

AIRPORTS IN A POST PANDEMIC WORLD

The new normal or the
temporary abnormal?

KINETIC
CONSULTANCY

MAY 2020

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INTRODUCTION

MAY 2020



First and foremost, we would like to thank everyone who has taken the time and effort to fill out the questionnaire. By supplying us with your insights you also support our community in understanding the impact of the COVID-19 pandemic. That is of great value to anyone involved in our airport industry.

This report sprung from some conversations which we held with several airport industry leaders. In those conversations we learned that there was - and still is - a need for insights on the speed and shape of the recovery and envisioning the new normal of the COVID-19 pandemic.

“

It's having no foresight that makes the temporary unbearable.

A. LYNN

Since there is no comparable historic data to rely on, not a single person will be able to grasp the impact and future shaped by the COVID-19 pandemic to its fullest. We believe that as an airport community we can collectively have a better understanding than separately.

Kinetic Consultancy is keen to play its part in understanding and supporting our relations as well as the broader airport and non-aeronautical community. Therefore, Kinetic Consultancy believes it would make sense to initiate and develop an expert survey. With this expert survey we have collected insights from a large number of industry experts. This way, we can bring some crowd wisdom to shine its light onto the very uncertain future of the airport development and specifically the non-aeronautical revenue. The survey has served as the foundation for this report, which we have made available for the industry free of charge.

TOMORROW IS NOT YESTERDAY

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V.U.C.A. WORLD

The future is not what it used to be. We can no longer rely on the comforting assumption that the future will be a continuation of the past. 'Usual' has left the building. The current situation in the airport industry allows no room for complacency. We need to act.

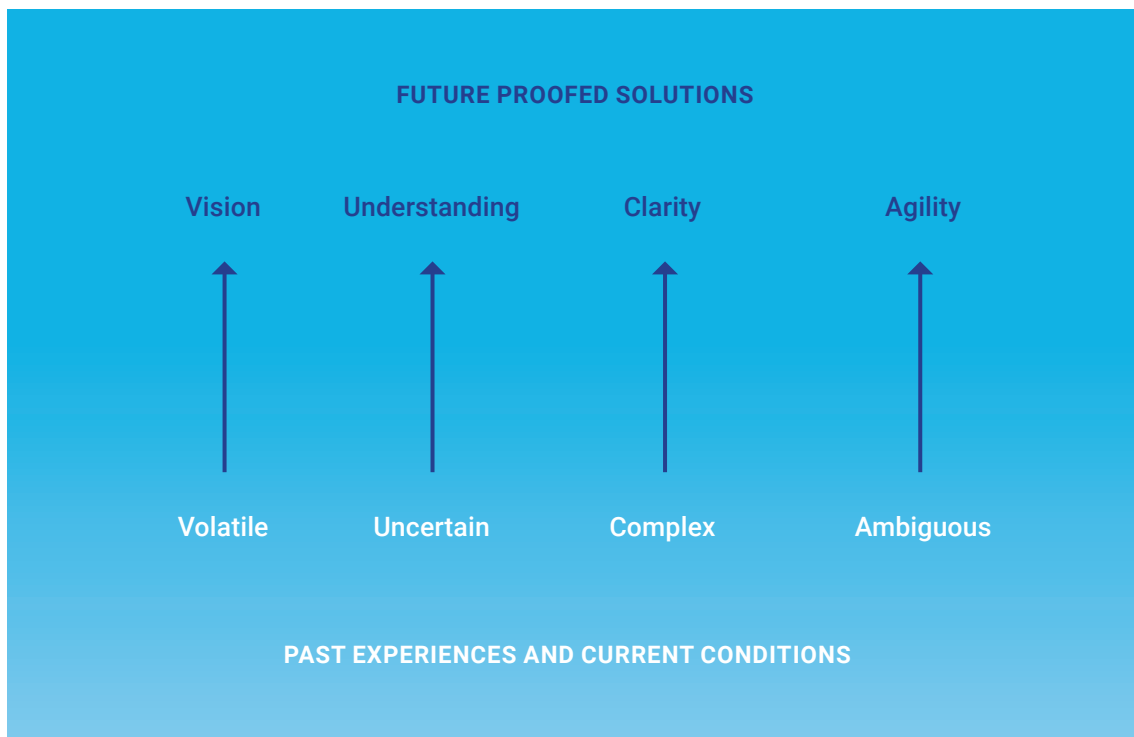
But many variables are uncertain, complex, sometimes ambiguous or simply not yet known. The actions we take should therefore be flexible and visionary.



The future is not what is used to be.

PAUL VALÉRY

The current turbulence we are in fits with the dynamic which is known as a "VUCA World":
Volatile, **U**ncertain, **C**omplex, **A**mbiguous



NOT THE FUTURE BUT FUTURES

It is early days to envision the lasting impact of the COVID-19 pandemic on the airport industry and perhaps even too early. We have entered uncharted territory. Navigating through these unprecedented circumstances, Kinetic believes that the sector will be best served by scenario planning and foresight methodologies to steer us through these uncertain times.

Since no-one can predict the future, we do not focus on the future. We focus on multiple futures.

The disciplined application of thinking in terms of multiple futures can offer a competitive advantage. Using foresight and scenario planning to deal with the new reality, will sharpen organizations to develop alternative futures and test the current organizational model. It is a powerful method to proactively identify new opportunities and create a better strategic approach.



Plans are worthless,
But planning is everything.

