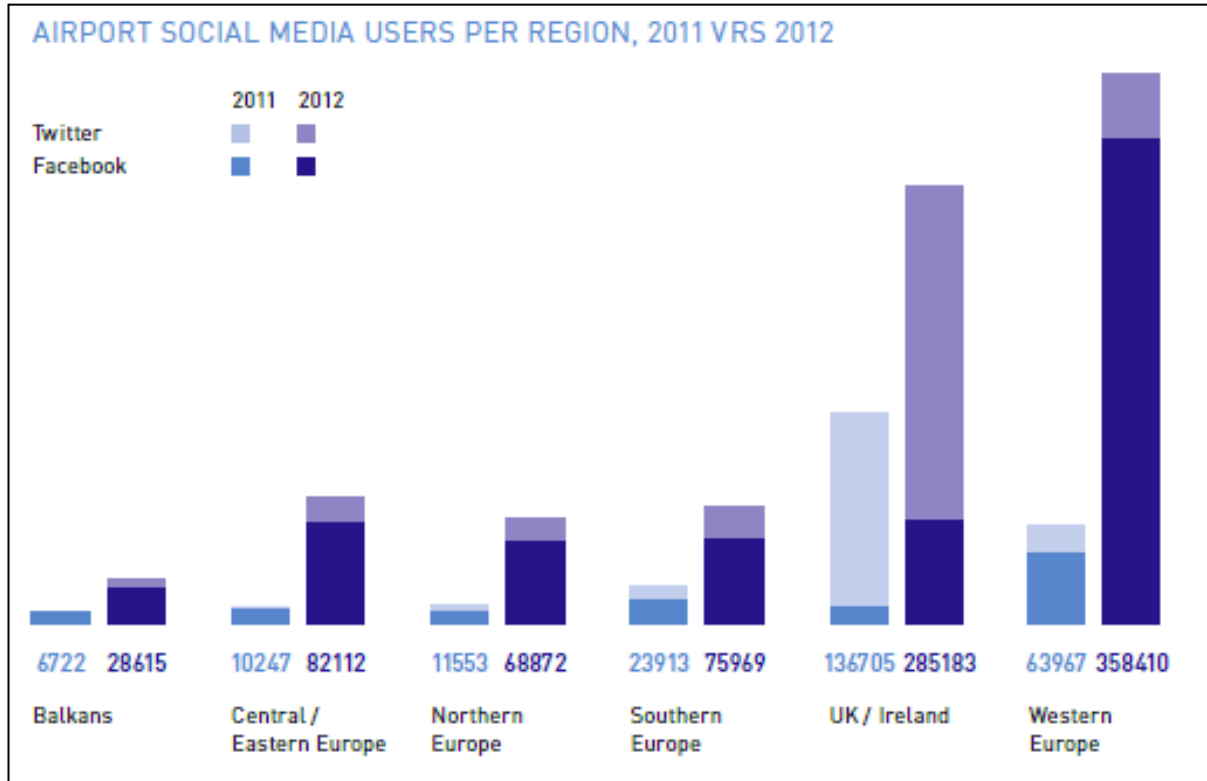
Annual underrecovery of almost €4 billion on operating costs alone

