

## REVIEW

# Airport Revenue Diversification

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### ABSTRACT

This report emphasizes the non-aeronautical revenues of airports that are playing an increasingly important part in the revenues of airport. This report delves into different fields of non-aeronautical services that serve as an important revenue source as well as how to better manage these fields to bring greater profits and incomes for the airport. This report focuses on airport advertising, food and beverage and airport car parking as to their potential benefits and threats to the revenues of different airports. It shows that although these fields of non-aeronautical services can potentially bring in a lot of revenues and profits to the airports, different airports also need to adopt proactive policies and strategies to improve these fields to increase their revenues and competitiveness.

## 1. Introduction

Airport not only serves as a transportation hub for commercial aircrafts or cargo aircrafts, but also has important economic, social, political and military implications and significance. Leva et al.<sup>[1]</sup> (2014) argue that airports play an important part in air transport system and are important to increase “the quality of life of regional and local communities, directly participating in wealth creation”. It is well known that the major purpose and function of airport is for aeronautical purpose for different airlines, commercial airlines and cargo airlines. However, it should be noted that the non-aeronautical revenues are also important sources of revenues for airports, which is playing an increasingly important part of the

revenues and profit margins of airport operation. Therefore, non-aeronautical revenues have been recognized and acknowledged by the airport industry to contribute to greater growth of global airport revenues. According to Galleja<sup>[1]</sup> (2017), non-aeronautical revenues play an important role in the revenues and profits of airports in the world, so different airports in the world have tried to increase the non-aeronautical revenue streams to increase the revenue per passenger; the non-aeronautical revenues in the world have contributed 40 percent of the global airport revenues, whose total industry value was up to \$60.6 billion. The greater revenues from non-aeronautical revenues tend to offer airports with “more diversification of income streams” which provides a better cushion in times of economic recessions that tends to reduce the number of

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passengers. Non-aeronautical revenues come in different sources of income including advertising, food and beverage, car parking, pickup and delivery service, and so on. It is important for the airport managers to gain a better understanding of different fields of non-aeronautical services that serve as an important revenue source as well as how to better manage these fields to bring greater profits and incomes for the airport.

## **2. Different Fields of Non-aeronautical Revenues**

### **2.1 Airport Advertising**

Airport can generate non-aeronautical revenue through selling advertising space for businesses inside and outside of the terminals, because there are a lot of spaces inside and outside of the terminals and that there are hundreds of thousands of passengers visiting the airports. According to AirIT<sup>□</sup> (n.d.), airport has been one of the ideal places of advertising for different kinds of products or services, which is especially true when it comes to the fact that the purchasing power of visitors and travelers in the airports is usually much larger than the average person. Advertisements in the airports can take both conventional form and digital form and there is a growing trend of the adoption of digital form by more and more businesses and marketers. One salient advantage of airport advertising is that airport advertisements fit in with different kinds of channels and can be applied in the terminal, gates, and corridors and other places inside and outside of the airports<sup>□</sup> (CAPA 2015). Because people tend to stay in airport for a long time due to the long waiting and dwelling time before boarding the plane, which increases the probability for visitors to notice and pay attention to these advertisements. A survey shows that a large proportion of visitors to airports would notice airport advertisements and would take the time to reading the message, especially for those frequent fliers who normally “take three or four round-trip flights in a year”<sup>□</sup> (Ruane 2013).

Airport advertising is also an important source of revenue for different Australian airports, which plays an important role in facilitating the revenue growth of the airport industry in Australia. According to Davey (2017)<sup>□</sup>, the past decade has seen the revenue growth of more than \$1.57 billion for the major Australian airports if the prices charged for access to airports for the passengers remain constant. Airport advertisement also played a role in contributing to the revenue growth of the airport industry in Australia. Many airports in Australia has long realized the importance and growth potential of airport advertising, many Australian airports try to actively attract businesses

and marketers to do advertisements in varying forms in the airports. In the corporate website of Sydney Airport, Sydney Airport argues that “as the number one retail precinct in Australia, Sydney Airport is an unprecedented traffic hub with the unique ability to create bespoke experiences to increase brand awareness engagement with a vast captive audience”<sup>□</sup> (Sydney Airport n.d.).

While airport advertising is an important source of revenue for many airports, it remains a problem for the airports to consider how to develop “optimal ways of achieving maximum efficiencies that deliver value to the stakeholders” while creating an excellent airport environment; if the visitors to the airport are bombarded with too many advertisements, it may make people to think that what the airports do are simply wanting to maximize profits instead of creating a more favorable and free airport environment.