DWIGHT D. EISENHOWER

Scenario planning offers instruments to discover the relationships between different and (at first glance) seemingly unconnected elements. It bridges boundaries between all the relevant stakeholders. The knowledge of all of the stakeholders can be shared in a productive way to accelerate implementation in times of change. This makes it possible to **anticipate the future with greater accuracy**.

In this report Kinetic Consultancy aims to support this sense of future thinking becoming an intricate part of the foresight process. Unleashing the energy and knowledge of the broader airport community to accelerate our anticipating power and increase our accuracy.

WHEN WILL WE BE FLYING AGAIN?

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The question on everyone's mind in the airport community is of course: when will we be back in business as usual, or even, will we ever be back in business as before? That was one of the main questions to answer. At the moment of writing Airlines in China are slowly picking up again. Other airlines in Europe and America are restarting their flights with a reduced occupancy rate and with extra health precautions.

I think we've seen the bottom here in- in April. Each week after the first week of April has gotten successively better.

GARY KELLY CEO SOUTHWEST AIRLINES

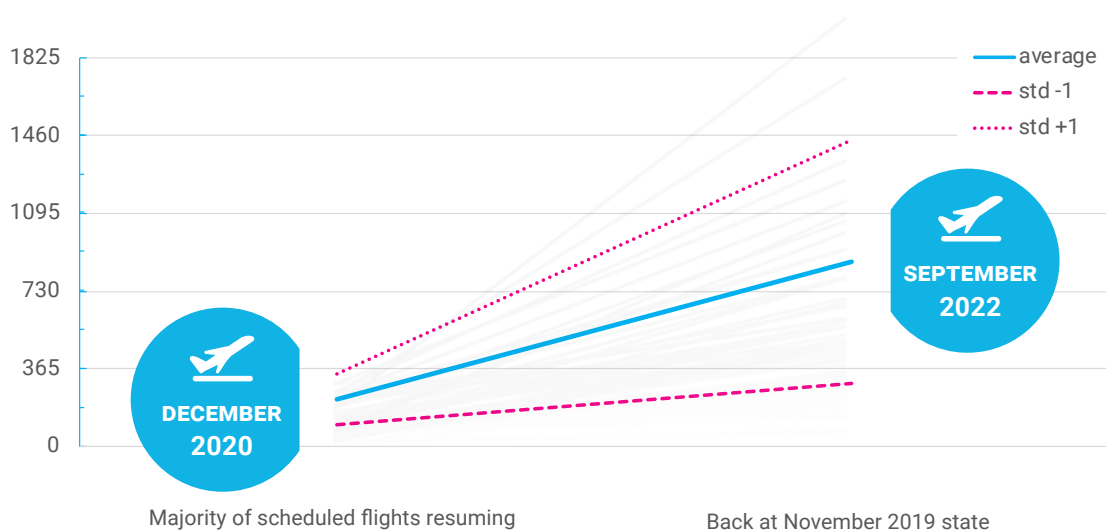
SOURCE: CBSNEWS 2020-05-03

The experts came up with a pretty concise outlook for the first milestone, the moment when the majority of scheduled flights are flying again is calculated on December of this year.

When we look at when (or if) we will ever recover fully from this pandemic, and reach our pre-Corona situation, we see a much more dispersed image among experts, averaging around **September 2022**. But, almost **20%** of respondents are looking further than **4 years into the future** before expecting anything resembling the November 2019 situation.

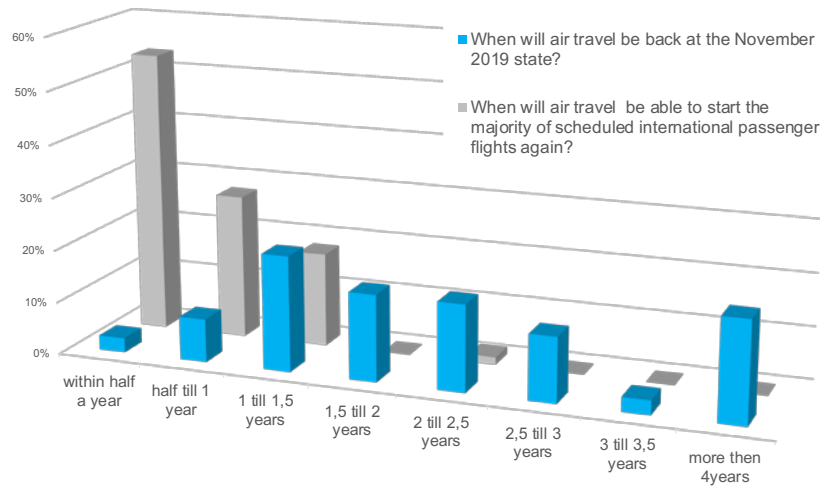
The number of days until two important mile stones

#Days until:



Some respondents even mention that whether or not we will reach that level again, might also be influenced by other trends like environmental challenges, and short-range substitutes. What would it mean if we'd see a lasting decline in the number of passengers? It is something not many of us have had to work with over the past decade.

