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## Retail concessions at European airports: Commercial strategies to improve non-aeronautical revenue from leisure travelers

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## ABSTRACT

European airports improve their competitiveness through commercial income from different traveler types. The purpose of this multiple case study was to understand the elements of successful sales strategies by concessionaires at the airports of Zurich and Basel in hopes of improving the non-aeronautical revenue from leisure travelers. Semi-structured interviews with executives and senior managers covered themes such as managing the shopping experience, as well as collaboration between stakeholders. The key findings were the identification of personalized offerings and the inclusion of individual travelers' needs for a flexible approach by airports and shop locations regarding retail sales. The collected data contained indicators for passenger-centric concepts and the need for future research by traveler type.

### 1. Introduction

In a traditional business model, airport operators focused on aeronautical revenue from air carriers through aircraft landing fees and handling charges (Graham, 2013). Since the mid-1990s, however, airports' profit share of commercial, non-aeronautical income from business relationships with concessionaires (retailers) grew in importance, and operators increasingly concentrated on revenue from *passengers* rather than *airlines* (Ison et al., 2011).

The exposure to multiple traveler types and passengers' shopping patterns created uncertainties about the effect of customers' spending behavior on revenue. This uncertainty caused concessionaires to introduce product portfolios at different price levels and profit margins, leaving a gap in best practices for sustaining business operations with a broader range of diversified customer groups (Lin and Chen, 2013). The purpose of the Puls' (2015) study was to gather data on how long-standing concessionaires at the airports of Zurich and Basel defined and executed retail strategies to improve revenue from leisure travelers.

### 2. Background of the problem

Europe's aerodrome inventory exceeded 400 regional and international airports in 2008 (Thelle et al., 2012). This increase in the number of airports resulted in a high density of corresponding metropolitan airport systems, as well as overlapping catchment areas for generating revenue from different traveler groups (Starkie, 2012). Results from

existing research do not contain a comprehensive overview of how concessionaires at airports in Europe incorporate traveler-type specific shopping patterns into retail offerings (Ringle et al., 2011). Additionally, there is a lack of research on how such incorporation positively affects sales volumes and non-aeronautical revenue, and secures business owners' profitability (Ringle et al., 2011). The presence of a deregulated and competitive airport retail business in a densely populated market such as Europe requires a view on profit-generating strategies by concessionaires (Gibbons et al., 2012). The exposure toward more LCC operations and leisure travelers, showing seasonal traffic variations at regional airports in Europe in particular, negatively affects the operational and financial input-output performance for business owners (Pyrialakou et al., 2012). The lack of information about travelers' shopping preferences at airport retail stores can result in less non-aeronautical revenue for concessionaires, negatively affecting the sustainability of business operations (Adler et al., 2013).

#### 2.1. Problem statement

Between 2011 and 2013, traffic at Zurich International increased by 0.6 million mainly business travelers, and commercial revenue per passenger increased by 1.48 CHF or 11% (Zürich Flughafen, 2014). In the same period, commercial revenue at Basel EuroAirport decreased by 1.40 CHF per passenger or 10.4%, despite a traffic growth of 0.8 million mainly leisure travelers (Euro Airport, 2014). The general business problem was that concessionaires do not have sufficient information

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about the influence of shopping patterns regarding the commercial revenue from different traveler types (Thelle et al., 2012). The specific business problem was that business owners, executives, and managers of concessions lack strategies to improve commercial revenue from leisure travelers (Jimenez et al., 2013).

## 2.2. Purpose statement

The purpose of this qualitative multiple case study was to explore which strategies concessionaires lack to improve commercial revenue from leisure travelers. The goal of the study was to conduct semi-structured interviews with executives and senior managers of long-standing retail operations at the airports of Zurich and Basel to discover strategies of sustained profitability from sales to leisure travelers. Considerations of a potentially passenger-centric approach for the commercial revenue model of concessions at airports may result in predictive and sustainable decision-making models for executives and senior managers to update existing retail concepts to improve sales.

