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Natural partners

How airports and airlines can jointly boost revenues, lower costs, and improve the customer experience

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Executive summary

Airports and airlines are natural partners that work together in many ways on a daily basis. Even so, they are missing out on opportunities to better coordinate to boost revenues, lower costs, improve efficiencies, and enhance their customers' experience. Given the competitive pressures on the industry, these natural partners need to take their relationship to the next level and exploit synergies wherever possible.

We have identified four key areas where airports and airlines could work jointly to unlock value: sales channels, loyalty programs, digitization programs, and joint real estate development and hub operations. The first three can help airports and airlines work together more smoothly to improve the customer experience and boost airport commercial sales by 10 to 20 percent and airline commercial sales by more than 50 percent, with relatively little incremental investment. One example is to integrate in-flight shopping — when passengers have plenty of time to browse goods online — with prompt delivery of purchased goods upon arrival, before passengers rush to catch another flight or to claim their bags. Airports and airlines that are already innovating in this manner are enjoying robust commercial sales.

The fourth area focuses on how hub airlines and airports can coordinate to improve efficiencies, lower costs, and foster economically dynamic aviation clusters — populated with their ecosystem stakeholders — to compete better in the global travel market of the future. In all of these joint activities, the challenge will be designing a business model with the right profit- and cost-sharing mechanisms and with the right technologies.

Working together

Airports and airlines are made for each other. They are very good at coordinating to get their millions of shared customers safely from place to place. However, they do not work together well on other aspects that could boost revenues, lower costs, improve efficiencies, and enhance the customer experience.

Given the intense pressure on airports and airlines around the world — pressures that include geopolitical issues, increased competition, and the need to lower costs — these two natural partners should make unlocking synergies a priority. There are four key areas where airports and airlines could work together to unlock value with relatively limited incremental cost: sales channels, loyalty programs, joint digitization programs, and improved real estate development and hub operations.

Integrate sales channels to boost customer purchases

Airports and airlines should work together to solve a basic problem that prevents them from selling more products to their millions of passengers: In the airport, people do not always have time to shop in stores and browse inventory if they are rushing to catch the next plane or to claim their baggage. People have the time to shop while on airplanes, but aircraft cannot carry large inventories of goods. To give passengers more time to shop, and make it more convenient, airports and airlines could integrate their sales channels for retail goods. There are three options, one or more of which could be put to use at the same time: airplane to gate, airplane to airplane, home to gate.

Airplane to gate
The airplane-to-gate sales channel exists in-flight. Once on board, passengers could use seat screens to browse the full selection of products offered at the destination airport and make purchases. Airport staff could then draw on the inventory housed at the airport and deliver those goods at the arrival gate or a selected collection point to save passengers time, allowing them to quickly depart the airport. Airlines would promote the channel and integrate the e-commerce website into the in-flight entertainment system.

Airplane to airplane
Similar to the airplane-to-gate channel, in the airplane-to-airplane channel passengers could use seat screens in-flight to browse the full selection of products offered at the transit airport. Airport staff would access the inventory on site and deliver those goods to a delivery point at the transit gate of the connecting flight, allowing the passenger to move quickly from gate to gate. Here again, airlines would promote the channel and embed the e-commerce website in the in-flight entertainment system. This channel could benefit airlines with a high volume of connecting traffic.

To give passengers more time to shop, and make it more convenient, airports and airlines could integrate their sales channels for retail goods.

Home to gate
An integrated online sales channel would also allow departing passengers to browse and buy from the full selection of the airport's commercial products while still at home, and then pick up those items at their departure gates. In this case, airlines would promote the channel to their passengers, while airports would store the inventory and provide delivery.

It is important to note that some airports have already introduced new technologies and business models to improve sales. For example, Hong Kong International Airport has introduced the i-Gate facility, which allows travelers to order goods directly on tablets at the departure gates and have the goods delivered to them within 10 minutes. London Heathrow Airport's online travel store, Heathrow Boutique, offers a "Reserve & Collect" service where passengers can reserve products online, then pay and collect the goods at the shop.

The fact that Hong Kong International Airport and London Heathrow Airport are already innovating and enjoying robust commercial sales may make them hesitate to establish joint sales channels with airlines as that would mean sharing profits that they currently keep for themselves. However, our research suggests that even after accounting for profit-sharing, these joint sales channels could boost airport commercial sales by 10 to 20 percent, while airlines could increase their commercial sales by more than 50 percent.