% of respondents answering within the time frame

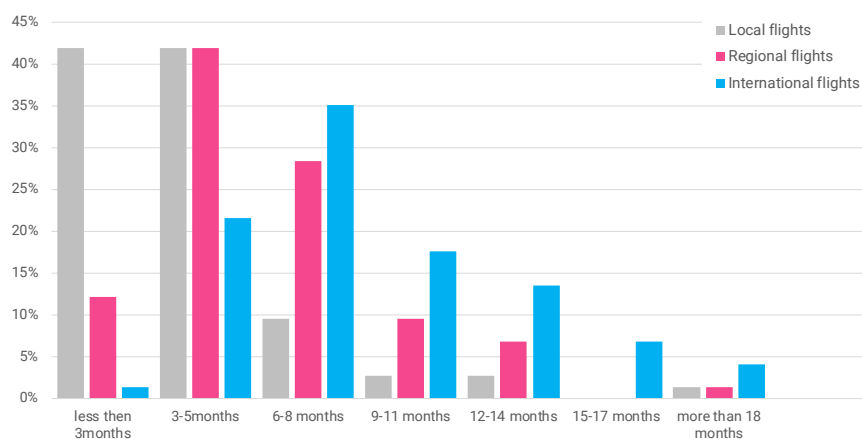


With almost **50%** of experts putting an **operating level like that of November 2019, 2 years from now**, a bounce back or “V-shaped” recovery of our industry seems pretty much out of the question. The absolute through in the number of flights is described by the respondents as relatively short, but the full recovery as very slow and of course with local differences.

DIFFERENT STAGES IN RECOVERY

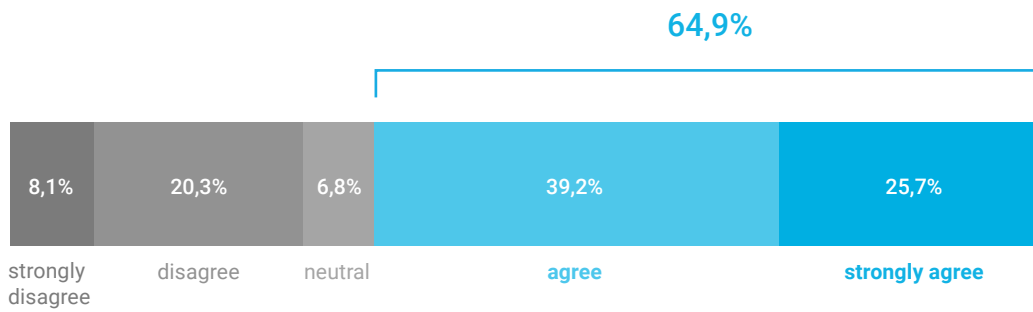
Experts mention a lot will hinge on different timings in the re-opening of borders and countries coming out of lock-down. They see local and regional flights resuming within half a year. For international flights to resume, **80% believes that will happen within the year**. Next to possible health regulations it might also be relevant to see how an airport can best serve its passengers in other ways. For instance, making distinctions not only in different numbers of passengers per stage, but also on the basis of their destination and maybe even motive.

When do you see the following stages happening?



THE FUNDAMENTALS OF AIR TRAVEL WILL HAVE CHANGED FOR EVER

The majority of experts agree that: due to the COVID-19 pandemic, the fundamentals of air travel will have changed for ever. That makes it a very different crisis than other crises, like the financial crisis or the SARSvirus spread. Especially in air travel these prior crises were very noticeable and disruptive but the industry also succeeded to recover from them relatively quickly. This time according to the experts it will be a completely different story.

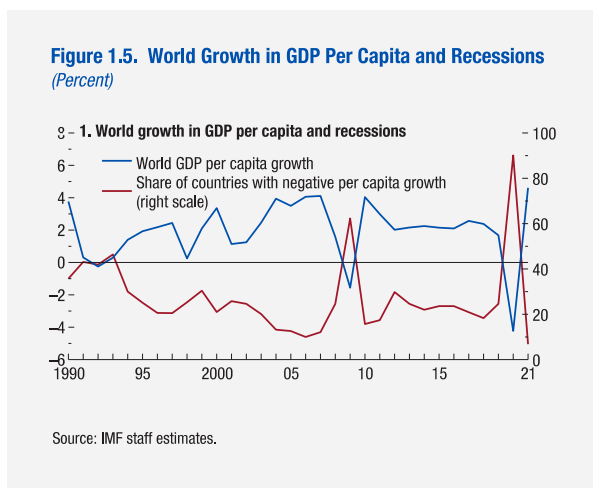


“We are now in the midst of the gravest crisis the aerospace industry has ever known”

MR. FAUR CEO AIRBUS

SOURCE: NY TIMES, 2020-04-29

As seen in the outlook of the IMF, the Covid-19 pandemic will be much more than a health crisis. The question is: Can the air travel sector afford to invest in new health regulations while also coping with an economic crisis? At the very least it does seem to justify an expected change in how air travel will look in the future. Not just the travel and the number of passengers will differ, but also their personal circumstances. A decline in spending power will influence sales at airports, landside and airside as well.





