CREATING SUCCESSFUL AIRLINE-AIRPORT PARTNERSHIPS

[1] MS SURINDER KUMAR

**[1] Managing Director, TMI Academy of Travel, Tourism and Aviation Studies
E-4, Defence Colony, Ring Road, New Delhi-110024**

tmiacademy.md@gmail.com

ABSTRACT *: Airports and airlines are the most prominent and important exchange partners within the aviation industry. However, despite their mutual systemic linkage, their actual business relationship is still characterized rather by emotion and scepticism than by analysis and reason. Researchers have yet widely ignored to systematically analyse this complex exchange relationship and to thereby facilitate airport-airline interactions and overall air transport system efficiency.The airline-airport relationship is in a process of change for mutual benefit.*

INTRODUCTION :

Around the globe, the airline-airport relationship takes different forms. Classical and neoclassical contracts between airline (customer) and airport (supplier) have long been the norm in Europe.

More integrated approaches are pursued in other parts of the world. e.g. by Asian and Arab nations where airport operator and airline are part of the same group and where part of their mission is to support each other for the sake of the countries competitiveness and economic development.

Where the nature of the relationship is not mandated, it is the result of a more or less expanded history of interactions among the transaction partners and can be consciously altered.

Due to their long-term orientation, neoclassical contracts, for example, need adaptation and specification which are both performed as the result of the contracting parties' joint history and serve as the basis for their future interactions. An airline's hub airport has evolved into this position with the growth of the airline, and so have their interactions, reflecting that the dependency relation between them has become increasingly distinct.

This high interdependency, however, can lead to a mutually supportive relationship or may result in tensions and pose difficulties for both actors strategic and operational development. The practical importance of the ability to shape the airline airport relationship – at least from an airline perspective – is illustrated by Lufthansa's acquisition of a minority stake in Fraport, the Frankfurt airport operating company, which, inter alia, is aimed to ensure higher operational and process quality through a shared understanding of each other's objectives and processes.

AIRPORTS :

Airports are categorized in *major hub airports, secondary airports* and *regional airports* whereas **Airlines** fall into *major hub carrier*, *low cost airlines* and *regional carrier*.

Low cost carriers consider destination airports as fully exchangeable as they often employ a point-to-point network focusing only on the profitability of a particular route.

In contrast, **Full Service carriers** use sophisticated hub-and-spoke networks in which each route can be unprofitable as such, but may contribute a significant portion of feeding traffic to the network. Also, the individual flights in a hub-and-spoke operation are interdependent feeder services and crew and aircraft are usually deployed according to complex rotation plans whereas low fare airlines use simpler shuttle operations. These do not rely on feeding traffic and crew and aircraft only shuttle back and forth on one route.

Therefore, Full Service carriers have less flexibility in changing destinations which has a direct effect on the level of interdependence between the actors.

In the aviation context, there are various forms of specific investments on both sides. Airports may adapt their infrastructure to carriers' needs and airlines consider their airport choice when making strategic decisions.

They station aircraft at their home base airport, develop their flight plan accordingly and invest in marketing activities. But adaptations can also be initiated by both actors and create a state of interdependency. Munich airport (MUC) and Lufthansa e.g., built an entire terminal together and shared costs as well as decision making authority.
(Source: Bjoern Goetsch & Sascha Albers)

BENEFITS OF HUBBING

Major airports and airlines around the world have adopted "hubbing" as their business model. Hubbing traffic (transfer traffic) forms a significant portion of the overall traffic at world's largest airports. The share of transfer traffic is generally upward of 20% for these airports.

Globally, the hub and spoke model has changed pace of growth of aviation industry world over. Under this model, airlines use a hub airport to transfer passengers between destinations that may not be directly connected. Moreover, travellers get multiple route options both in terms of connectivity and flight times. Such flexibility is not possible in case of airlines following point to point connectivity model. Hub business model brings benefits to all the stake holders, airports, airlines, passengers and moreover has proven value to the overall economy

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BENEFITS TO AIRLINES:

Reduction in operating costs due to economies of scale.

Ability to offer larger connectivity and higher frequencies within a given fleet size and routes.

Better load factors and fleet utilization.

Helps airlines to associate with alliances – adding to financial and customer service benefits.

