ASSET MANAGEMENT STRATEGY OF A REGIONAL AIRPORT*

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1. Introduction

To ensure profitability of airports, the 2007 Airport Amendment Plan proposed that regional airports through an airport management must ensure efficient management efforts in the future. This paper attempts to examine the case and the efficiency of current airport management in Japan with the purpose of identifying future challenges to ensure management efficiency and international comparison.

2. Current system of regional airports

Like a typical airport, regional airports consist of basic facilities like runways and air traffic control, a terminal building, and parking facilities. Figure 1 below shows a schematic representation of the relationship between the elements. As can be seen lately in many cases, these three elements are operated by different entities. An airport management office acts a principal coordinator of these elements to ensure efficient management of the facilities.

Airport and revenue costs are defined as follows:

Revenue: Landing fee + Land and Terminal Building Rent

Cost: Labor Cost + Environmental Measures + Maintenance of Building (including depreciation)

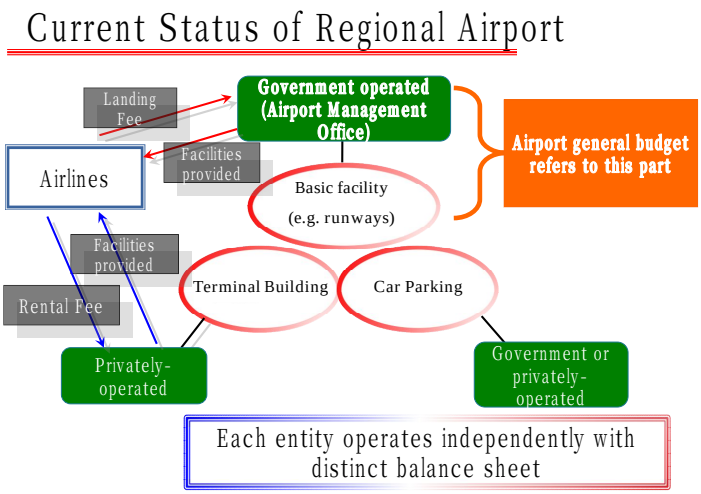

Figure 1: Overview of Airport

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Land and Building rent are stable source of revenue although its change or increase and its fraction out of the total revenue are less and minimal through time. Hence, the main source of the airport revenue is its landing fee. However, many regional airports are in unprofitable routes, hence, the revenue potential of airport landing fees by new entrants are expectedly low. At the cost side, maintenance and environmental costs among the three items are normally difficult to reduce leaving the personnel (labor) cost as the most realistic entity for reduction.

3. A case example of an overseas airport operator

A remarkable management case cited in this paper is UK's BAA airports. BAA (official name: BAA Limited, stemming from British Airports Authority) operates the world's third largest airport in terms of passenger handling, the London Heathrow Airport. London Gatwick Airport (which it used to own and sold only in December 2009), and London Stansted, are UK's second and third largest, respectively. In addition, it also acquired and operates Glasgow International Airport and Edinburgh Airport, UK's eighth and ninth largest. While running huge airports, it is also responsible for the management of other regional airports such as Southampton and Aberdeen. The total bulk of passengers handled in the seven airports (including Gatwick it used to own) by this airport management company are currently around 145 million passengers, having the world's largest arrival and departure time of about 1.32 million times. BAA was listed in the stock exchange in July 1987 as a public limited company and subsequently followed by government sale of all its shares leading to a full privatization. As a result of the privatization, the company was delisted from the London Stock Exchange and the company name was changed from BAA plc to BAA Limited. It took over the operation of seven airports with the aim of strengthening the airport and shopping mall projects due mainly to the reduced profit due to its strategy of reduced landing fees, making it one of leading minimal landing fee in the world.