DEPARTURES

FLIGHT	CHECK-IN ROWS	REMARKS	BOARDING	TIME	TO	FLIGHT	CHECK-IN ROWS	REMARKS	BOARDING	TIME	TO	FLIGHT	CHECK-IN ROWS	REMARKS	BOARDING	TIME	TO	FLIGHT	CHECK-IN ROWS	REMARKS	BOARDING	
M1518	S05018	04				TR476	M18394	10-11		16:35			10-11			16:35			10-11			
VA5890		04		15:50	LANGKAWI	S08394		10-11					10-11			16:35			10-11			
M1706	NZ3826	04		16:00	BANGKOK - BKK	S0976	A17242	03		17:35	PHNOM PENH	M1608				17:35						
PG4215	S05046	04				VA5575	NZ3452	03		16:45		VA5832	S05008			16:45						
S0188	M15888	03		16:10	KUALA LUMPUR	M1340	MH5730	04		16:55	KUALA LUMPUR	S0116				16:55						
Z3218	UK8188	03		16:10	BALI - DENPAS	VA5741	UK5340	04		17:00		UK8116	NZ3432	MH5842		17:00						
Q960	GA8960	03		16:10		S0946	GA9073	03		16:55	HONG KONG	TR974				16:55						
K8960	VA5628	03		16:20	PHUKET	M15846	UK8946	03		17:00	XI'AN	TR134				17:00						
R486	M18322	10	11	16:20		M1756	NZ3634	04		17:20	JAKARTA	S08374				17:20						
Q8322		10	11	16:20	JEDDAH	VA5779	UK5756	04		17:20		S0964				17:20						
R610		10	11	16:20		TR596	M18328	10-11		17:25		VA5630	UK8964	LH9794		17:25						
R302		10	11	16:25	JAKARTA	S08328		10-11		17:25	HO CHI MINH	S0186				17:25						
1624	FY7336	05		16:25		S0962	GA8962	03		17:30		VA5569	NZ3460			17:30						
5724	S05624	05		16:25		UK8962	VA5584	03		17:30	BANGKOK - BKK	S0982				17:30						
352	MH5744	04		16:55	SURABAYA	M1226	GA9448	04		17:45	CHENGDU	M1938				17:45						
3566	S05306	04		16:55		VA5795	UK5226	04		17:45		S05138				17:45						
128	GA9938	04		16:30	HANGZHOU	TR188	M18316	10-11		17:45	NANJING	TR182				17:45						
5220	UK5128	04		16:30		S08316		10-11		18:00	BANGKOK - BKK	S0835				18:00						
288		10	11	16:30	KUALA LUMPUR	TR468		10-11		18:00		TR816				18:00						

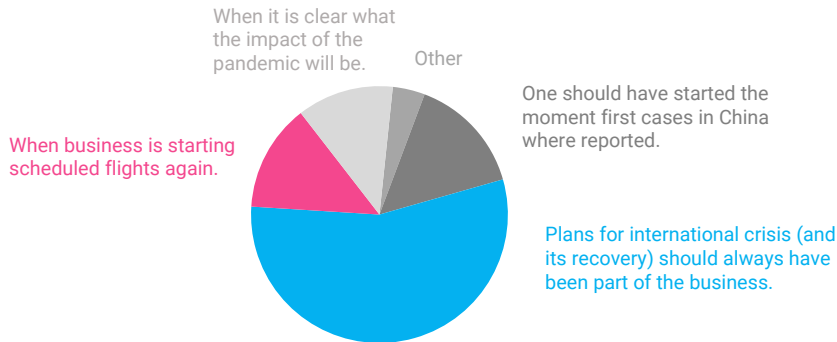


ARE WE ALREADY IN RECOVERY MODE?

ARE WE ALREADY IN RECOVERY MODE?

Although this is a crisis of unprecedented scale, over half of experts say that **international crises should already have been part of business plans.**

When should you start looking for recovery scenario's



When determining recovery strategies, a lot must be taken into account. The expert's opinion is that the most important thing to consider for recovery strategies is governmental action. What government officials will put in place in terms of aid and regulations will probably **the major driver for airport scenarios.**

Other categories were: "Different flight motives of passengers", "Economic development home country/state", "Total number projected passengers" and an "Other..." category. In which most often the breakthrough moment a vaccine or cure is found is mentioned. The total number of projected passengers seems to be the least relevant in determining a future strategy and might be considered a scale factor rather than a determining factor. Adjusting for governmental regulations will be a given, whether for 1 or for 10 million passengers.

Governmental actions are most relevant for recovery strategies

1

GOVERNMENTAL AID AND REGULATIONS

A lot of governmental actions are related to the healthcare development in its region. The difficulty as expressed by the experts is the lack of insights on what grounds some governmental actions are being taken. Both aid and new regulations can bring different outcomes on the short- and long-term developments.

2

PASSENGER BEHAVIOUR

Passengers behaviour change is expected to also be a major depender for devising strategies. Re-establishing the passengers trust to go on an airplane seems to be regarded as (also) an airports responsibility. Once they are flying again also their attitude towards shopping/F&B and being at an airport is relevant.

3

WORLD ECONOMIC DEVELOPMENT

A known proxy for the development of airtraffic has always been the local and world economic development. And although they are not to be neglected, they seem to be less relevant for determining recovery strategies from this pandemic.


















**WHAT WILL
CHANGE?
HOW WILL THAT
CHANGE US?**

WHAT WILL CHANGE? HOW WILL THAT CHANGE US?

No one knows exactly what will happen in in even just a few months' time. Aspects like personal distance, hygienic factors and the increase in the use of online shopping and digital meetings might impact scenarios severely. These aspects, although not new to the airport community, are not the core business of airports. It is to be seen how these trends can be incorporated into the business of airports.

 digital becomes the new normal
  people valuing an increased personal distance
 increase in hygienic standards and health regulations

Very relevant		  	  
Relevant	  	  	
Not very relevant	 		
	Not so likely	Likely	Very likely

If more than 10% of respondents chose the likely and relevant option an icon is placed. The more respondents the larger the icon.

