Airport Marketing

An Oxymoron?

Dr. Mike Tretheway, 1998
Airports – A local Utility

Until 1980s and early 1990s airports viewed as a monopolies
Not impacted by competitive forces
Government owned and regulated including routes

Deregulation & Airport Divestiture/Privatization

Economic Generator

Airports – A Commercial Entity
Airport Employees
Who are we

• What % have an airline background?
  • Operations…. recruited as airports privatized and concurrently with Canadian-Air Canada merger

• There is more opportunity in the U.S. to transition from airlines to airports and airports to airports

• < 20% of employees have airline background

• Airports have a very diverse workforce

• Operational focused but increasingly entrepreneurial

• Continuous evolution
Understanding the Airline Industry

Airport Employees
Air Carrier Partner Interaction
The Course

Genesis

• Origin
  • Highly condensed version of 4th yr Commerce course - Air Transport Policy and Management

• Recognition that:
  • Very few airport employees have airline experience
  • Airport employees tend to have narrow and specific interaction with airlines
  • Broaden airport employee group appreciation of airline dynamics and drivers
The Course
How and What

- As part of our Corporate Training Program
  - Optional full day course
  - Open to all employees
  - Offered once to twice a year for over a decade

- Feedback
  - Course always waitlisted
  - Highest rate course at the Airport Authority
Take off your Airport Hat

Take the Perspective of an Airline
Course Overview

Session 1 - Morning

- Industry Background
- Airline Industry, Restructuring & Current Issues
- Air Treaties & Policy
- Alliances & Globalization
- Route Planning
- Hub & Spoke systems, low cost carriers
- Airline Economics
- Payload Management

Session 2 - Afternoon

- Fleet Planning
- Cargo
- Airline Distribution Channels
- Role of the travel agents, consolidator, tourism agencies
- Aviation Marketing… *an airport perspective*
Air Carrier Drivers

Airlines are for-profit enterprises

- Primary carrier focus... return to shareholder

- Most employees are “operational”, but
  ..... Airlines are “Commercially” driven !!

- Key Considerations...
  - Cyclical nature, intensely competitive, low margin
  - Expect on-going change, externalities, costs
  - Strict ownership requirements
  - Corporate Culture
This is a nasty, rotten business.
Airlines

- Flight Operations
- Airport Handling
- Network/Capacity Planning
- Marketing
- Sales
- Reservations
- IT
- Revenue Management
- Cargo
- Maintenance
- Finance
- Government Affairs
Domestic Canada

Early 1970s
State of the Industry

• North American airline industry turning around
  • Maintaining capacity discipline
  • Strong growth in ancillary revenues – meals, checked baggage, credit card fees, carry-on baggage, seat selection, toilet fees
  • Industry rationalization *aka* Mergers
• Low costs proliferating – joint ventures / franchises
• Global alliances – cracks developing
  • Joint ventures more prevalent
• Still cost focused – wary of fuel prices
• Most airlines are private
• Pressure to change ownership rules
Understanding the Airline Industry

Highly Regulated

- Highly regulated industry; federally regulated
  - Ownership requirements
  - Air Policy & Bilaterals
  - Facilitation
  - Safety and Security
  - Historical inertia, risk adverse and slow to move

Cost Competitiveness

Canada/U.S.
Maximum 25%
Foreign equity ownership
Understanding the Airline Industry

Foreign Ownership

Canada
- WestJet
- Air Canada
- Air Transat
- Pacific Coastal Airlines
  Maximum 25%
  Foreign equity ownership

U.S.
- FedEx
- Delta
- American Airlines
  Maximum 25%
  Foreign equity ownership

E.U.
- British Airways
- Lufthansa
- KLM
  Maximum 49%+
  Right of Establishment

Australia/NZ
- Virgin
- Qantas
- Australia
  Maximum 49% Int’l
  100% Domestic
  (Right of Establishment)
Canada – U.S. Bilateral

Pre-1994

Open Transborder Agree’t

2013

1994 – Open Transborder Agree’t

+  

2007 – True Open Skies Agreement
Air Treaties - Terminology

- **Freedoms of the Air**
- **Cabotage**
- **Right of Establishment**
- **Open Skies**

**Fifth Freedom**

"Pickup traffic from a foreign country to another foreign country as an extension from a flight originating in home country"
Airline Route Planning

- Assets are portable
- “Seats” are perishable
- Can I fly there?
- Profitability – route specific / network
- Considerations: Seasonality, yield, cargo
- Fit with overall corporate strategy / business model
- Alternative deployment opportunities
- Competitive response
- Politics
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Customer Value

Customer Profile

Name: Xu Chi

- Frequent flier program member
- Business owner (authorizes travel)
- Takes family along on business trips
- Annual vacation to Hawaii
- Visits extended family in Ohio

