Not long ago, airports were considered little more than infrastructure providers for airlines. They lived or died by the carriers they served and the level of local demand. Their success had little to do with their own strategies and performance. But no longer.

Recently, airports have come into their own. Not content playing second fiddle, they have re-positioned themselves as an integral part of the travel value chain. Where once the airlines were the dynamic and innovative partner that “owned” the passenger experience, airports are now becoming equal players. Realizing that they, too, have a significant impact on the quality of a passenger’s journey, airports are becoming more entrepreneurial and have started changing the way they operate. These changes have the potential to reshape the global airport industry.

Although the airport business environment varies widely by country (due in part to regulatory and political differences), our benchmark research on the strategic evolution of leading airports has uncovered five global industry trends. To ensure their future success, airports need to recognize – and start responding to – these trends today.
COMPETITION AMONG HUB SYSTEMS IS SOARING

Due to ongoing deregulation, the expansion of hub-and-spoke systems and the increasing importance of global alliance groupings, worldwide competition among network carriers for transfer passengers has intensified, especially in Europe, Asia, and the Middle East. In the Middle East in particular, the newly developed hubs have based their business models around transfer passengers. This approach makes sense considering that their hub airlines’ connecting passengers represent a disproportionately high share of the airport’s total passengers.

Most travelers prefer non-stop flights to their ultimate destination, but this preference does not come at any cost. So if they have to schedule a layover, the quality of the airport and the ease of the transfer process play major roles in customer satisfaction. For airports to be successful, they must, at a minimum, not disturb the overall journey experience. Going beyond the minimum, there’s an opportunity here for airports to truly shine by offering an entertaining or a relaxing oasis between flights.

Airports seeking to differentiate themselves will need to take a hard look at their infrastructure, processes, appearance, and service offerings, and ensure that each is designed to support transfer traffic. Operationally, airports that excel at orchestration and facilitation of all facets of the airport value chain can differentiate themselves by providing an enjoyable transfer process. These high-functioning airports are in a prime position...
to manage all the moving parts, including carriers, restaurants, shops, security, ground transport, baggage handling, lounges, and all the many other customer touch points. In our benchmark study, we found a strong correlation between high operational performance (especially at peak times) and tightness of cooperation among partners such as airlines, ground handlers, and the ATC organization. For an airport to stand out in this increasingly competitive environment, it must feature an entire airport system that is truly in sync.

**THE AIRPORT “CUSTOMER” IS CHANGING**

Airports typically measure and manage their services along the lines of industry quality rankings (such as Skytrax and ACI’s ASQ). From that perspective, they’ve considered their core customers to be air travelers and the airlines themselves. While those two groups will always be critical, airports actually have a broader range of stakeholders that they cannot afford to ignore. They include tenants, their development partners, employees, and visitors. (See Exhibit 2 for fuller details).

**EXHIBIT 2: AIRPORT CUSTOMER GROUPS**

The interests of these various customer groups will not always align – and may at times conflict. An example of such a conflict can be found in the trade-offs between installing additional runway capacity (offering benefits to passengers and airlines) and reducing...
noise (benefiting neighbors). Airports are uniquely positioned to act as a facilitator, actively managing these stakeholder relationships, and must embrace this role. Doing so successfully will contribute to the entire transport system’s operational performance and will ultimately help the airport realize its long-term vision.

Organizational structure and processes should enhance the airport’s ability to perform facilitation and coordination of its many customers. There’s not one correct structure. For some airports, jointly staffed and managed committees are effective in coordinating between different stakeholders, such as ATC, the airlines and the airport operator itself; at others, control centers work best. But our benchmark study shows that customer- and stakeholder-relations need to be institutionalized in order to be successful. Customer interactions will only get more complex in the future, so airports would do well to start managing them more systematically now.