41% of overall airport revenues

Commercial revenues a key component of airport competition



→ Innovation – Digital I



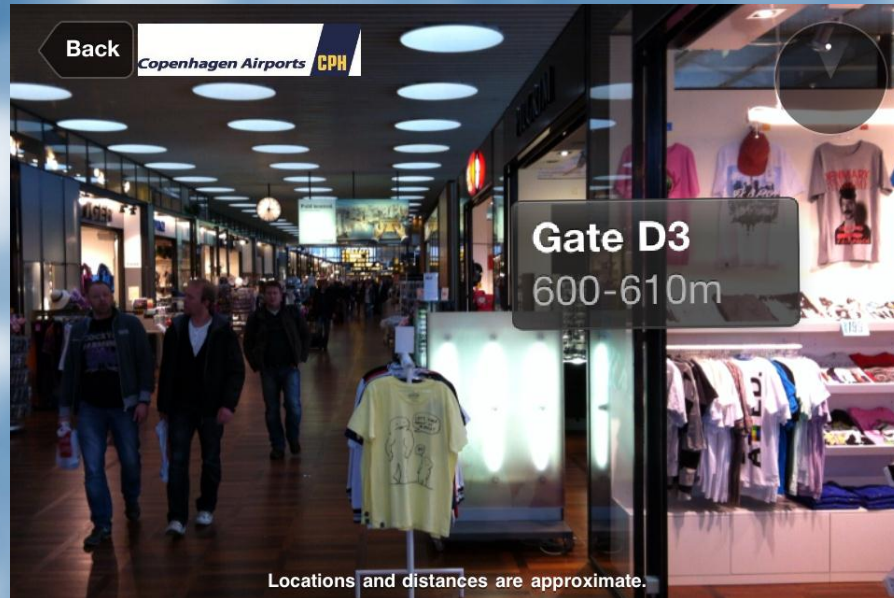
Source: 'ACI EUROPE Digital Report 2012', ACI EUROPE, April 2011



→ Innovation – Digital II



→ Innovation – Digital II



→ Innovation – Digital II



→ The Limits of Airport Innovation I

Airport Charges

1 size fits all approach out of step with normal market dynamics

Table 1. Distribution of airport incentive programmes and bilateral agreements according to airport size and ownership

Airport type	Airports	Incentives offered overall		Official incentive programme		Bilateral agreements			
		Absolute	Relative (%)	Absolute	Relative (%)	Airport-airline		Government-airline	
						Absolute	Relative (%)	Absolute	Relative (%)
According to passenger throughput p.a.									
Primary: > 10 Mio.	27	18	67	16	59	0	0	2	7
Secondary: 5 Mio. ≤ airport ≤ 10 Mio.	27	19	70	13	48	3	11	4	15
Tertiary: 2 Mio. ≤ airport ≤ 5 Mio.	47	32	68	14	30	13	28	9	19
Quaternary: < 2 Mio.	99	51	52	23	23	17	17	11	11
Sum	200	120	60	66	33	33	17	26	13
According to ownership									
Fully public	128	76	59	41	32	19	15	21	16
Mixed	48	31	65	19	40	10	21	2	4
Fully private	24	13	54	6	25	4	17	3	13
Sum	200	120	60	66	33	33	17	28	14

Notes: Some airports employ more than one incentive. Therefore, numbers do not always add up to 100%. Ownership information was obtained from ACI Europe (2010) and annual reports from individual airports. Mio., Million.

Airport Incentive Pro

Advantages of Bilateral Agreements:

Defined price paths

Volume rebates

Better incentives to deliver genuine KPI commitments

Incentives tailored to airline's specific business model & risk appetite

Better incentives for commercial revenue cooperation

The Limits of Airport Innovation II

Economic regulation undermines incentives to create bilateral contracts

**Why make a deal when the regulator will always give you a better one?
Wider airport-airline relationship undermined**

Proportionate regulation facilitates these deals

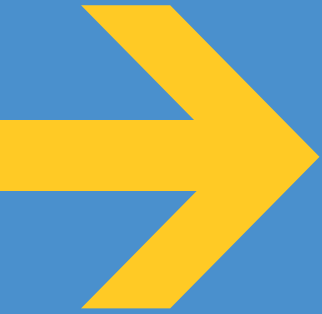
European airports outside scope of EU Airport Charges Directive **x3.5
times more likely to have bilateral deals**

**Commercial deals a key component of Manchester Airport Group
strategy (Manchester Airport deregulated in 2007)**

**Australian airports – ‘*genuine commercial negotiations only started
after 2002*’ (i.e. after introduction of trigger regulation)**

Gatwick & Stansted Airports – transition in progress...





THANK YOU

www.aci-europe.org

www.airportcarbonaccreditation.org

