Airport Management: a perspective article
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### Airport Management: A perspective article

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Figure 1: The evolution of airport management

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  - Range of privatisation models (e.g. share flotation, trade sale, concession).

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  - Direct control by government.
  - Heavy-handed regulation (cost-based or incentive) or light-handed.

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  - Limited due to strict regulation of air services.
  - Present in many markets due to airline deregulation and the development of new airline models (e.g. LCCs).

- **Business model**
  - Mostly the same business model to suit all customers.
  - Wide variation of models: low cost (e.g. Frankfurt Hahn), business focused (e.g. London City), cargo focused (e.g. Liege), Aerotropolis (e.g. Dubai).

- **Non-aeronautical services**
  - Basic services generating a small amount of non-aeronautical revenue.
  - Extensive range (retail, catering, leisure, health) generating a large amount of revenues (sometimes more than half).

- **Existence of differentiation**
  - Very limited. Mostly a ‘one-size-fits-all’ product.
  - Considerable differentiation, especially using technology (e.g. self-connection, pre-clearance, recognised passenger initiatives).
AIRPORT MANAGEMENT

INTRODUCTION

The airport sector has changed dramatically since 1946, with the public service paradigm, that views an airport as a public utility, being replaced with a commercial paradigm, that considers it a business enterprise. This transformation has been partly driven by airline markets becoming increasingly deregulated, carriers being privatised, and the presence of a greater diversity of airline business models, such as low cost carriers (LCCs) and global alliances. At the same time, governments have questioned their need to financially support, or directly manage, airport operations. Therefore the aim here is to evaluate these past changes and provide some perspective on the future directions of airport management.

PAST PERSPECTIVE 75 YEARS OF DEVELOPMENTS 1946-2020

Arguably the most controversial development that demonstrates the shift in attitudes in airport management has been airport privatisation and the emergence of public private partnerships (PPPs). The first major privatisation occurred in the UK in 1987 (Doganis, 1991) and since then has become a popular trend. By 2016, 38% of the 500 busiest global airports had some sort of private sector participation, with 41% of total traffic being handled by airports with some private stakeholders (Airports Council International (ACI), 2017).

The stated objectives of these privatisations have generally focused on improvements in efficiency and performance, coupled with a need for greater investment (Graham, 2011). Yet the evidence as to whether privatised airports have achieved these objectives and been successful is far from clear - with the airport industry being far more convinced of the merits of privatisation than the airline industry (ACI, 2018a; International Air Transport Association (IATA), 2017; 2018). The academic research literature is just as inconclusive. Some studies have found no statistical link between privatisation and economic performance (e.g. Parker, 1999; Holvad and Graham, 2004; Domney et al., 2005; Vasign and Gorjidooz, 2006; Oum et al., 2003; Lin and Hong, 2006; Barros, 2009) whereas others (e.g. Marques et al., 2015; Vogel, 2006; Bottasso and Conti, 2012; Barros and Dieke, 2007) have observed a positive relationship.

In reality, the situation is much more complex than much of the research indicates. It may well be that in certain circumstances the underlying trend towards airport ‘commercialisation’ has had a positive impact, irrespective of whether privatisation has occurred. Moreover there are many different privatisation and PPP models and the exact amount of private sector involvement will certainly have an impact (Oum et al., 2006; Oum et al., 2008). Inevitably the objectives are likely to have been defined within the context of specific privatisation model, and so it is hardly surprising that not all the outcomes follow the same pattern. However it is more certain that airport privatisation has led, as Forsyth et al. (2011) argued, to the sector shifting from a national to a global industry with international investors and expertise. In the early stages of privatisation investors were typically established airport operators or international infrastructure companies, whereas the fastest growing segment is now financial investors (Condie, 2015).

A growing concern, often but not exclusively associated with airports that have been privatised, is their possible abuse of market power, which could lead to a hike in aeronautical
charges, reductions in service quality or under-investment. This has led many to debate whether there is a need for economic regulation and, if so, what is the most appropriate type (Reinhold et al., 2010; Neimeier, 2002; Gerber, 2002; Forsyth, 2002; 2003; Littlechild, 2018a). In the early days of privatisation traditional heavy-handed regulation (associated with the control of profits or prices) was typically viewed as the way forward, but increasingly this has been questioned. Within the more commercial airport environment, it makes more sense, as argued by Niemeier (2009), Littlechild (2012a, 2012b), Arblaster (2014) and Bush and Starkie (2014), to adopt a more light-handed approach.

This relates to the whole argument concerning the extent to which airport markets are truly competitive (Barrett, 2000; Forsyth et al., 2010; Graham, 2006; Socorro et al., 2018, Lieshout et al., 2016; Littlechild, 2018b). Without doubt, the increasingly more liberal airline environment has proved challenging for airports to attract and maintain air services (e.g. Bush and Starkie; 2014; Gillen and Lall, 2004; Graham, 2013). Indeed compelling evidence produced by the European airport industry and others supports the notion of a relatively high level of airport competition (ACI-Europe, 2014; ACI-Europe, 2017; Oxera, 2017; Thelle and la Cour, 2018) even though the airline industry remains less convinced (IATA, 2013; Wiltshire, 2018).