## 3. Nature of the study

The search for concessionaires' revenue strategies, which affected passenger-centric product and service attributes, required an explanatory approach such as qualitative research (Barratt et al., 2011). The research in consumer behavior of leisure passengers, as opposed to business travelers, resulted from the Puls study's underlying problem statement, which highlighted the underexposure of commercial concepts for non-business travelers. A case study about the metropolitan airport system Zurich-Basel, which is excluding leisure passengers, would reduce the significance of the analysis because of EuroAirport's increasing focus on the leisure segment. Eisenhardt (1989) recommended a qualitative case study approach to assess and understand novelty areas such as the study's topic regarding the definition of traveler-specific retail strategies. For this study, a phenomenological design would have included a focus on passengers' and customers' perceptions in the case of an airport, but not professional experiences by concessionaires who represented the study's research population. The size and scope of Zurich International and Basel EuroAirport did not qualify for an experimental design, which would require a large and complex research study to analyze consumer behavior (Onwuegbuzie and Leech, 2005). Harrison and Reilly (2011) found the application of a mixed methods approach required the combination of qualitative and quantitative data would have limited the exploration of executives and senior managers' views, and potentially missing insight into traveler-centric sales strategies. Therefore, the application of qualitative research, using a case study design, met the needs of the Puls' (2015) study to address research questions related to airport retail strategies for different traveler types from a business leader's point of view (Chien-Chang, 2012).

### 3.1. Conceptual framework

The research approach to discover concessionaires' strategies of sales concepts for leisure travelers intended to improve commercial revenue and included the conceptual foundation of corporate strategic planning. Freathy and O'Connell (1999) analyzed different forms of strategic planning as part of their research in the privatization and commercialization of European airports in the 1990s. Both researchers concluded that relationships and collaboration between business leaders of airports, concessions, and airlines play a critical role in the linear planning of demand by passengers and supply by service providers. Building on the theory of strategic planning to assess commercial activities at airports in the new millennium, Freathy and O'Connell (2012) included customer segmentation to focus on consumer groups and product differentiation, enabling yield management, revenue improvements, and increased profitability for business owners.

The concept of adaptive airport strategic planning (AASP) represents the evolution of the original theory for the aviation industry and includes passenger-driven and other criteria of demand generation such as economic or climatic conditions (Kwakkel et al., 2012). By understanding gaps between planned retail offerings, sales expectations, and commercial results from different traveler types, decision-makers can define strategic plans and the alignment with the service and product portfolio, relevant to specific customer groups (Tsai et al., 2011).

### 3.2. A review of the professional and academic literature

The purpose of the study, based on the analysis of concessionaires' strategies for revenue improvements from leisure travelers within a metropolitan airport system, had a foundation in multiple research areas (Arif et al., 2013). The business activities of airports and concessions closely connect to each other via the contractual agreements and financial interlock from the commercial revenue and sales volume from customers. The literature review reflected on the relationship between airport operators and concessionaires, including academic work by scholars who addressed the areas of competition, performance, and consumer behavior individually and in an integrated context. The conclusions from existing research and literature marked the importance of commercial activities at civil airports to ensure the economic viability and profitability of airport operators and contracted concessionaires.

In summary, researchers such as Graham (2013), Forsyth et al. (2011), as well as Sirgy et al. (2011) explained the relationship between an airport's operating concept, the commercial strategies by concessionaires, and the travel experience by passengers as a holistic and integrated network in which stakeholders collaborate efforts to improve sales and revenue. This work helped in identifying the conceptual framework of corporate strategic planning and its applicability to aerodromes' retail stores including concessionaires' efforts for the general profitability per site at one airport. The findings from the literature review marked the need for further research regarding both competing and collaborating metropolitan airport systems, as well as the differentiation of profitability by traveler type (Jimenez et al., 2013).

Other frameworks such the convenience model by Berry et al. (2002), or the spill-over theory of well-being by Diener (1984) contained valid contributions to efficient retail concepts for customers; however, researchers applying those frameworks mainly focused on the short-term effects of getting access to retail stores and post-shopping experiences (Chung et al., 2013; Sirgy et al., 2011). The purpose of the study related to long-standing concessions and the strategies by executives and senior managers to affect the in-store shopping experience of leisure travelers and other passenger groups in a commercially successful manner. The structural topics for the Puls' (2015) study were: (a) the competitive forces between airports; (b) the financial and operational implications of performance management; (c) the key elements of service quality; (d) the behavioral factors of consumption; and (e) the influence of strategic planning on product, service, and consumer portfolios (see Fig. 1).

### 3.3. Overview of study

Nine interviewees participated in the study, representing a defined group of executives and senior managers of retail operations at the airports of Zurich and Basel. The constructivist paradigm of this qualitative research required a participant pool of long-standing and experienced concessionaires to participate in knowledge exchange with the interviewer or researcher (Schultze and Avital, 2011). The interviews with executives and senior managers and the subsequent data interpretation resulted in meaningful conclusions regarding sustainable business concepts on how to improve revenues from leisure passengers. The research question and the interview questions contained references

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