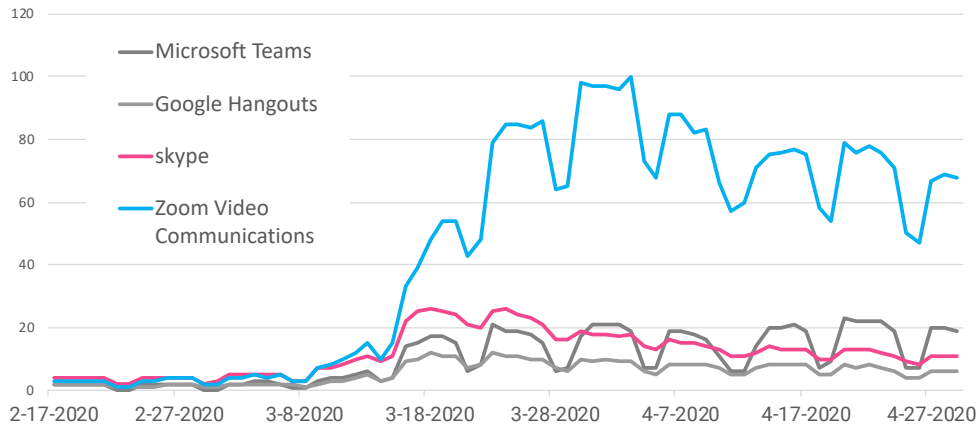
The experts think that new health checks might become just as normal as the increased security measures that stuck around after 9/11. It is a likely scenario and probably a very impactful one; not just for security checks and abiding by new regulations but it might also be related to new personal standards on hygiene. Also, personal distance and digital becoming the new normal for business meetings are perceived to be impactful changes for future scenario planning. **But what role can airports play when digital shopping or meetings become more widely used?**

“Although the possibilities and use of digital contact is booming, the need for physical contact remains in business and private, but much more cautious than before...”

F&B / Retail Consultant- Europe

Experts think that it is very likely that we will value personal distance more, but how sustainable is that change? Would airports and their partners be able to invest (enough) to change its layout in the next 2, 3, 5, years to accommodate a possibly temporary need? Or could it be that due to the slow recovery, passengers can also slowly get accustomed to larger crowds at airports? Or, if it turns out that we really are looking at a lasting change, how would a lounge look like with less (perceived) crowdedness? Also, the question is if people still want to travel far for business meetings.

Relative world wide search volume for online meeting apps



Source: GoogleTrends 2020

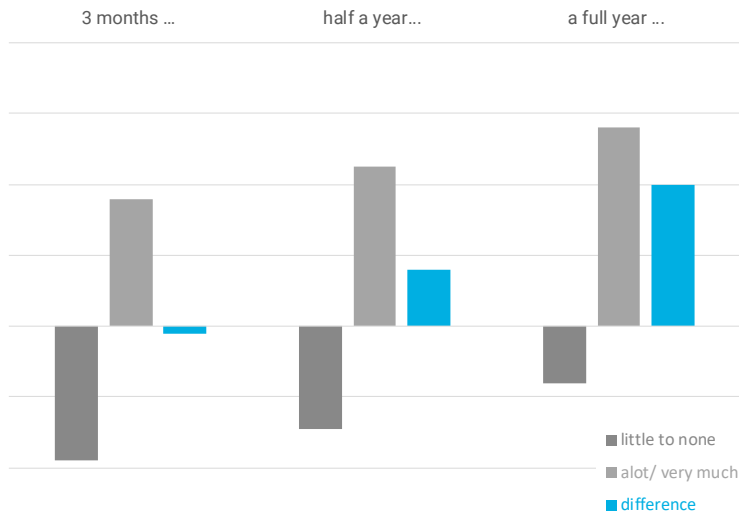
A lot more people have discovered and experienced online meetings as cost-effective and safe means to conduct their meetings. With those apps at the ready it is not hard to see a future where many business meetings will be transferred to online meetings. People might just have developed a new habit there.

“People buying much more online and after price comparison.”
Airport operator – Asia Pacific

NEW HABITS

Forming new habits takes time, but how much time? The experts are almost equally divided when asked if three months of social distancing will have any effect on business meetings. That however changes quite severely after 3 more months. Even more than three quarters of the experts think that if the situation will last for a year, **that this could actually be part of the already famous but still unknown “new normal”**.

Peoples behaviour regarding business meetings will have changed



Although almost all flights are cancelled and shops are closed, airport development has not come to a standstill. A lot of airport experts have already used the down time at the airports to double down on maintenance. IT and security projects are also moved forward or scaled up and even strategic repositioning is still going along.

“Any project that can ensure business continuity in case of second/third wave or similar outbreak in the future”

IT-communications – Asia/Pacific

The **physical development of the airport does experience more of a standstill** with most experts signalling a significant delay with projects regarding large renovation or development being put on hold. When asked what would help to move projects forward (again) apart from cash and people flying again, experts are looking at the envisioning of the future, at a measure of leadership and some broad outlines for governmental aid and new regulations.

PARTNERSHIPS

The sudden and direct evaporation of airtravel brings about severe challenges for the whole sector, not in the least for concessionaires driving airports’ non aeronautical revenue. Although most of the commercial contracts are (partially) turn-over based, they are not footfall based. There is also often an annual guarantee and of course the investments done by these non-aeronautical partners. This makes for a difficult position for a lot of partners. Hopefully, good partnerships strengthen during a crisis. We asked the experts how they think partnerships will

“We will see different rent models and the fixed MAGs will go more in a direction of MAG/DP”

Airport operator - Europe

come out of this crisis. In general responses are about the immediate relationship and **making sure there still is a partner in the near future**. Those responses are about looking for possibilities in contracts to make these emergency actions possible, now, and also in the future by stating them more explicitly into contracts.