Reduced risks due to traffic accumulation from diverse regions.

Consolidated operations at a single airport.

BENEFITS TO AIRPORTS:

Improved asset utilization by capturing diverse traffic markets.

Helps in building global brand image of the airport and community at large.

Enhanced traffic without having to invest on the Landside infrastructure.

Growth options for saturated Origin and Destination (O&D) markets.

Reduced risks due to traffic from diverse regions.

Larger network when compared to point-to-point connections of similar size.

Enhanced retail passenger experience opportunities.

BENEFITS TO THE OVERALL ECONOMY:

Employment creation.

Economic value added to the hub city.

Increases the standard of living of the community.

Generates revenue for the government.

Acts as a 'gateway' to the region.

Increases the overall brand value of the region.

(Source: Ministry of Civil Aviation: Government of India)

OPPORTUNITIES IN INDIA : THE OVERALL OPPORTUNITY:

Assessment of the traffic opportunity for hubs in India has been done in three traffic categories:

Segment 1: Domestic to International & International to Domestic traffic **Segment 2:** International to International

Segment 3: Domestic to Domestic

Of these, the share that a particular hub is able to capture depends upon the following factors:

Price competitiveness of the Hub carrier that would define the fares

Location of the hub that defines the flight time for passengers

Brand and quality of service of the Hub carrier - Frequent Flier Programs, On Time Performance, on board service

It is an acknowledged fact that the aviation sector plays an important role in overall economic well-being of a nation. In India, the air traffic has consistently grown at a robust 12% - 18% per year in the last decade, and this trend is likely to continue in the near future.

While competing Aviation Hubs at regions like the Middle-East and South-East Asia have historically taken away the transfer traffic from India, latest reports suggest that the Delhi Airport is an emerging hub for global flyers.

Despite this positive trend, out policy makers still need to keep in mind certain Bottlenecks, which are slowing down this process.

In the Indian context, several structural and policy impediment have been responsible for prohibiting the development of Aviation Hubs in the country. Some of the key bottlenecks dentified are as under:

1. Bilateral Air service Agreements: While many of India's air service agreements in various markets remain underutilized, liberal bilateral agreements have helped large foreign airlines like Emirates, Etihad, Qatar etc. to operate more flights and routes to India, thus penetrating Indian market of even tier-II destinations. As a result large percentage of international traffic is being captured by foreign carriers through competing hubs in their home countries like Dubai, Doha, Singapore and Bangkok. Today, Middle Eastern (34%) and South East Asian (22%) carriers dominate the international travel from India. Allowing private Indian carriers to utilize more of the unused air service bilateral air service agreements that are currently available and recalibrating the future bilateral issuance to competing countries, may help leveraging the potential of Indian carriers in leveraging the Indian market, which ultimately may help in the Hub development.

2. Code sharing/ Alliance membership: Private Indian carriers face regulatory hurdles in having code share agreements, both within India and in foreign countries and joining large airline alliances, and

hence they are unable to become a part of global aviation networks and harness benefits of economies of scale.

3. Joint promotion of brand 'India': Tourism boards in countries like UAE, Turkey, Singapore, Malaysia and Australia promote tourist destinations along with leading carriers and Airports from their respective countries. While India has huge potential, Joint promotion of brand 'India' by all stakeholders in a concerted way is not being done.

4. Visa norms: 'Visa on Arrival' had been limited to nationals of limited countries (though this has been significantly relaxed now). This facility for more international passengers and ease in getting short-term Visa would help the industry to develop products such as 'Hop-on/ Hop-off' tours that would stimulate international traffic and the tourism industry in India.

5. Currency exchange beyond Immigration: The present policy does not allow the transferring passengers to withdraw cash on arrival (that can be used in the terminal for F&B etc.), and there is a restriction on carriage Indian currency, beyond the immigration point, both by the international and domestic passengers. This is detrimental to hub development and needs to be changed.

6. ATF price and taxation: ATF prices at Indian Airports such as Delhi and Mumbai are 10 to 18% higher than at competing hubs like Singapore and Dubai. High fuel cost creates serious financial stress for Indian carriers, and the cost disadvantage makes it difficult for Indian carriers compete with International carriers such as Emirates, Singapore and even carriers like Sri Lankan Airlines. Policy change, such as accordance of 'declared goods status' to Aviation Turbine Fuel in order to reduce State taxes to 4% across all States, is desirable.