Current world airport trends shows that airport management and airport complex's basic facilities are operated together by one entity. Examining the airport balance sheet, landing fees are just small fraction of revenue and business income of the airport complex. In the case of the UK example, the comprehensive management system allows the high revenue profitable airports to maintain functional the low revenue ones as in the case of regional airports. (See Figure 2)

Figure 2: British Airport Operation Policy

4. Related Literature

As a result of the evolution of airport management practices, past literature have dealt with the concept of the "airport as a firm" (Jarach, 2001); the changing UK regional airport ownership patterns and its implications (Humpheys and Francis, 2002); and the success if there is a suitable regulatory framework provided by the government prior to

privatization (Gerber, 2002) with the accompanying effectiveness of particular governance mode that depends upon the national institutional context (Carney and Mew, 2003). Airports compete for private financing against other investment opportunities (Hampton, 2009) considering its commercial, marketing, and strategic position, as in the case of Cardiff (Davidson, Riley, and Snelgrove, 2010). Revenue generation is the name of the game for sustainability as non-aeronautical revenue (Martel, 2009) and approximate level of enplanements (Smith, 2010) necessary for non-hub airports to generate sufficient operating revenues were considered. Lastly, the implications of government policy regarding airport development (Bush, 2010) were considered and the role of small airports in economic development (Button, Doh, and Yuan, 2010).

Although several attempts have been carried out to improve airport management in Japan, this paper will illustrate only the case example of Asahikawa airport.

5. Asahikawa Airport: a case example of a domestic airport management

As of April 2006, the Asahikawa Airport operation has become a heavy burden which needs urgent attention for the City of Asahikawa. They have come up with the idea of designating from the private sector, for purpose of efficiency, the management of airport operations. As a result, the introduction of a Specified Management System (administrator) with the Civil Aviation Bureau was carried out in order to coordinate, conduct terms, and consign with the equivalent maintenance private-sector contractors. Finally, the business of operations were consigned to the private sector, as a result of a series of consultation with the central government (Civil Aviation Bureau), “permitted business activities” for a joint venture, with a specified outsourcing requirement carrying out 5-year multiple contracts with different consignees.

This outsourcing project has also made parking efficient. The airport initially under the management office of the airport was open for free parking. However, the issue in mind is not only management but also the inadequate amount of parking space and facility. Due to it being free and open to the public, there was no revenue for the maintenance cost. Hence, as part of the comprehensive maintenance services contract, a contract was consigned and a private car parking facility is currently being managed and operated by the Asahikawa Airport Terminal Company.

The biggest effect as a result of the comprehensive maintenance outsourcing is the economies of scale. Previously, subcontracting of maintenance works were at most 50 per year. For instance, snow removal for the exit to the runway during end of the year winter period was exhausting the budget. Since this was already consigned under the 5-year contract under the new system, things got better and convenient for the stakeholders as the procedural burden was minimized. As in the case of snow removal and other consigned entities, the company responsible can work over the year in the range of its discretion that will make stability as it ensures income for the company over the 5-year period.

6. Conclusion

This is the era of airport management from the days of construction management. So far, Japan’s regional airports have been run under the image of Haneda Airport. The airline business is under the period of severe financial depression to maintain money-losing routes and regional routes to ensure public profitability is a situation different from Haneda’s perspective.

This paper carried out a study on improving the operation of regional airports and the following points can be

drawn:

(1) BAA through case studies and survey results, presented six steps in improving airport operations, as shown below.

Phase 1 Determine and assess the characteristics and problems of each airport

Phase 2 The necessity to involve the participation of different stakeholders (including local residents)

Phase 3 To consider (examine) and implement (execute) measures and countermeasures

Phase 4 Cooperation or partnership of terminal building with management office

Phase 5 "Airport" as the unified balance sheet

Phase 6 Integration and cooperation of management and coordination of regional hubs

Based on these six phases, it can be observe that the Asahikawa Airport experience is in the fourth phase as there is a cooperation and partnership between the airport management office and the airport parking consignee.

(2) The case of the Asahikawa Airport is a demonstration of how the institution of a comprehensive management office will reduce the number of airport personnel payroll and outsourcing the parking management would clearly result to cost savings. The overall effect is not only felt under the cost-cutting contract as has been entrusted under the longer term five-year spans, as well as the other layered procedural reductions, but also the corresponding improvement in the management systems and user experience.

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