

CEO REPORT



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BEST AND SUCCESSFUL PRACTICES IN AIR SERVICE DEVELOPMENT (ASD)

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What is ASD and why is critical for airport success?

Airports today find themselves involved in many businesses: flight operations, food and beverage, retail and duty-free, cargo, lounges, parking, and loyalty, among others. Financial success as an airport increasingly depends on having a diverse range of businesses, but the common underpinning of each is a constant, growing flow of flights and passengers through the airport.

For this reason, best-practice airports around the world treat the development (and maintenance) of air service as a critical marketing function, with planned strategies for attracting service in desired markets and from specific airlines. Surprisingly, however, there remain airports of significant size that do not yet have air service development (ASD) programs or that don't use all of the resources available for maximum impact. Many airports incorrectly assume that they cannot influence airline decision making, when in fact airlines often rely on market information provided by airports in assessing new routes.

ASD programs are vital to all sizes and profiles of airports. Large, in-demand airports like London-Heathrow have an ASD program because they want to be a designer of their air service, not just a recipient. Smaller airports, such as Chiclayo, Peru, invest in air service development in order to raise the profile of their market and present critical information to airlines – such as the airport's catchment area – that they otherwise would not have access to.



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ASD Programs are an Investment not an Expense

When an airport plans for growth, it budgets money for new runways, concourses and other infrastructure. This type of investment in the business is well-understood. Investing in the growth of air service is something that savvy managements know will pay back in large multiples once new flights begin landing and their passengers start spending in the airports. It is unfortunate to note that today, air service programs don't exist in many obvious airports because managements do not understand them to be investments that drive the growth of the business.

An example of ASD best-practice in the LAC region is the GAP Mexican Pacific Airports Group, which has recognized for more than a decade the need to proactively pursue specific airlines for specific routes and to have a vision for the connectivity that each of their 13 airports could be. As a result of its regular engagement with airlines, GAP airports have attracted vast amounts of new service by Westjet and Southwest to Mexico, along with routes from the UK, Europe and Latin America.

An important reality that airports must understand is that airlines often have long planning horizons and that a new route may take months or years to come about. Often slots and aircraft must be acquired, planning and marketing done, etc. For this reason, successful airports have ongoing, multi-year ASD programs.

Components of Air Service Development Programs

Each airport or airport group operates in circumstances and markets that require different tools and tactics in their ASD Program. However, the common denominator of all ASD programs is ongoing contact with the airline network planners. This contact can be via the "Routes" conferences, headquarters meetings and phone calls. Because travel to many airline offices can be costly, contacts with airlines can be supplemented with a targeted, ongoing public relations, news and social media messaging campaign about the airport and its market.

It is important to note that while airlines have planning staffs that are charged with evaluating their networks and planning for the future, the reality is that most airlines do not have enough staff to adequately research each opportunity every six or twelve months.

For this reason, airports can increase the visibility of their opportunities by presenting complete business cases to airlines and communicating regularly. Elements of the business cases typically include specialized analysis of:

- The route or routes that an airline could fly, identified through an analytical diagnostic process
- Identifying a logical flight schedule and frequency for the airline on the route including hub connections
- Determining the aircraft of right size and range from the airline's fleet
- A traffic and revenue forecast for the route including local and connecting passengers. This is usually best done using a QSI forecasting model that airlines will find transparent.



Presenting a business case of this type to airlines is "talking to them in their own analytical language" and will save the airlines time in understanding the opportunity. Airlines will also want to know in detail about the market demographics, economy, propensity to travel, competitive service, hotel inventory, leisure activities and more, depending on the profile of the market.



Leisure destinations can also benefit from other types of research (e.g. psychographic) to prove that the destination offers what a segment of traveler on the proposed route will travel for, which leads to a less-risky market opening for the airline. This approach was used by Belize to attract air service. Airports often will need their own effective branding and consumer marketing to help the airline understand the opportunity and position it to their passengers.

Another important component of an airport's ASD program is financial incentives. While airlines and their fleets are currently in a growth cycle, it is clear that they do not have enough airplanes to service all of the good opportunities that are available. Thus, airlines are receptive to (and often expect) that the airport and other stakeholders will offer financial incentives and discounts. These can be a broad range of agreements, from simple to high-risk:

- Discounted landing, parking, rental fees at the airport
- Funds for advertising or other uses
- The pre-purchase of seats on the route by the community
- A revenue/profit guarantee

Lastly, with many stakeholders involved in the ASD process, it is vital that the airport/destination approach the airlines with one proposal and a single voice. This cooperative approach is more efficient for airline planners than talking to a variety of parties and juggling the commitments made by each. The airport is often in the lead role but other stakeholders can be:



The non-airport stakeholders are useful for hosting airline delegates to on-site visits to understand the airport and destination.



Credibility is Key

The ASD process will be most successful when it is the most credible. Airlines can see through shoddy and illogical proposals which will harm rather than help the case for air service. Business cases should be constructed using widely-accepted aviation market data including IATA PAXIS, MIDT and OAG. Forecasts should be based on algorithms that are used in airline planning such as QSI, and local market information should be verifiable.

The need for credibility and objectivity in this complex process often means that airports, large and small, employ external advisors to assist with ASD. Outside advisors from brand-name firms add credibility to the business cases and forecasts since their corporate reputations are at stake. Additionally, much of the ASD work is highly specialized (often

requiring former airline planners to do it) and airports find that it is not worth the expense to buy data, maintain forecasting models and have expert staff for this one area of work. External specialist firms should already have market data, models, methodologies, contacts with airlines around the world and demonstrable success with ASD.

Airports that do not currently have assertive ASD programs are at a disadvantage because many airports in the Latin America-Caribbean region and globally are utilizing best practice tools to grow air service aggressively at their airports.



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