7. Service tax on air tickets: Service tax on air tickets in India is among the highest in the world. As a result, air travel within and to India becomes relatively expensive which limits the growth of domestic and international air travel industry in India.

8. Cargo Related Policy: Following areas of improvement is necessary for better Cargo growth at the airport, which is an important factor for hub development. A separate Cargo Policy of the Government is on the anvil and it is likely to address the current bottlenecks in the Cargo growth.

9. Processes at Airports: Traditionally, our terminals were primarily built for O&D Traffic and often have inadequate infrastructure and processes to handle transfer passengers. Revision of processes, such as security checks, screening of baggage, Custom clearance etc., would be required keeping in view the transfer passengers. Adequate support to Hub carriers for ancillary activities such as MRO is lacking due to policy impediments, such as high import duties on spare parts, VAT on the MRO value chain, service tax etc.

(Source: Ministry of Civil Aviation: Government of India)

ATF PRICE & TAXATION

Although, the section above has described the various bottlenecks, special attention must be paid to the issue of ATF Prices and Taxation.

One of the most critical issues faced by the aviation industry is the high price of Aviation Turbine Fuel (ATF). Fuel accounts for approximately 40% of the total cost for Indian carriers against a world average of 20%.

This differential directly impacts the profitability of Indian carriers and makes them less competitive than their international counterparts. ATF's base cost has increased by 46 % since 2007 creating a stress on airline profitability and sustainability in India.

Following sections details taxes on ATF in India and proposed policy intervention to ease the pressure on the Indian carriers.

ATF sale in India is subject to a hierarchy of taxes and duties that add to the already higher base cost of the fuel.

Fuel cost in India is higher than other international hubs.

Furthermore, for domestic travel, the cost is further escalated due to high sales tax by State Governments (which is not applicable for international travels), and resultantly ATF for domestic travel is 30 – 40% higher in India

Unless we reduce this competitive disadvantage in fuel pricing, it would be difficult for Indian aviation industry to evolve like in other developed countries and unlock the vast economic potential that lies ahead for India.

This also diminishes the profitability of the Indian carriers that remain financially weak compared to the international counterparts. As a result of this inability to form Hub and lack of financial strength, the Indian carriers are losing on the "D to I / I to D" as well as the "I to I" traffic opportunity.

By reducing taxes on ATF and subsequently on air travel, air traffic in India is likely to increase by 5 – 8 %, and due to this direct and indirect employment can be generated.

Reduction in the fuel tax would allow the Indian carriers to become competitive in servicing passengers to their respective Hubs within India and compete with international carriers. This advantage would allow them to increase their market share.

As a result of reduced operating costs and enhanced domestic traffic, Indian carriers are likely to attain financial stability. This may further result in fleet and routes expansion by Indian carriers, thus promoting hub operations in India.

While the promotion of Hub operations through enhanced share of domestic carriers in India's international traffic has been discussed above, other contributory factor in Hub development can be tapping of Intercontinental traffic over Indian

airspace.

Indian airports are suitably located to act as a transfer hub for various intercontinental routes like **Europe → Australasia and Europe → South East Asia.**

Service tax is another impediment on air travel in India.

Service tax on air travel in India is not conducive to the growth in the aviation sector. While the withdrawal of service tax will cost central government approximately Rs. 2,250 Crore in tax revenues, but this loss is likely to get compensated by generation of economic benefit of Rs. 1600 – 2900 Crore: -

Enhanced revenue of Rs. 1,200 to 2,300 Crore to the airlines due to growth in traffic

Increase in traffic is likely to generate 12,000 to 18,000 jobs, which will have an economic impact of Rs. 400 – 600 Crore

(Source: Ministry of Civil Aviation: Government of India)

What airlines look for when choosing airport hubs.

Although there is no single agreed definition of a hub airport, a key characteristic of hub airports across the world is that they are able to serve destinations that other airports are not. This is because a hub airport supplements local demand with transfer passengers, providing traffic volumes which support higher frequencies of services on more popular routes, and enabling services on more marginal routes that would not otherwise have proved viable with fewer passengers.