...could be towards more partnership or more polarised. Not sure which will be the tipping point."

Airport operator - Europe

Another aspect is almost paradoxical: experts are looking for **more flexibility within contracts** and a more even spread of the risks. They are looking for more security in partners with resilience checks and contingency plans and setting up stronger relationships with those partners.

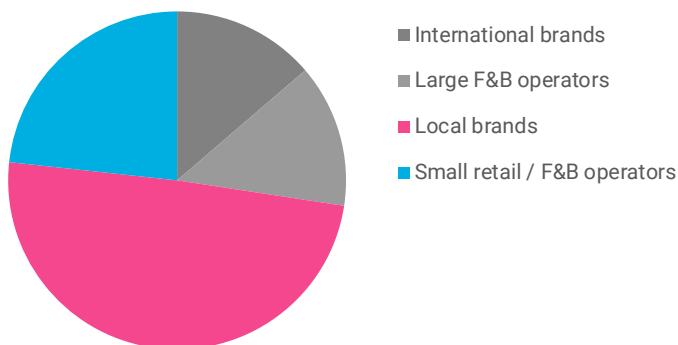
"Dependency on other organisations across the industry (e.g.) passenger trust won't come back unless airlines, airports, hotels and all travel related organisations change their behaviours towards health-related safety"


Airline - America

SMALLER OPERATORS?

At the same time, there is the tendency to think along the line of working with more and smaller operators. When asked, the experts seem to agree that for a non-aeronautical revenue side of business, passengers will be looking for smaller businesses more than before. Making Partnerships and flexible contracts possibly more difficult, but also the level of resilience and the sharing of risk more of a challenge. There is also a train of thought looking into new health requirements with more contactless services like pick-ups and cashier-less shopping. **What will be the roll of airports in supporting its non-aeronautical partners?** A m2 landlord? A full-service facilitator? Or maybe a business partner?

Future focus will be more on



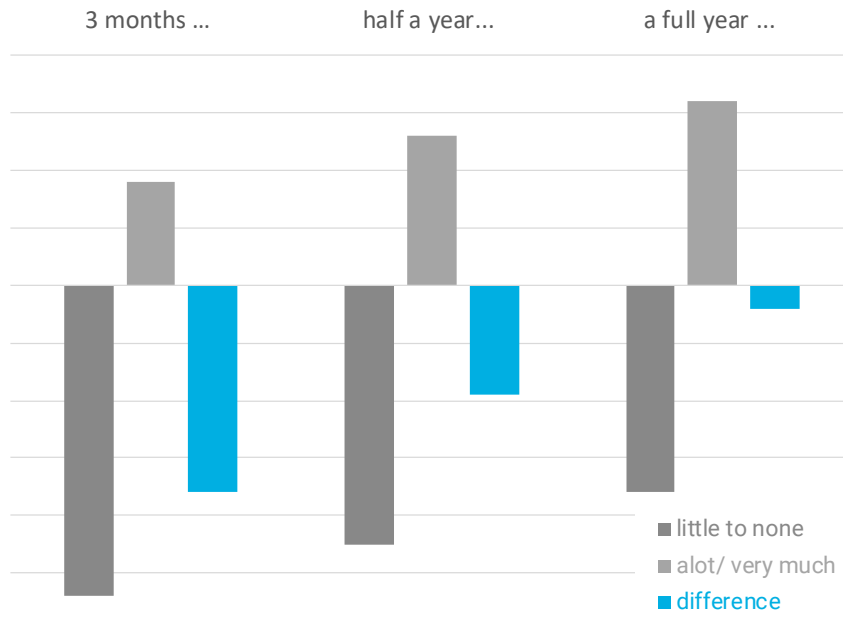


**NON-
AERONAUTICAL
REVENUE AND
THE POST
CORONA
PASSENGER**

POST CORONA PASSENGER BEHAVIOUR

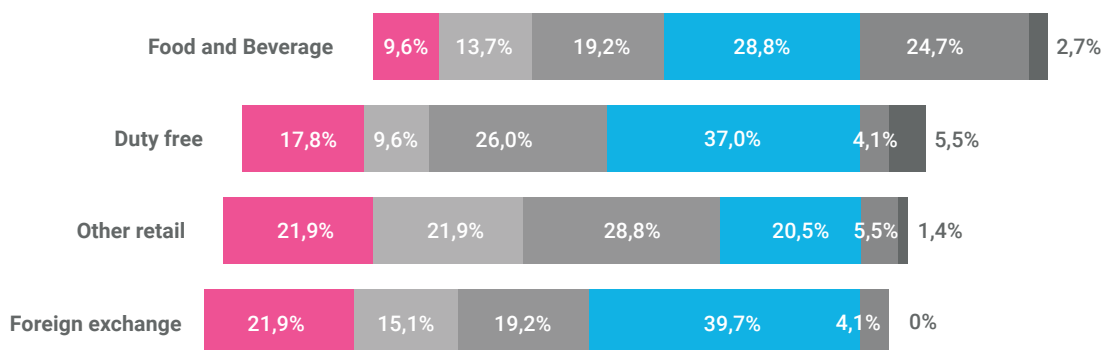
When looking at the drastically different world today it is hard to imagine anything not being affected at all. But most of the experts surveyed think people's **behaviour in airport retail will be least affected**.

Peoples behaviour in airport retail will have changed



That however is not necessarily a good thing. When looking further into future behaviour of passengers within some categories a gloomy scenario comes to light. **Less purchases all together but also a shift in categories** will change spend per passenger and it might also have further ramifications.

