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Stakeholder engagement in the development of international air services: A case study on Adelaide Airport

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ABSTRACT

This paper examines the air route development process, including key stakeholder engagement, to identify essential factors in the successful establishment of new international air services at regional airports. Data from semi-structured interviews with airports, airlines and destination marketing organisations were analysed to provide perspective regarding Adelaide, an Australian regional international airport. The research proposes a model that maps out the relationships and processes of primary and secondary stakeholders for air route development and finds route profitability and stakeholder relationships as critical factors for air route development. The airport emerges as a leading actor in driving route development. Efficiencies and broader regional objectives are realised when the airport collaboratively engages with wide-ranging stakeholders. The paper provides future research direction to address identified limitations and provides recommendations to guide other regional airports and airlines in establishing new international air services.

1. Introduction

With the liberalisation of the aviation industry, including airline deregulation and airport privatisation, airports in Australia have become increasingly commercially orientated and pro-active in approaching air route development (ARD). Airports, to remain commercially viable, must engage with airlines and attract new routes through targeted marketing of their airport and its destinations. While attracting the services of international airlines to large capital cities may not be a challenge, regional destinations (outside the four traditional gateway airports of Sydney, Melbourne, Brisbane and Perth) require creative strategies for engaging new services. One success story amongst Australian regional international airports is Adelaide Airport (ADL), the primary airport servicing Adelaide, South Australia. ADL has established a number of partnerships with other state agencies in order to attract and maintain international long-haul flights. Using a case study methodology, this paper explores the dynamics (focusing on stakeholder, market and economic factors) leading to ADL's success, providing lessons that similar-sized airports and their stakeholders can learn from ADL's experiences.

2. Literature review

In critically examining the ARD process, this paper reviews academic literature that defines ARD processes, from the airport's and airline's perspectives, in addition to the roles of stakeholders and marketing contributing to successful new air routes.

2.1. Air route development

While in the grey literature ARD has been explained in many different ways, the academic literature still fails to provide a consistent definition of the process. Martin (2009, p. 22) explains ARD as "*a broad term that encompasses a variety of activities with the ultimate goal of retaining existing air service or improving air access and capacity to develop the economy of a community or region.*" Thelle et al. (2012, p. 81) define ARD activities as "*marketing activities undertaken by airports with the aim of attracting new routes, for example through participation in route development conferences, offering incentive schemes, meetings with airlines, producing bespoke reports for airlines, etc.*" These definitions present a broad explanation of the ARD concept. The simplified explanation of ARD elucidates an obvious objective: encouraging new airlines to operate new routes to a particular airport (Halpern and Graham, 2015). As a sign of the increased importance that ARD has reached, Halpern and Graham (2015) found that over half of airports have a route development team, with this trend increasing to 86% of airports operated by the private sector.

The ARD academic literature remains limited, albeit of growing

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interest recently (Spasojevic et al., 2018). Some pioneering studies mentioning ARD (Goodovitch, 1996; Horner, 1991) provide analysis from geographical perspectives, where ARD is considered the central element of an air transport network. More recent studies, such as that by Weber and Williams (2001), include drivers beyond geographical factors, comprising aviation regulations (flexibility provided by governments), aircraft manufacturers (efficient long-haul aeroplanes), passengers (market demand) and airlines (willing to enter new markets). Many authors (Graham, 2014; Malina et al., 2012; Hihara, 2012) consider financial and non-financial incentives to influence the economic viability of a route. However, most of the grey and academic literature lacks a deeper analytical understanding of the ARD process, which can be examined from an airport or an airline perspective.

2.2. The airport perspective

From an airport perspective, progressive ARD occurs due to transitions from “traditional airports” to “commercial airports”. This shift diminishes the traditional leadership of airlines and transfers the responsibility and interest to airports (Jarach, 2001). Pioneering research on ARD airport current practice has been published by Halpern and Graham (2013, 2015). In their subsequent work, Halpen and Graham (2016) presented a four-step ARD development process, which is discussed in the paragraphs below.

The initial stage of ARD involves identifying the objectives. ARD can serve different purposes, including attracting new airlines to an airport, influencing existing airlines to operate new routes, or growing frequencies of current routes (Halpen and Graham, 2015). Various air services are considered for new routes, including domestic and international, services provided by full-service network carriers (FSNC) or low-cost carriers (LCCs). Connectivity objectives and traffic targets are relevant as part of the initial stage. External organisations frequently engage in ARD decisions given the wider regional impacts of increased air services.