Large airports are able to support a wider range of destinations and greater frequency of services than could be supported by local demand alone. Major airports attract passengers connecting from one flight to another and, because of this concentration, airlines can operate routes and frequencies that would not otherwise be viable.

There are a number of key characteristics of a good Aviation Hub, some of which include:

• A large route network. This network does not necessarily have to be served by a single airline or alliance.

• Ability for airlines in Alliances (e.g. One World, Star etc.) to handle their pax quickly.

• Requirement for airlines and airports to have Low Cost Carrier Terminals with good inter-airline and/or surface connectivity.

• A suitable geographical location, allowing airlines to cost effectively serve passengers transferring through the hub airport between large markets.

• Good shopping experience.

• Appropriate facilities to handle efficient connections for passengers, their baggage and cargo transferring through the airport and to accommodate the variability in aircraft, peak flows and passenger types that come with hub operation.

• Strong local demand for travel to and from the city where it is based.

• Adequate runway/airport capacity for the airlines to operate waves of arrivals and

• departures. This offers short transfer times to passengers changing flights at the hub airport and the maximum number of efficient connections for a given network.

(Source: CAPA)

Delhi Airport, which has recently been awarded the title of best airport in India*, provides a good opportunity for a hub.

It is the closest Indian airport to flights to and from Europe and USA.

Already a hub for AI and Jet, and provides good connections in India.

Provides connectivity for pax and cargo.

Has space for maintenance facilities.

Can serve airline alliances.

Has expansion capability, but soon a second airport which is in the offing to serve cities in the region – Agra, Jaipur, Chandigarh, Lucknow may be required, especially for International Connections.

In fact, the total passenger throughput for Delhi Airport is expected to have increased to 37.08 million for FY'14 versus 34.39 million from FY'13.

The percentage of transfer passengers has nearly tripled between FY'10 and FY'14 – from 1.57 million (6.33% of total traffic in FY'10) to 6.59 million (17.8% of total traffic in FY'14)*

(*Source: DIAL)

*Product and Service factors ranked by airport customers in the Survey include:

1. Getting to and from the Airport, Ease of Access
2. Public transport options, efficiency and prices
3. Taxi availability and prices
4. Availability of luggage trolleys (airside & landside)
5. Terminal comfort, ambience and general design and appearance
6. Terminal cleanliness, floors, seating and public areas
7. Seating facilities throughout terminals
8. Immigration - queuing times and system for departure and arrivals
9. Immigration - staff attitude for departure and arrivals
10. Waiting times at Security screening
11. Courtesy and Attitude of Security staff
12. Check-In facilities, queuing systems and seat availability
13. Terminal signage for facilities, boarding gates, transfer and arrivals

14. Clarity of Boarding Calls and Airport PA's
15. Flight Information Screens - clarity and quality of information
16. Friendliness of Airport Staff
17. Language skills for Airport Staff
18. Ease of Transit through the Airport between flights - for domestic and international
19. Location of Airline Lounges
20. Washroom and Shower facilities in terminal
21. Cleanliness of Washroom facilities
22. TV and Entertainment facilities
23. Quiet areas, Day rooms, Hotel facility, rest areas
24. Children's play area and facilities provided
25. Choice of Shopping - tax free and other outlets
26. Prices charged in retail outlets
27. Choice of bars, cafes and restaurants, including international options
28. Prices charged in bars, cafes and restaurants
29. Internet facilities and Wi-Fi availability
30. Business centre facility
31. Telephone and fax locations
32. Bureau de change facilities
33. ATM facilities
34. Smoking policy and standard of Smoking lounges
35. Standards of disabled access and facilities
36. Baggage Delivery times
37. Priority Baggage Delivery efficiency
38. Lost luggage services
39. Customer perception of airport security and safety standards

Delhi International Airport

Source: CAPA)

Recommendations

Issuance of Transit Card by Airport operator in case of delays from Airline:

Airlines (esp. the International airlines with one or two frequencies) find it difficult to provide adequate manpower for the processing of transit passengers in the transfer area. In the absence of airline staff or the designated ground handler, a passenger without through- boarding card is stuck in the transfer area as the CISF does not allow them to enter the Departure area where all the facilities (F&B etc.) are available. Such cases increase drastically at the times of bad weather (such as fog) days. As a back-up option, it is advised that Airport operator be given the authority to allow these passengers to the departure area by issue of Transit Card, so as to ensure availability of adequate facilities to the passengers and to ensure non-crowding of the transfer area (where these passengers would otherwise rest).