The most widely acknowledged outcome of the early shifts in management attitudes was greater reliance on so-called non-aeronautical revenues from shops, catering and other commercial facilities. Globally the share of such revenues grew from just 30% in 1970 to 50% in 2000, but has now dropped back to around 40-45% (Graham, 2018). Whilst not experienced everywhere, this decline - recognised by a few (e.g. Beltran, 2018) but not commonly not acknowledged in the research literature – is a major concern, given the pressures on aeronautical revenues from cost-cutting airlines.

Another noticeable development, linked to greater airport competition, has been the existence of more personalised services, such as targeted pricing incentives to maximise traffic development, and shifts from a ‘one-size-fits-all’ product offering to a more diversified approach. This reflects the desire of different airlines or airline groupings to have more differentiated facilities to suit their specific operating model. This may involve airports focusing on the needs of certain types of traffic, or offering something novel or unusual. Some airports have even gone further by becoming international airport companies (Koch and Budde, 2005; Bringmann et al., 2018), or by expanding their scope of operations by developing into a so-called airport city/aerotropolis (Goetz, 2019) – even though the latter is rather an overused and vague concept, with too little assessment of actual impacts.

FUTURE PERSPECTIVE 75 YEARS 2020-2095

Turning now to the long-term future up until 2095, it is very difficult to predict the role of airports without consideration of much broader issues such as future demand; the structure of the airline industry; and the development of drones/autonomous aircraft, space travel and other technological innovations - many of which have yet to be envisaged. Moreover without any doubt growing environmental pressures will not only make it increasingly difficult to expand airport capacity but also make it much more socially unacceptable to fly. Very large new airports, such as those in Istanbul and Dubai, may cease to be the ideal solution, particularly with future manufacturers focusing on smaller aircraft that can bypass hubs rather than larger mega-hub aircraft such as the A380 which will no longer be built.
However, focusing on the overarching airport management themes that have been identified, some predictions at least for the nearer future can be made. Whilst remaining controversial, airport privatisation will continue, especially as traffic is predicted to expand (4.1% per year on average to 2040 – ACI, 2018b) and there will be continuing pressure on public sector spending. Ideological drivers, such as reducing state control and inducing greater efficiency, will increasingly play second fiddle to practical considerations such as the need for investment or reduction of public sector debt. As experience grows more informed decisions should be made, recognising, as argued by Assaf and Gillen, 2012; Adler and Liebert 2014, Yang and Fu, 2015 and Vasigh et al., 2014, that the impacts of privatisation cannot be separated from the type of regulation and extent of competition. Financial investors seem set to remain the dominant players, in spite of concern that this encourages too much focus on short term financial gains that may not be compatible with long-term airport development objectives. Inevitably secondary sales of privatised airports which are already occuring in Europe will become much more the norm.

The traditional airline–airport relationship has irreversibly changed and will continue to evolve. Light-handed regulation has already resulted in commercial agreements between airport and airlines, while LCCs have agreed tailor-made airport contracts. This is the sensible way forward in the more competitive and commercially driven environment, but there is still a long way to go to achieve widespread acceptance of this approach, particularly with fierce opposition from some airlines. There is likely to be the continual abandonment of the ‘one-size-fits-all’ airport model, with the challenge to balance this with the flexibility and financial benefits that more standardised operations bring, i.e. pure versus hybrid competitive strategies (Tavalaei and Santalo, 2019). A difficulty is that the airline industry never stands still - with the recent development of some LCCs moving from secondary into primary airports and offering connections being a case in point (Dobruskes et al., 2017). Moreover the future success of the airline-airport relationship will more than ever before be very much dependent on crucial additional involvement of destination management organisations to ensure that the optimum benefits from the management of airports and tourism destinations can be achieved (Halpern, 2019; World Travel and Tourism Council, 2018).

Non-aeronautical revenue development will remain the aim of many airport operators but will be more challenging as the airport retail industry matures, passengers seek more from their airport experience, and competition from online sales and airline ancillary revenue intensifies (Moulds and Lohmann, 2016). To remain successful in this area more and more airports are likely embrace omni-channel shopping opportunities, streamline essential processes to enhance the passenger experience, and adopt other technological innovations (SITA, 2018).

CONCLUSION

In conclusion, Figure 1 summarises these developments associated with the transformation of the airport industry from a public utility to a modern enterprise. However it is misleading to suggest that this has fully occurred everywhere. Admittedly for many airports, particularly in Europe, this process is complete and it is largely business considerations that will dictate future directions in airport management. However elsewhere, especially within more developing economies, this evolution may only be just beginning.
### Figure 1: The evolution of airport management

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