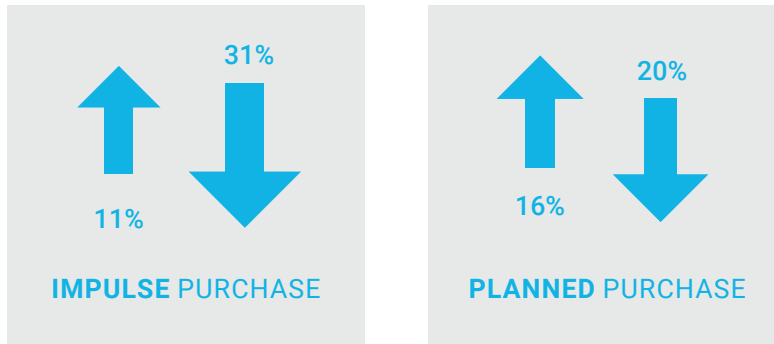
Expected overall decrease in spend per passenger



● decreased more than 10% ● decreased 6-10% ● decreased 1-5% ● increased +1-5% ● increased more than 5%

% of respondents seeing the development of spend per passenger increase/decrease once at the new normal, compared to 2019

A larger decrease in impulse purchases



A decline in purchases all together is the most expected option, but the differences are large.

What would mean less impulse shopping for your lay-out? And could having more planned purchases be an opportunity for your omni channel initiatives?

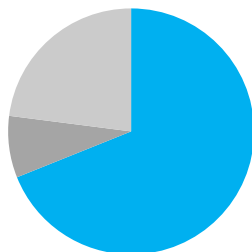
"Once situation is new normal, {spend per passenger} will be in line with what it was"

Airport operator – Asia / Pacific

DIFFERENT TYPES OF PASSENGERS

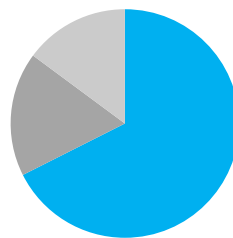
Just over two thirds of experts say that **Business travelers will return sooner to their normal flying behaviour**. With 15% thinking that there might be no difference between leisure and business traveller's recovery there is just 18% thinking leisure might be back on its feet first. Their airport usage and consequently their spending pattern differs.

Do you believe there will be a faster recovery in either:



- Direct connections
- Transfer connections
- No difference

What type of passenger will recover sooner to its normal flying behaviour



- Business passengers
- Leisure passengers
- No difference

For at least a (short) while the type of passengers will differ with also a possible behavioural change in social distancing. The question is: (how) do you keep track of performance? Is this period just an abnormal outlier and should you postpone performance judgement? For how long? Can you use current KPI's and adjust for the lower passenger numbers? Or, when passenger types differ and m2 are not valued the same way, **should you define other KPI's to help steer this strange period?** A decline in spending power overall will surely influence airport non-aeronautical sales in a negative way. Another factor historically related to airport sales is the passengers' dwell time. But the effects of that could go either way.

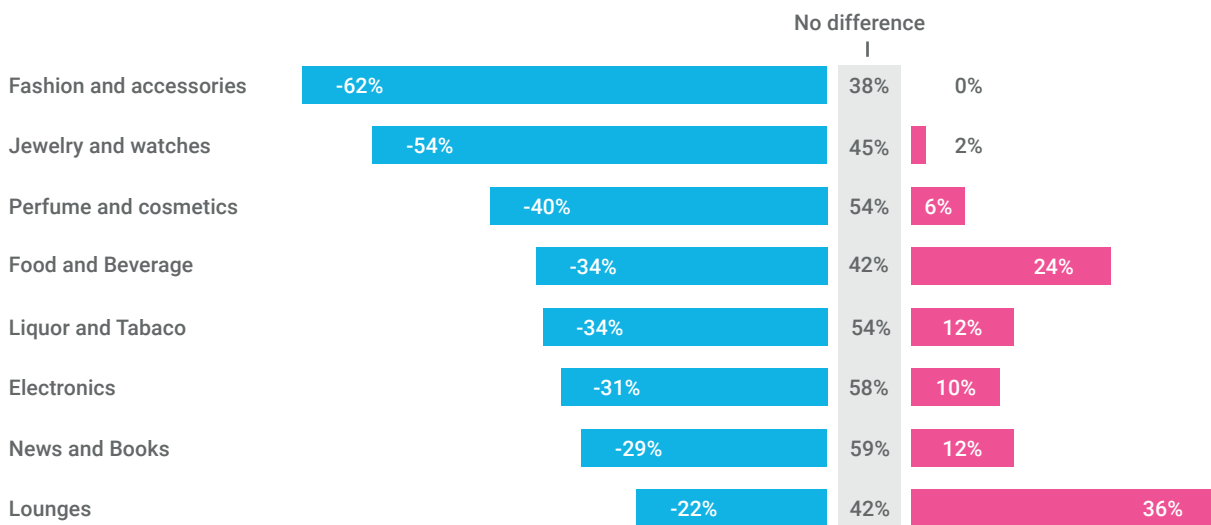
In an open-ended question experts stated that the less time people will want to spend in a crowded place and the more time they will have to spend on technical solutions like prior health checks or time slots, this might well lead to decrease dwell time in airports even further. On the other hand, the process of extra health checks, planning more time between flights and other processes might increase dwell time for passengers.