CISF screening of Transfer Passengers

Majority of the global airports have Departures and Arrivals at the same level. The transfer passenger can get off a flight and walk up to the boarding gate for the next sector without having to clear security again. This practice of treating the transfer passenger "Sterile" is followed across the globe.

However, in India the transfer passengers have to go through the security clearance all over again. Since it is expected that the security at all Indian Airports are of the same standard, it is advisable that the process of security screening for transferring passengers, particularly D – D and D – I should be removed.

Transfer Baggage

Baggage of transfer passengers and arriving passengers is segregated by airlines and baggage handlers in the Baggage Breakup Area (BBA). Baggage of arriving passengers reaches arrival terminal through conveyer belts, and the Baggage of transfer passengers arrive the Baggage Makeup Area (BMA) through separate conveyer belts and then to the respective flights according to the onward journey of passenger.
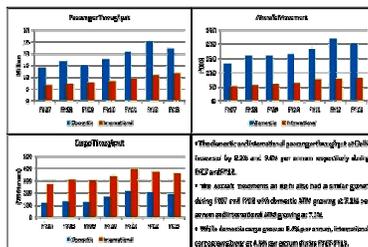
However, at times, due to error on the part of the baggage handlers or some other reasons, the transfer Baggage is processed through to the Baggage claim area instead of the transfer belt, and such baggage reaches the arrival hall, while the passenger is processed through the transfer area (without passing through the baggage claim hall). In such cases, the baggage needs to be cleared by customs before it can be taken back to the BMA. This process is not defined adequately and as a result leads to delays in processing, which further lead to flight delays. It is advisable if Customs can define a quicker process to place such baggage back on their track.

Similarly, in case of the transfer baggage of passengers whose flights have connecting time of more than 4 hours or in case of misconnections, as per the current procedure, Customs intervene and deposit the baggage in their warehouse. In such cases, the airlines have to go through the painful process of retrieving baggage from customs warehouse, and it results in extended process times. It is suggested that the Baggage meant for transfers should be exempted from this procedure, and the Custom process should be amended to utilize the Early Baggage System (EBS) facility, which can track such baggage more effectively.

Data/ information sharing between Airlines, Airports and Government

In the currents system, the Airline data, such as TELEX, is not shared with airports. Timely sharing of such data can lead to better resource optimization.

Similarly, airports can share data like On Time Performance (OTP) and Turnaround time as feedback to airlines. Based on such exchange of information, both airlines and airports can come out with solutions to improve performance and productivity.

Transit Visa and FRRO processing times

There are instances where the arriving passengers do not hold adequate documentation to enter India or to get processed via the transfer area for departure. Resolution of such cases has become painstaking for passengers and other stakeholders, which in the long run may lead to deterioration of brand 'India'. As our hubs gain prominence such cases are bound to increase, and therefore there is a need to put in place a proper system to deal with such cases. Some of the ingredients of this procedure can be:

Imposition of monetary penalties on airlines who fail to check the documents at the origin and allow the passenger to board their flight

Issuance of Transit visa (24 hour or lesser validity) to such passengers while retaining his/ her passport.

FRRO officer should be mandated to address these cases on priority, say within 24 hours

Other measures to ease travel through Indian Airports

E- passport- – Indian government has issued biometric or e-passports to diplomats. This provision should soon be extended to other Indians also. E-passport scanning facilities should be provided at immigration counters so that immigration check of foreign nationals with e-passports is made easy.

Certain processes like checking for immigration stamps and counterfoil of the forms create bottlenecks in the natural flow of passengers through the airport. Usability of these processes should be reviewed and if not required, should be amended.

CONCLUSION

Changes in certain existing airport processes would lead to multiple improvements that will facilitate smoother passenger transfers. Seamless transfers will lead to greater customer delight which is crucial for the brand image of airport as a hub and a preferred transfer point. Reduction in connection time will ensure reduced cases of missing connecting flights.

(Source: Ministry of Civil Aviation: Government of India)