Customer value = $125,000 per year

Customer Profile

Name: Zhang Yong

Spring Festival traveler

Customer value = $450 per year
Demand Elasticity

**ELASTIC DEMAND**

\[ 0P_1 A Q_1 = \$120 \times 100 \text{ pax} = \$12,000 \]

\[ 0P_2 B Q_2 = \$40 \times 400 \text{ pax} = \$16,000 \]

**INELASTIC DEMAND**

\[ 0P_1 A Q_1 = \$120 \times 170 \text{ pax} = \$20,400 \]

\[ 0P_2 B Q_2 = \$40 \times 260 \text{ pax} = \$10,400 \]
Revenue Management Fundamentals

- Passengers: 80
- Revenue: $4,000

Diagram showing:
- A Fare
- B Fare
- C Fare
- D Fare

Seats sold range from 0 to 100.
Revenue Management

“Buckets”

“If there is one seat left on the SEA-DEN flight, which passenger do you bump?”

“Which passenger contributes the greatest to network revenue?”

Passenger 1: Full fare Y, SEA-DEN

Passenger 2: Discounted Y, SEA-LHR
Impact of Delta – NWA Merger on hubs?
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Global Networks

1991

- CP x2
- AE x2
- QF x1
- NZ x1
- CP x1

1992-98

- CP x3
- CP x3
- CP x3

1995-99

- MH/CP x2
- AE/CP x4 combined grew to daily each
- CP metal DAILY

1999-2008

- CP/QF/NZ Interchange Midnight Hub

SYD (QF Agreement) – Cnx ‘00 due AC merge (STAR), AC op to SYD, Daily NONSTOP (’07)
AKL (NZ Agreement) – Continued but less significant, AC codeshare via LAX, NZ NONSTOP (’07)
YYZ-YVR service discontinued after AC/CP merge; pax today route via YVR or LAX
TPE – AE/CP codeshare discontinued in 1999 once both carriers op daily; today no AC; CI/BR op combined 8-12x
KUL – CP cnx jv; MH unable to operate TPE-YVR as a dead sector (no 5ths)
Fleet

- 50 seat RJs on the way out – No longer viable
- Expect to see more fuel efficient 75-seat Q400s
- Advent of C-Series
- Air Transat – expansion of fleet to include B737s
- New Aircraft - imminent
  - A380s & B747-8
  - B787s being introduced
  - A350s (2015)
  - 320neo AND B737max derivatives, C919
- Future
  - B777X
  - No planned replacement for the 37/50 seat Dash 8s
Air Cargo
The forgotten element ??
Frequent Flyer Programs

Basic Concept...

❖ Objectives

• Build brand loyalty
• Product innovation

❖ Scale

• 14 Trillion miles accumulated = $700b value

9% of United’s Passengers produce 41% of its revenue

The Frequent Guest Program.
Cumulative WestJet dollars earned.

<table>
<thead>
<tr>
<th>Annual spend with WestJet</th>
<th>Earn 2.5% in WestJet dollars, plus bonuses and personalized experiences.</th>
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<tbody>
<tr>
<td>$1,500</td>
<td>35 WestJet dollars</td>
</tr>
<tr>
<td>$3,000</td>
<td>110 WestJet dollars</td>
</tr>
<tr>
<td>$4,500</td>
<td>116 WestJet dollars + Canadian Jet Away</td>
</tr>
<tr>
<td>$6,000</td>
<td>123 WestJet dollars + International Jet Away</td>
</tr>
<tr>
<td>$7,500</td>
<td>130 WestJet dollars</td>
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When your annual spend reaches $6,000, receive a complimentary companion flight anywhere WestJet flies, another chance to choose the seats you want with four advance seat selection vouchers, and the ability to redeem WestJet miles before reaching your flight bonus of $6000.

Sign up for our Frequent Guest Program by December 31, 2010 and in your first year earn the Canadian Jet Away when your annual spend reaches $3,000 instead of $4,500.
Understanding the Airline Industry

Service Changes - 2014

- Key Drivers
- Why
- Airport Involvement
Future Trends

➔ Uncertainty will continue to be the “norm” within the airline industry. Airports will need to be flexible.

➔ Growing focus by Airports on ASD and Marketing
  • Formalized partnerships - significant increase in $$

➔ How to maintain a balance/fairness amongst our carriers.

➔ Alliances *transitioning* to open ownership… the impact

➔ Technology
  • Longer range aircraft – B789, B777X; void in the 35-70 seat market

➔ Government Impediments
To Sum Up….

• Finish it off with having an Open Book Group Quiz…
  ….with lots of chocolates for the winner
  ….tends to put it all together

• Advised by HR that it is the most highly rated course at the authority typically with a waitlist

• Some employees that attend have an airline background … adds to the conversation and perspective

• Provides a broader and more in-depth understanding of what goes on inside an airline
Questions