### **2.2 Food and Beverage (Rent Fee)**

The rent fee of spaces for the food and beverage businesses is also an important source of revenue for the airports. Airport is one of the transport hubs that enjoys a great number of visitors; and airport is a place where visitors tend to come early and stay for a long time before boarding the planes, which creates huge business opportunity for many businesses, large and small, thinking that the huge flow rate can ensure the constant and great revenues and profits. While using the spaces and locations provided by the airports, the businesses need to be charged with higher costs of lease rentals. It is the higher costs of lease rentals that offer a great number of additional revenues for the airports. According to Gorce (2017)<sup>□</sup>, the rental fees account for 8 percent of the total revenues for these businesses. This is an important reason why the rent fee of food and beverage businesses serves as an important source of income for many airports. This is also an important reason why airports are willing to develop more favorable places and locations for different food and beverage businesses and retailers. For example, Sydney Airport initiated a large-scale renovation program across all terminals at the cost of \$3 billion and “major brands are lining up for a presence and are willing to pay some of the highest rent per square metre in the country”; and the average rent charged for premium location is twice of the average price in Sydney and Melbourne, up to \$16,000 to \$24,000 per square metre a year (Cummins 2015)<sup>□</sup>.

However, the problem for the leasing services in the airport is that the airport needs to consider how to better manage these businesses, make sure that these businesses operate in accordance with the agreements and contracts, and maintain good relationship with the businesses. It is

reported by Gardner (2010) <sup>[1]</sup> that some businesses in the Sydney airport were reported charging 25 per cent more for food and pharmaceutical than at shops merely a few kilometers away, which has violated the agreements and clauses; but these businesses show that they were actually forced to violate these agreements and clauses due to the high operating costs in the airports. If the airport cannot manage this well, it may undermine the relationship of the airport with the businesses and the image and reputation of the airport.

### 2.3 Car Parking

Car parking service is also a major source of revenue for many airports. Many people choosing to take the aircraft to the airports may choose to park their cars on the parking lots offered by the airports. While many people take for granted that there is no relationship between airport car parking and passenger spend, holds that airport car parking services actually account for 25 percent of commercial revenue. It stresses the important role of car parking service for the increase and growth of revenues for airports. He furthers that airport car parking service also serves as a double-edged sword and there is always a tradeoff between revenues and parking charges; the increase of parking charges may also affect the passenger departure lounge spend. In addition, the parking services offered by airports are recently undermined by the car-hailing services outside the airports. It means that many people would choose to select and use the car-hailing services instead of driving their cars and use the airport services. This would potentially undermine the revenues of airports from car parking services.

### 3. Suggestions

As has been mentioned, the airports need to consider how to develop optimal ways of achieving maximum efficiencies that deliver value to the stakeholders while creating an excellent airport environment. In order to maximize the advertising revenue potential while not affecting the image and reputation of the airports among consumers, the airports need a more functional control and scheduling to manage the advertising contents for different businesses and marketers. The airports can employ some professional companies to help contribute to a more functional control and scheduling to manage the advertising contents for different businesses and marketers. If not, the poor management and scheduling of airport advertising would damage the images of the airports especially of the large, international airports while reducing the revenues of these airports.

It is also mentioned that airport needs to consider how to better manage these businesses, make sure that these businesses operate in accordance with the agreements and contracts, and maintain good relationship with the businesses. To this end, airports needs to improve and perfect the leasing policy and strategies that promote better organization to leasing, encourage transparency and consistency, and reduce ad-hoc decisions to prevent inadvertent noncompliance <sup>[1]</sup> (Willis 2009).

It is still mentioned above that the airport car parking service may lead to the increase of parking charges may also affect the passenger departure lounge spend; airport car parking service may also be undermined by the growing popularity of car-hailing services outside the airport. It suggest that airports can establish an effective pre-booking system in place that incorporates with the airport website in order to enhance capacity management, parking revenue management, improve market penetration, and so on. In order to tackle the threats from the car-hailing services, airports could cooperate with the ride-hailing services to provide car-hailing services for people in the airports.

### 4. Conclusion

This report emphasizes the non-aeronautical revenues of airports that are playing an increasingly important part in the revenues of airport, which delves into airport advertising, food and beverage and car parking. It shows that although these fields of non-aeronautical services can potentially bring in a lot of profits and revenues to the airports, different airports also need to adopt proactive policies and strategies to improve these fields to increase their revenues and competitiveness. For example, for airport advertising, airport can employ some professional companies to help contribute to a more functional control and scheduling to manage the advertising contents for different businesses and marketers. For food and beverage, airports need to improve the leasing policy. For the airport car parking service, different airports need to establish an effective pre-booking system and cooperate with the ride-hailing services to provide more benefits and convenience to the passengers.

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