As air traffic continues to grow, increasing by 4.9% in 2011 and reaching nearly 5 billion annual passengers worldwide, more travelers—with higher expectations—are placing tremendous pressure on the aviation industry. Airlines, of course, have felt the squeeze, but airports themselves must respond to changing conditions if they are to be successful. Travelers today, for instance, demand seamless layovers, a choice of dining outlets, and activities or retail stores to help them pass the time. Airports will have to handle more traffic, with higher service levels than they currently do, and at a lower cost.

To do that, airports will need to become more entrepreneurial. By adopting more of a private-sector perspective and strengthening their facilitation and strategic skills, for example, they’ll be able to react more quickly to aviation trends and set their own course for success, rather than playing a supporting role to the airlines’ lead. Perhaps for the first time in their history, airports have ample opportunity to contribute to the overall quality of the hub system by leveraging new business models, products, services, and technologies.
Now is the time for airport executives to reflect on their current business and organizational models and governance practices, and modify those that need it to get ready for the challenges and opportunities ahead. In “The Future of Airports Part 1: Five Trends That Should Be on Every Airport’s Radar,” we examined the trends that are having a big impact on airports. In this companion article, we identify eight actions that airports can take to position themselves for the greatest success in this new aviation landscape. We use two real-world examples—the Singapore and Doha airports—to illustrate these points.

EIGHT DIFFERENTIATORS FOR SUCCESSFUL AIRPORTS

Last year, we surveyed a select group of leading airports worldwide through a mix of site visits, in-person interviews, and secondary research. Particular focus was paid to each airport’s performance and strategy in the context of the global airport environment and trends (both current and expected) shaping the industry. Our research revealed that, despite differences in basic parameters like region, size, and business model, successful airport hub organizations shared eight common traits.

1. ADOPT A CUSTOMER ORIENTATION.

Every manager knows it’s crucial to know your customer. Airport executives have to embrace this knowledge—but it’s more complicated for them. Airports must deal with a large variety of customer groups, and within those groups themselves is a great deal of diversity. Just think of the different requirements a high-value business traveler has compared with a leisure traveler.

To understand and meet the needs of each customer group, airports need dedicated business units to analyze their requirements and act as a direct liaison. Large FMCG (Fast Moving Consumer Goods) and service companies can serve as role models—airports should begin to apply their principles of customer segmentation and customer intelligence.

Singapore (SiN) airport is considered to be a role model for efficiency, attractiveness, service quality, and performance. Its restructuring process in 2009 led it to make various improvements that have strengthened its leadership position. In terms of customer awareness, SiN established a dedicated “customer experience function” that owns the overall strategy. As a result, SiN consistently performs in the upper ranks of Skytrax and ASQ ratings.

2. MANAGE SERVICE PROVIDERS EFFICIENTLY.

In the near future, airports will increase efforts to outsource both core and non-core activities like facility management, ground handling, and/or commercial functions. In the United States and Europe, they’ll do so for cost saving reasons; in fast-growing Middle East hubs, they’ll do so also for knowledge, capability, and capacity reasons.

In either case, the airport must be capable of managing the outsourcing partners and integrating them smoothly in the organization and the process flow. Even though airports can and should outsource some execution tasks, they should also ensure that the conceptual
knowledge stays within the airport so that it remains in a position to control its own destiny. Therefore, a layer of highly skilled and experienced managers is required who understand the business of managing a service partner.

3. PROVIDE STRUCTURED AND ORGANIZED MANAGEMENT OF STAKEHOLDERS.

Performance improvement cannot be accomplished in a vacuum. Modern airport organizations therefore devise a decision-making structure that incorporates the input of major stakeholders—the airport owners, the hub airline, the other airlines, the government and the regulator, and the non-aviation partners. Clearly defined boards, committees, and working groups ensure that information flows in both directions. This ensures that stakeholders’ requirements are systematically considered in major decisions and that efforts to optimize the hub system are coordinated. Without a concerted management effort, the airport will find itself pulled in many directions by demands from multiple stakeholders, each with competing views and priorities. Only by actively managing communications and interactions will the airport be able to achieve its own long-term goals.

4. IDENTIFY AND COMMUNICATE CLEAR STRATEGIC OBJECTIVES.

It doesn’t matter how well-conceived your organizational structure is if your individual units do not cooperate. Therefore it is absolutely necessary to develop a holistic strategy and to break down and consistently share key objectives with each individual business unit. Only when all the units receive the same message and receive clear execution instructions will the whole be more than the sum of its parts.

For example, Singapore Changi prides itself “in providing excellent service and unrivalled capabilities to create exceptional journeys that deliver the world’s best airport experience. Every journey through Changi Airport is an opportunity to bring people together and help them realize their aspirations.” This clear and unwavering focus on customer experience, broken down for every operational department into clear and actionable objectives and KPIs, sets the direction that guides all activity. Airport-wide cross-functional training programs make sure that customer excellence is top of mind for everyone.

5. EMBRACE A COMMERCIAL MIND-SET.

There is a certain discipline found in the private sector that airports—even those that continue to be government-owned entities—should adopt. To succeed in an increasingly complex environment, airports must be able to offer higher service at lower costs, and they can’t do so without being entrepreneurial. Airports should be operated with an approach reflecting a private-sector mentality on both internal and external matters. Functional leaders can be empowered to improve competitiveness within their own business units. Airports need to keep a firm eye on the bottom line, so any investments they make should be backed with a business case to ensure careful decision-making. Transparency about resource consumption, for instance, is critical to increasing efficiency and quality.
Returning to the Singapore airport example, its 2009 corporatization exercise was designed with feedback from airlines, ground handlers, and government agencies. Two years later, there’s evidence that the shift in strategy and tactics has been successful. For instance, traffic at Changi grew by roughly 20% in the last two years, while the traffic of hub and home carrier SIA declined by 10%. Operating cost per passenger is lower than other leading hubs, signaling Changi’s operational efficiency. And yet the airport continues to score “best in class” Skytrax and ASQ ratings. In addition, a commercial function oversees all revenue-generating functions including non-aeronautical revenues—reflecting the importance of non-aviation offerings as profit generator, differentiator, and service quality enhancer.