IT’S ABOUT MORE THAN AVIATION

As airlines have felt their revenues squeezed by global competition, they’ve looked for ways to pass along the cost pressure to airports. At the same time, airports are struggling to fund increasingly costly infrastructure expansion projects. The only way to balance these two competing demands is for airports to increase their focus on non-aviation revenues. They’ve become a major source of airport revenues, and can contribute as much as 70% to an airport’s financial results.

Moreover, non-aviation services, like food and beverage, and retail, are a key differentiator for airports, as they have a strong impact on the airport’s market positioning and on public perception. Leading airports are making non-aeronautical revenues a strategic priority. Placing responsibility for this area in a distinct function within the organization will help to ensure these decisions are made with the big picture in mind. Building dedicated organizational capabilities such as retail revenue development and management, including retail layout planning practices in masterplanning/terminal design, and developing branding and marketing oriented toward retail customers, not only passengers, will provide a solid foundation for non-aviation revenue diversification.
BUSINESS FUNDAMENTALS CANNOT BE IGNORED

Ongoing cost pressure and the expectations of high returns are forcing airports to sharpen their focus on the bottom line. The best airports in our research are run as revenue and profit generators, not as public utilities. For top-tier airports, this holds true regardless of their ownership structure or funding sources. As a result of this increasing emphasis, many airport operators around the world have started to show significant profits.

The leading airports pursue financial independence, which requires the airport’s management team to utilize proven business models to drive decision making. The ability to understand business fundamentals, including the key drivers of costs and revenues, is a core skill in the private sector, but until recently was not seen as a core competency for an airport operator organization.

Once again, this global industry trend is resulting in organizational changes for the airport operator. The heightened focus on the bottom line is pushing airport operators toward an organizational structure typical of the private sector. Airport Finance departments, for example, are no longer merely focused on accounts receivable, but rather are pushing process optimization and performance management by increasing the attention to commercial KPIs like ROI, EVA, and other measures of shareholder return. Management style, too, is changing to reflect the private sector mentality on both internal and external matters. In particular, airport management will rely more strongly on financial metrics and operational service quality KPI systems to optimize their business.

NEW TECHNOLOGIES WILL RESHAPE THE AIRPORT EXPERIENCE

Technology has transformed nearly every aspect of modern life, so it’s no surprise that technological advances will continue to change the way we travel. New high-tech products like check-in kiosks, mobile boarding passes, and automated boarding gates have already substantially improved passenger processing time and at the same time reduced airport staff costs. New technologies in the airport IT sector, like RFID, mobile self-service apps, and wireless one-on-one communication have allowed outstanding flexibility in passenger processing, communication, and tracking and has an overall positive effect on the passenger’s customer experience, leading to fast adoption of new integrated systems at an unprecedented rate.
Besides improvements in the quality of passenger service, security and safety will be brought to the next level as well by applying the latest technologies. Whether it is the hotly debated full-body scanners, the use of biometrics in passenger screening, the development of ever more sensitive explosives detection or the integration of psycho-physiological screening technology into check-in and overall surveillance technology, the best airports stay at the leading edge of technology advances. They integrate IT within their overall organizational strategy, and use sophisticated analytics to inform decision making. They also empower and invest in their IT department to ensure that they won’t get blind-sided by a disruptive innovation.

The aviation value chain has changed over the past few years, and airports have started to come into their own. Our benchmark research reveals a number of industry trends that airports need to recognize, and navigate smoothly, if they are to succeed in the fast-changing, highly competitive environment. In part 2 of our Future of Airports series, we’ll take a closer look at the strategies we recommend for airports as they look to capitalize on these five trends.

ABOUT THE BENCHMARK STUDY

Oliver Wyman surveyed a select group of leading airports worldwide through a mix of site visits, in-person interviews and secondary research. Particular focus was laid on each airport’s performance and strategy in the context of the global airport environment and the current and expected trends shaping the industry, with specific regard to learnings that can be applied to airport organizations of the future.
With offices in 50+ cities across 25 countries, Oliver Wyman is a leading global management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm’s 3,000 professionals help clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com

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