Moreover, as noted, they can achieve these gains at relatively low incremental capital and operating costs. These costs would probably include: designing and deploying a joint online shopping platform (which for modern in-flight entertainment technologies can cost below US$1 million), additional data charges for transmission of product orders to airports, and staff to upload the products on the e-commerce website and deliver goods to passengers. The major impediment to the integration of these sales channels is designing a business model with the appropriate profit-sharing mechanism and the right technology while avoiding too much cannibalization of in-flight sales.

Drive sales with joint loyalty programs

Although most airlines offer loyalty programs, these programs are much less common among airports. Smaller airports generally do not participate at all, and even among the largest airports their use is relatively rare. In a recent survey of international airports, we found that only a quarter offered loyalty programs. The largest airports, those with more than 40 million passengers per year, were the most likely to offer them (close to half did so). Among those airports with loyalty programs, the most popular service provided was discounts on purchases, which all offered. The next most popular was vouchers or gift cards and discounts from external partners. However, the potential for these loyalty programs is far greater. By joining forces, airports and airlines could expand the universe of rewards, offering everything from retail discounts on food and luxury items, to access to airport lounges, free parking, fast-lane passes, and frequent flyer mileage.

Passengers would benefit from these joint programs by managing just one consolidated loyalty program with a larger variety of products, more perks, and better pricing. Airports and airlines also stand to gain in the following ways:

- More passenger spend as loyalty-program members increase their purchases to obtain loyalty points, enter higher reward tiers, and earn vouchers.
- Lower costs thanks to shared costs, such as a joint technology platform and call centers.
- Economies of scale as the joint program grows and increases its negotiating power with suppliers.
- Better customer knowledge that digital analytics can exploit to tailor offerings and improve customer relationships.

As with the joint sales channel, a joint loyalty program can generate incremental revenues and profits for both airports and airlines at relatively low costs. However, designing a business model with the right profit-sharing mechanism and the right technology will be critical.

Improve customer experience and efficiencies with joint digitization

Digitization is already shaping the travelers' entire experience, which we define in five stages: pre-journey, pre-flight, in-flight, post-flight, and post-journey (*see Exhibit 1*). Today, airline-related digitization focuses on the pre-journey, in-flight, and post-journey stages, while airport digitization focuses on pre-flight and post-flight.

By integrating their digitization efforts, hub airlines and airports could offer a single application for an integrated, seamless travel experience across all five travel stages with all manner of services, information, and guidance (e.g., real-time information on flight details, gate changes, security-line details, duty-free offerings, etc.).

Besides improving the passenger experience, the hub airlines and airports could realize additional revenue and/or reduce costs in three key ways:

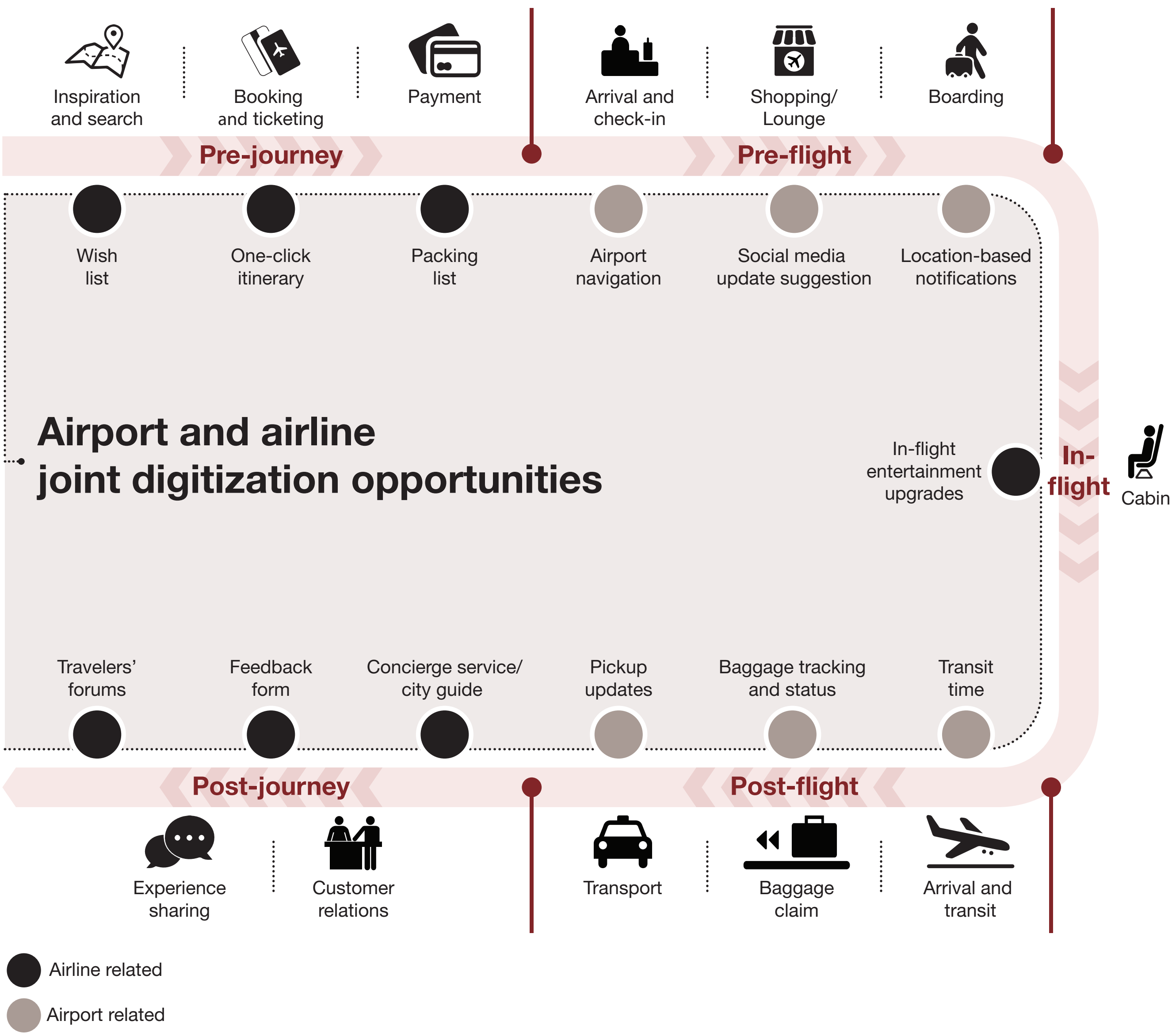
Optimized operations: Airports and airlines can use digital automation and systems integration to provide better information to passengers, reducing the need for help desks and call centers, thus reducing operational costs and delays.

Targeted marketing and cross-selling: Passenger profiles can be linked to spending profiles, habits, and loyalty programs. This allows airports and airlines to tailor information and offers (such as promotions of favored brands and location of similar shops) to boost spending.

Improved decision making: Airports and airlines can use the passenger and travel information they capture for business forecasting and simulation exercises (e.g., route optimization for airlines, operational enhancements for airports). This will support better decision making.

The key challenge, however, is to define the right technology architecture and operating model for the joint digital platform.

Exhibit 1
There are important digitization opportunities during travel



Source: Strategy&

Joint real estate development and hub operations

Given the tightly linked operations of airports and their hub airlines, there are many opportunities to better coordinate real estate development and operational activities to save money and maximize the use of property.

On the development front, airports and hub airlines could develop terminals and airport facilities through joint ventures or concessions to ensure optimal use. They could also coordinate the development of real estate around the airport. Airline facilities such as cargo operations, catering, training facilities, staff accommodation, as well as headquarters, could be located on airport property.

Another possibility is for the two to foster an “aviation cluster” by encouraging the airports’ and airlines’ suppliers to locate on airport-owned land. For example, the Al Maktoum International Airport (one of Dubai’s two international airports) has already put this strategy into action. It helped create the surrounding Dubai World Central, which has dedicated aviation, logistics, and staff accommodation clusters (among many other clusters).

On the operations front, airports and hub airlines could set up a joint slot-coordination team to maximize the use of airport infrastructure and improve airlines’ operational efficiency. They could also set up joint airport operations centers that serve both airports and airlines, lowering costs by eliminating redundancies and repetition of functions such as gate control, ground coordination, emergency centers, and call centers.

Conclusion

Airports and airlines have a long successful history of collaborating to transport their millions of shared customers safely from place to place. However, this is no longer sufficient for business success. With a far more dynamic geopolitical and economic environment, and increasing global competition, these two natural partners need to make every effort to unlock synergies. We believe that priority synergies are in sales-channel integration, joint loyalty programs, joint digitization, and collaboration in real estate development and hub operations. By taking their partnership to the next level, airports and airlines can thrive and grow together in the global travel market of the future.

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