6. USE—OR INVENT YOUR OWN—INNOVATIONS.

Dedicated business units that focus on the searching, testing, and implementation of innovative technologies and services will bring a spirit of technology leadership and drive to the organization. Whether it is in innovative facilities management solutions or

DOHA AIRPORT: DESIGNED FOR THE FUTURE

Doha will soon open a new airport that will serve as a solid base for its hub carrier, Qatar Airways, branded as the “World’s five star airline.” While still in the planning stages, executives at Doha airport realized they had the chance to establish an organization that would position the new Doha International Airport as the leading transfer hub in the Middle East. To realize their goal, they made a number of strategic decisions on structure, governance, and business processes.

Doha’s objective was not only to devise an outstanding, iconic infrastructure but also to design a forward-looking organization, one capable of coping with the challenges of a significant increase in functional scope and complexity. Customer orientation, stakeholder management, private sector discipline, and end-to-end responsibility have been the guiding principles of the organizational design.

The result is a lean organization that controls all strategic functions of the new airport—and is flexible enough to integrate third-party service providers as needed, be it operators of complex systems, such as baggage handling, or simple services like cleaning and low-level maintenance. Clear accountability and end-to-end responsibility for processes ensure that the airport organization can fulfill its role as a facilitator and enabler of a smooth transfer process.

The chosen governance model incorporates the interests of all relevant stakeholders in a way that is aligned with the strategic plans of not only the airport and the hub carrier, but also the country’s overall ambitions regarding transportation, trade, and tourism. At the same time, it also reflects local cultural and political realities.

The new Doha airport will provide Qatar Airways with a brand new infrastructure that boasts improvements in both hard and soft areas. It promises to be a major strategic advantage in the intense competition for transfer passengers.
passenger entertainment and shopping, passenger transportation, or individual passenger communication and signage solutions—leading airports do not wait for others to show them how to improve service, increase revenues, or lower costs. Examples range from the continued spread of advanced retail areas in departure and arrivals areas to the increased outfitting of airport buildings with alternative energy concepts.

7. COOPERATE CLOSELY WITH HUB PARTNERS—ESPECIALLY THE HOME CARRIER.

Successful airports cooperate with their partners at the hub. Cooperation can take several forms—from institutionalized committees over joint operations centers to commercial-oriented joint ventures. GTAA, for example, has recently tried to improve Air Canada's situation by offering innovative aeronautical pricing approaches to the hub carrier, collecting and sharing data of particular interest to Air Canada, and using customer relations specialists to better service the airline. Similarly, an improvement in the relationship between airport and hub carrier was recognized as the basis for YYZ's recent IATA Eagle Award. And at Singapore airport, close collaboration with taxi operators ensures a sufficient supply of taxis for arriving passengers. Because the role of the airport has changed to be more of a facilitator, airports that don’t take the lead here will likely be left behind competitors.

8. IMPROVE YOUR GOVERNANCE MODEL.

The governance model of most airports has evolved over time. However, it’s worth asking whether the current governance model truly supports the airport today or whether it reflects remnants of times past. Lengthy decision-making processes at the top as well as outdated regulations and procedures can undermine an airport’s efforts to act as a dynamic market and customer-oriented entity that benefits regional or country development.

In the best case, decision-making power is vested in the airport to the greatest extent, with governance bodies merely executing (strategic) guidance and oversight functions. Of course high-level stakeholder management activities must continue to be executed at that level. Singapore’s restructuring program—informed by feedback from partners, ground handlers, and government agencies—led to officially splitting operational and strategic-regulatory functions, with some important functions like master planning to be executed jointly.

CONCLUSION

Based on these eight principles, airport executives need to review their current organization and governance structures to determine not only if they are still relevant, but also if they best position the airport to compete on a global level. It is no longer enough for airports to be solid infrastructure providers. They also must add to the transportation value chain by being world-class facilitators and by catering to their many customer segments. They must become not just service oriented, but also profit oriented, and their organizational and governance structures should reflect this new reality.
About Oliver Wyman

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 25 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organizational transformation. The firm's 3,000 professionals help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC], a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital. With 52,000 employees worldwide and annual revenue exceeding $10 BN, Marsh & McLennan Companies is also the parent company of Marsh, a global leader in insurance broking and risk management; Guy Carpenter, a global leader in risk and reinsurance intermediary services; and Mercer, a global leader in human resource consulting and related services. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

Oliver Wyman’s global Aviation, Aerospace & Defense practice helps passenger and cargo carriers, OEM and parts manufacturers, aerospace/defense companies, airports, and MRO and other service providers develop value growth strategies, improve operations, and maximize organizational effectiveness. Our aviation practice has completed projects for airports around the world, including air service development, benchmarking, commercial revenue improvement, organizational design, operational improvement, and privatizations. The firm represents clients in all areas of aviation. Also, Oliver Wyman offers a powerful suite of industry data and analytical tools to drive key business insights through www.planestats.com.

For more information on this article, please contact the authors at:

Niko Herrmann
+41 44 208 7766
niko.herrmann@oliverwyman.com

Bob Hazel
+1 703 773 3105
bob.hazel@oliverwyman.com

Tim Cleary, an Associate Partner, also contributed to this article.

Copyright © 2012 Oliver Wyman All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report may not be sold without the written consent of Oliver Wyman.