



Publication Alert October 2006 – Hub-development not always best strategy.

A long-term airport government strategy usually defines the hub function as the key functional target for the central national airport. However, it is a risky decision to promote a change of the current function of an airport into a hub. It strongly depends on the (national) airline that decides whether to establish hub operations at a given location. Economic and financial success can be achieved, but need a long and consistent development. A stable hub operation can only be achieved, when the home-based carrier benefits financially from a hub-and-spoke network structure. Any airport without a strong home-based carrier and a suitable geographical location faces severe risks in establishing a strong hub. One of the greatest risks is certainly the underutilization of costly hub facilities. Other difficulties include the need to develop non-aeronautical revenues at hub-airports as aeronautical revenues at hubs are increasingly under pressure. In addition, any airport trying to establish a hub has to face severe competition by surrounding airports that are not willing to lose market share to their neighbor or to give up their own position as gateway to their region. It is argued that operating and efficient and reliable O&D airports can be far more beneficial than setting up a hub airport.

Types of airports

Five different types of airports are distinguished:

1. The first is the traditional O&D airport, serving its region without a clearly observable hub transfer service pattern (such as Tunis-Carthage airport).
2. The second type has a home base operator operating only one bank (wave of flight arrivals/departures) in the morning and weakly targets transfer flows (such as Johannesburg, SA).

Three hub airports can be identified where the main difference is the kind of schedule:

3. Airports with strong home base operators focusing on the transfer of passengers between long-haul flights. These airports experience one or two banks a day (such as Doha and Dubai).
4. Large hub airports with multiple waves a day, but showing substantially lower traffic in the off-peak periods (such as Amsterdam and Paris, Charles de Gaulle).
5. Congested mega hubs, at which airlines have already started to introduce de-peak to lower peak utilization, resulting in a balance in the use of infrastructure (such as Frankfurt and Dallas/Fort Worth)

Different opinions

An airport and an airline share the same main goal, namely a maximization of traffic and revenues. For an airline, network attractiveness in terms of providing as many

connections between as many airports as possible is important. Another goal of an airline is to establish a strong customer position with the hub airport. The hub airport is the ideal location to offer dedicated additional services. On the other hand, airlines endeavor to keep their passengers on the ground for as short a time period as possible, which is counterproductive to the airports' target to maximize retail revenues, as passengers hurrying to their connecting flight do not have sufficient time to allow for extensive shopping. Airports usually strive for a continuously high utilization of their infrastructure.

Financial implications

There is a significant difference between the investments for a hub and for a traditional O&D airport. Hub operations are characterized by an extremely intensive utilization of airport infrastructure in a short period of time. The larger the hub operations, the more complex processes, systems and terminal areas. Therefore any under-utilization of the airport leads to an inefficient use of the available resources. The costs incurred during the off-peak times through maintaining the peak-time capacities have to be covered by non-aeronautical, commercial revenues.

Two additional factors have to be regarded when turning an airport into a hub. Passenger charges at airports are levied to compensate the airport for its services of providing passenger and baggage handling. The other factor is commercial revenues. The lower the aeronautical revenues, the more important the non-aeronautical revenues become or the healthy business development of any airport operator. The most profitable activities are usually the operation of parking spaces, concessions and retail activities.

Source:

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