The second stage of ARD involves market research. A market assessment of the catchment area quantifies the potential of air travel demand (Halpern and Graham, 2013). Moreover, such an assessment identifies population size, resident characteristics, their propensity to travel (factors influencing outbound traffic) and tourism and business appeal (factors affecting inbound travel). Catchment area size is a significant determinant of airports' attractiveness to airlines (Humphreys and Francis, 2002). By assessing the above-described information against current air services, an airport can identify unserved or underserved routes and potential market share. An Airport Strategy & Marketing (ASM)[1] whitepaper demonstrates that new direct routes are identifiable through assessments of indirect traffic flow (ASM, 2016). Additionally, potential future demand is an important factor. After these initial evaluations, airports can then determine the suitability of an airline to operate the new route. Finally, airports will conduct a feasibility assessment of the route, utilising forecast traffic, yield and load factor data, to estimate the airline's operating costs. Such information forms the basis of a business case presented to the targeted airline.

The third stage of the ARD process involves the airport engaging directly with airlines and conducting targeted marketing activities. The ASM (2009) (as cited in Halpern and Graham, 2016) ARD study found that 94% of over 100 airports surveyed actively marketed their airport to airlines. Halpern and Graham's survey (2015) identified ARD networking events, including Routes global and regional conferences as common communication forums.[2] In 2016, 524 airports and 270 airlines attended Routes events, with over 17,000 pre-scheduled meetings (Routes Online, 2016).

Establishing, maintaining and growing a new service requires additional evaluations. Considering human and financial resource needs and developing processes for working with new airline customers is essential. For continued success, ongoing route-performance analysis are vital, as is maintaining a mutually beneficial long-term relationship with an airline partner (Halpern and Graham, 2016).

After undertaking the four-step process, airports can facilitate ARD by providing financial and non-financial incentives. Common financial incentive schemes include the discount of landing fees and airport charges in the initial years of the airline's operation (Jones et al., 2013; Graham, 2014; Klophaus, 2016). Financial support for marketing with joint advertising and promotional campaigns for new air-service may be offered (STRAIR, 2005; Graham, 2014). In a German study, Malina et al. (2012) found incentives frequently equate to a reduction of 10% in airport charges, with a maximum decrease of 44%. Fichert and Klophaus (2011), also analysing incentive schemes in Germany, mapped out many of the operational and managerial variables used by airports to analyse the performance of airlines in order to remunerate the incentive schemes. As airline charges account for approximately 10% of total operating costs, incentives can influence a route's economic viability and are crucial for LCCs success (Malina et al., 2012; Graham, 2014; Hihara, 2012).

Airports can also offer non-financial incentives, including providing market information; facilitating contacts for feeder airlines, service providers and the media; and assisting stakeholders in better serving airlines (STRAIR, 2005; Graham, 2014). Graham (2014) finds that airports also offer support through lobbying the government regarding traffic rights and capacity obstacles. The Australian government provides reduced capacity restrictions or open capacity for international operators that directly service Australia's regional international airports (i.e., Adelaide, Cairns, Darwin, the Gold Coast and the Sunshine Coast) under regional packages. Additional capacity for services to major gateway airports is available where services are linked to regional airports (co-terminalisation rights) under enhanced regional packages (Australian Government, n.d.).

2.3. The airline perspective

From an airline's perspective, route planning, adding or removing routes or changing the service frequency is a constant process that creates the ‘structure’ of the airline's network (Swan, 2002). The airline planning process occurs in four stages according to Wu (2010): *network planning, fleet assignment, aircraft routing and crew rostering*. This study is primarily concerned with network planning and the selection of viable destinations. The latter stages of Wu's airline scheduling process are internal airline activities involving cost-minimising resource allocation (for aircraft, crew and maintenance regimes) and are outside the scope of this paper.

Before planning an international service, an air services agreement (e.g., bilateral, multilateral, open skies) allowing sufficient capacity for new airline operations must be in place between two or more countries (Duval, 2013). Only then can negotiations with airports and scheduling occur.

Network planning (also termed route planning) involves market research and demand forecasting to determine a destination's commercial viability. Holloway's (2008) marketing analysis model describes demand forecasting as fundamental to determining operating costs, operating revenue and overall profitability. Research by aviation consultancy AirBiz (2012) identified key airline decision-making criteria for new ARD (Fig. 1).

Significant additional factors facilitating network growth include the airport's location, destination appeal and awareness, competition with other airports and airlines, and a positive trend in regional economic development to facilitate network growth (AirBiz, 2012;

[1] Airport Strategy & Marketing (ASM) is a global route development consultancy that supports airports, airlines, tourism authorities and governments in the development of new air routes.

[2] Routes is a worldwide organisation that provides analysis, news and events for air service development.