{What silver linings do you see for non-aeronautical revenue?" ...more screening {could mean} more dwell time in the airport. "

Architect/consultant - Globally

The one category that seems to stand out is the lounge sales, which might provide some extra benefits on hygienic standards and facilitate extra waiting time. Also F&B is still moderately positive but, just to be clear, the majority of experts expect no difference once the new normal has been reached with just one exception: fashion and accessories. That might be in line with current trends.

Will sales increase or decrease in the following categories?



"Potentially, passengers will pay a premium for less congested space, increased usage of pay for Lounges"

Retail / F&B operator – Middle east

Will the already declining categories be discarded even faster with a shock like the current pandemic? Or will this shock allow the industry to come up with new ways to reinvigorate these categories. Will the blurring of categories finally be possible through re-formulating partnership contracts? Or will high margin, low volume categories benefit more from an omni channel approach with services like luxurious pick-ups for instance?

NON-AERONAUTICAL IMPLICATIONS

A key strategic question for many airports is: What will be the optimal retail infrastructure for an airport in the future? Knowing that some factors can impact the current dynamics, such as:

- Regulations (Safety measurements, or conditional government support =>Green)
- Changed customer base (type of passenger and volume)
- Change buying behaviour (Impulse v planned,
- Change partnership base (defaulted operators, shifted financial dynamics)

Our experts foresee the following:

These foreseen changes can have all sorts of physical impact in the future development of your non-aeronautical revenue stream. The duration and amount of impact of course differs from airport to airport. Nevertheless, the table below shows examples of the physical impact of some of these changes.

CHANGE IN	PHYSICAL IMPACT
<ul style="list-style-type: none">• Brand mix• Category mix• Product mix (e.g retail v F&B)• Channel for browsing / buying• Type of partner (e.g. one large v many small)	<ul style="list-style-type: none">• Zoning• Lay-out• Lay-out, zoning, m2size assigned to product, infrastructure• Store size, Pick-up-point• Back of house, storage and logistics facilities

All of these changes are likely to impact non-physical factors, such as:

- Retail / F&B operating partner
- Length of contract
- Investments (current and future)
- Rent level

WHAT'S NEXT?

WE WILL BE WRONG BEFORE WE ARE RIGHT

Once working with a strategy, don't just assume KPI's from before will stay relevant. Making (more) sense of the future for the airport industry in the recovery phase and the future development starts with focusing on the (business) drivers and the impact the current COVID-19 pandemic has on the airport industry, accompanying business and organizations and their future. Kinetic Consultancy understands that every organization is unique, and situations differ for every company and every region.

There is no cookie-cutter solution. The reactions of governments will not only differ but will evolve as the pandemic and its impact changes. These kind of signals might impact the way we can make sense of it all and scanning new horizons. Something which will ask for close monitoring.

“Vision without action is just a hallucination.”

THOMAS EDISON

These signals may not dramatically change the scenario's that one foresees, they may impact the scenario that is applicable.

What's on the agenda for our industry is a focus on interpreting change to explore possible multiple futures and proactive strategic responses. What does this mean for my organization, my business, my industry and such? Which scenario is the most likely to strike us? Which one will be most relevant for our particular organization to prepare for?

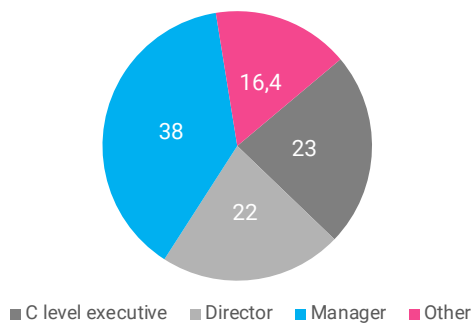
After that it is time to act. Doing, deciding on a preferred future and taking action to move towards that future. Whatever it will look like, it will be a brand new one. The challenge for anyone in our industry has never been bigger. But maybe also never as filled with new opportunities than before.

RESPONDENTS PROFILE

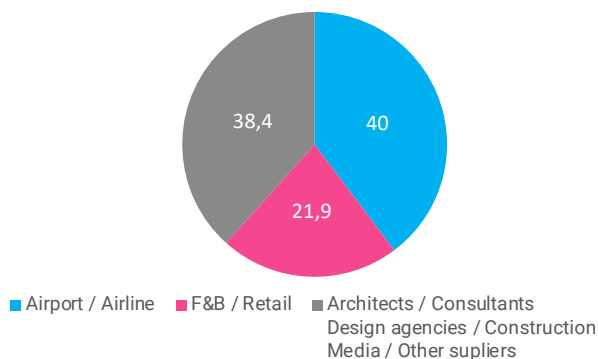
Reactions of the expert community are on certain topics in line with trends that were already happening. One major difference is that for (at least) a while, air traffic will not be growing as fast as it was the past decade. And that in itself might force, or allow, some changes to happen earlier on. A decade from now we will be able to see how much of an impact the Covid-19 pandemic will have had.

The respondents of this survey came from all over the world but Europe, UK and the USA were more heavily represented. The locality of the expert respondents might have influenced their perspective on the pandemic given that each home country or state might have different experiences and be in different stages of the pandemic. However there is no significant difference between these groups observed. The survey was open to responses on week 16 and 17 of 2020.

Which of the following most closely matches your job title?



What category best describes your relation to the airport industry?



CREATING EXPERIENCES, PROPELLING BUSINESS

CONTACT

For questions regarding this report or any other information request please feel free to reach out to our head of research, Juriaan van Waalwijk Juriaan@kineticconsultancy.nl or managing director Martijn Steur Martijn@kineticconsultancy.nl

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