

AIRPORTS AND AIR SERVICE: UNDERSTANDING FACTORS THAT IMPACT AIRLINE DECISIONS



THE GLOBAL PICTURE

Aviation is a technologically complex, highly globalized and regulated industry with many important segments and participants – airports, passenger and cargo airlines, general and corporate aviation, airplane and equipment manufacturers, and government agencies providing air traffic control services, passenger and cargo security and international customs and border security.

Airlines make business decisions about where to fly, and the prices to charge for tickets based on a number of factors. It is important to keep in mind that airlines are competitive private businesses that focus on generating revenue and returning a profit to their shareholders.

Factors that impact profitability, and therefore business decisions about domestic and international air service include:

POPULATION AND PASSENGER DEMAND

- A region's population and economic strength are significant drivers behind air service.
- People tend to fly more for business or pleasure when the economy is doing well, and demand often recedes when the economy is struggling.
- Demand fluctuations also drive decisions about airline routes, service levels and size of aircraft.

ENERGY PRICES

- When the cost of jet fuel rises, airlines take steps to reduce costs and increase efficiency through better utilization of aircraft, consolidating routes and in some cases ending air service at an airport.

COMPETITION AMONG AIRLINES

- Airlines compete both domestically and internationally. Competition impacts airline decisions about routes, service levels, size of aircraft and fares.

AIRCRAFT FLEET MIX

- Most airlines typically fly a range of aircraft from regional jets to widebodies. If an airline changes its fleet mix for higher utilization, communities may see a reduction in the number of flights, or loss of service.

SEASONALITY

- Historically, in many U.S. cities, the airline business has been seasonal in nature. Summer months are extremely busy, while winter months (with the exception of the holidays) are slower. Peaks and valleys in travel patterns cause airline revenues to rise and fall significantly throughout the course of the year. Some destinations can be highly seasonable throughout the year.
- Airlines will change plane sizes and the number of flights into a market to handle fluctuations in season demand.

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THE LOCAL PICTURE

Local airports work closely with community partners to increase air service and provide more price and service competition to the airport in order to support overall community and economic growth. However, it's important to keep in mind that airports have little control over the many factors that drive airlines' business decisions.

An airport's charges to an airline for use of its facilities are a small percentage – 4 percent or less – of an airline's total operating costs. Those charges are generally landing fees and rent for space at the airport.

- To stay competitive and attractive to new carriers, airports look for ways to reduce those charges by trying to raise revenue from other sources – concessions, parking, advertising – so those fees paid by airlines can be reduced.

Airports can provide some incentives to airlines to either offer new service or expand existing service.

- Incentives can include discount or waivers on landing fees.
- Another incentive can be marketing a new route to the community.
- The Federal Aviation Administration has published guidelines that outline what an airport can do with its own funds to provide incentives.

Some airports work with their communities to devise incentive programs to attract airlines and other businesses to locate at the airport.

- While an airport may be limited in its incentives, a community group has greater creativity and flexibility in what it can do with its money to attract new air service.

These incentives include:

- Extensive route marketing
 - Travel banks – pledges to buy tickets on a new route
 - Revenue guarantees – a promise to underwrite the annual cost of a flight if ticket sales lag
- A community group can be used to make a business-case argument to an airline on why a new route or another carrier is needed to meet the transportation needs of the community.

