

Enhancing Non-aeronautical Revenues: The Evolving Airport Business Model



By James T. Jarvis

Regional, national, and international economic competition, evolving business models with increased reliance on just-in-time deliveries and fluctuations in air travel demand all influence the way airport managers think about aeronautical and non-aeronautical revenues.

Not that long ago, when airport executives used the phrase “creative financing,” they were often referring to less expensive ways to borrow money, changing the percentage of gross and/or net revenues collected from concessionaires, increasing the fees paid by rental car companies, optimizing public parking rates, charging trip or privilege fees to off-airport transportation providers and hotels, etc. Today, progressive airport executives are considering entirely new sources of revenue to make their airports more competitive and attractive to airlines. Executives are tapping into market forces and development opportunities beyond the airport boundary as a means of improving the bottom line and decreasing the financial burdens of their principal tenants. Examples in the U.S. include forward-thinking executives at the airports serving Dallas-Fort Worth; Jacksonville, Florida; Minneapolis-St. Paul; Ontario, California; Pittsburgh; and Washington, D.C., among others, who are pushing the envelope of traditional airport business practices while remaining cognizant of and avoiding issues related to revenue diversion.

In many cases, large metropolitan airports are no longer being viewed as blights on the landscape, but as nodes in the global economy. The days of planning or zoning for heavy manufacturing, auto body shops, and other land uses often considered “compatible” with noisy airport environs are waning. Microeconomic engines are emerging around airports as a result of the world’s economic shift to mass customization and just-in-time delivery logistics. Today, Class A office parks, conference facilities, high-tech assembly plants, merchandise marts, and consumer product distribution centers that can benefit from the opportunities offered by frequent nearby air passenger and cargo services are taking the place of the unsightly and low-revenue-producing land uses of yesterday. Orders for

goods and services are being filled at facilities located in close proximity to airports and delivered next-day to far away destinations and, in some cases, before the end of the working day.

There is no question that airport enterprises are poised to capitalize on the worldwide shift in business practices. How effective airport managers, local economic development officials, and political leaders are at recognizing this change in global business dynamics and taking advantage of the opportunities it presents remains to be seen.

In the coming decade, more airport operators and sister agencies (development authorities, city planning and economic development departments, metropolitan planning organizations, city and state transportation departments, etc.) will work as partners developing lands around our large-scale multimodal transportation facilities. In some instances the view (if not the technical definition) of the traditional airport master plan will evolve to that of an airport comprehensive plan. With that evolution, airport managers and local and regional governmental agencies will realize the financial benefits of becoming partners in airport-related development. The results will be advantageous not only from an airport finance perspective, but also from regional and national competitive standpoints, as evidenced by the ongoing development plans surrounding airports such as those serving Bangkok, Hong Kong, Korea’s Incheon City, Amsterdam and Singapore. The number of public/private partnerships in developing airport land in the U.S. will grow, as will the need for airport managers to become conversant in the business practices of private developers.

Without question, the business model of U.S. airports is evolving more rapidly than ever. Whether or not airport managers in the U.S. can break through geopolitical barriers to off-airport land development will determine how well U.S. airports will be able to compete in the global economy.

James T. Jarvis is vice president of Ricondo & Associates, Inc., an aviation consulting firm (www.ricondo.com). Contact him at j.jarvis@ricondo.com or 703-519-2181