In an environment of sustained uncertainty in the airport industry, it is time for bold new strategies that emphasize self-sufficiency, flexibility, and agility.

With federal funding sources eroding, relative scarcity of airline seats, and increasing competition for those seats, the headline for airport operators is “You’re increasingly on your own—a new operating environment requires new strategies to remain ahead of the game.”

The current slow growth/no growth U.S. airport industry environment, together with ongoing economic uncertainty, have tended to discourage recent investments in strategic planning by airport management—with many managers understandably taking a “wait and see” approach.

In fact, this very uncertainty, together with emerging structural changes in the U.S. airport industry’s operating environment, creates a new imperative for strategic planning.

This emerging “new normal” demands new strategies and recalibrated priorities to address structural changes, including:

- **Shortfalls in Federal Funding** – Airport Improvement Program (AIP) grants are declining compared with historical levels, at the same time that airports have lost a substantial share of purchasing power from passenger facility charges (PFCs) – the last increase to the $3.00 and $4.50 ceilings was more than a decade ago. There is growing consensus that the existing financial model for U.S. airports is unsustainable, and that new models based on increased financial independence must be developed.

- **Volatility in Traffic Trends** – In the short- and medium-terms, consistent traffic growth can no longer be relied upon as a “cure-all.” Strategies are needed to ensure that airports are resilient to alternate futures, which may include managing contraction and increased traffic volatility in the short- and medium-
Airports now need strategic plans to complete their transformation from cost recovery organizations that could pass on their costs to users, to actively managed, independent commercial enterprises.

terms, while retaining the ability to manage the potential for strong growth in the longer-term.

- **Airline Industry Restructuring** – As airline industry evolution continues (e.g., consolidation of major airlines, strengthening airline alliances, growth of the ultra-low-cost airline sector, retirement of 50-seat regional jets), changes in air service patterns and the relationship between airports and airlines can be expected, with as yet unpredictable results for airports and the communities they serve.

- **Increased Airport Competition** – Scarcity (of airline seats, investment, and passengers) means that airport managers increasingly do not operate their airports as monopolies. Airports are now increasingly in competition with each other – for air service, for passengers, and for investment.

**Why Every Airport Should Have a Strategic Plan**

In an environment of increased competition, economic uncertainty, and constrained federal funding, airport operators need strategies to ensure success across a wide range of potential circumstances.

In particular, airport strategic plans will need to emphasize three key attributes: self-sufficiency, flexibility, and agility.

Strategic plans are now needed to transform airports from steady-state businesses, configured to operate in a known and mostly predictable universe of factors, to dynamic-state businesses, configured to operate in a new world order where uncertainty and change are endemic, and the ability to operate nimbly and independently is key.

No matter how uncertain the environment, airport managers will still be expected to continue delivering operational safety and security, find the means to invest in capacity enhancements (because there is general agreement that traffic levels will eventually bounce back), sustain consistently positive operating margins (to fund debt service and maintain credit ratings), and maintain and improve user levels of service (because service levels affect user choice and, therefore, competitiveness and enterprise strength).

Going forward, consistent achievement of these fundamental goals will require airport managers to re-examine how they operate, and to develop new business, financial, and operational strategies that recognize new realities, and proactively plan to address them.

**The Fall and Rise of Airport Strategic Planning**

While many airports have strategic plans, many of these plans are based on the assumption of stable operating conditions that no longer apply. The current industry environment requires a more flexible approach to strategic planning – putting in place enduring drivers of success that are effective across a wide spectrum of operating conditions.

Strategic planning as a concept has gone through cycles of popularity globally. An increased focus on strategic planning in the airport industry over the last 10 years means that many, if not most, airport operators have developed strategic plans of some kind. In some cases, these are comprehensive high-level strategic plans and, in other cases, they are families of specific plans (e.g., financial strategy plans, master plans, commercial development/land use plans) which, when taken together, provide a strategic framework to guide the development, management, and operation of the airport enterprise.

The problem with traditional strategic planning exercises is that they have tended to produce comprehensive hierarchies of fixed goals, objectives, and specific action plans based on detailed analysis of a known and reasonably predictable operating universe. While these plans have provided an effective means of coordinating efforts toward agreed-upon

**FIVE CHARACTERISTICS OF AN EFFECTIVE STRATEGIC PLANNING PROCESS**

1. Leadership by a small team of the right senior people (no more than 10), with appropriate involvement from stakeholders
2. Commitment to a short-timeframe and an intensive process – more than 3 months will tend to dissipate momentum
3. Development of a short list of seriously important strategic directions that the organization has the capacity to manage, and that will enable achievement of the vision across the widest spectrum of circumstances
4. Focus on the fundamental drivers of success rather than complex hierarchies of inflexible goals, objectives, and actions
5. Commitment to share the plan throughout the organization and to review and update the plan regularly
goals in a stable environment, such plans are typically complex and are often not easily adapted to fundamentally changed conditions, such as precipitous traffic declines or significant changes in the availability of funding sources.

Harvey Mintzborg, writing in the *Harvard Business Journal*, said that “the most successful strategies are visions, not detailed plans.” And that is particularly true in times of rapid change and uncertainty. Changing circumstances can rapidly render traditional strategic plans obsolete, as detailed action plans become progressively disconnected from a changing business environment.

Strategic planning in times of change and uncertainty calls for a more flexible approach. Developing a wide range of scenarios, understanding the drivers that will best equip the organization to achieve positive outcomes in all scenarios, monitoring strategies more vigorously, and separating fixed long-term goals from short-term action plans that are reviewed and revised annually will all help create flexible plans that can provide clear guidance through turbulent times.

Airport strategic planning in the current environment should be more focused on influencing the fundamental drivers of success and less focused on hierarchies of specific actions based on fixed assumptions about existing and expected conditions.

**A Pragmatic Approach to Airport Strategic Planning**

*Airport strategic planning in the current environment needs to be concise, focused, and output oriented.*

An effective strategic plan should deliver four results:

- **A clear long-term vision** of what the organization wants to achieve, which is not compromised by short-term challenges
- **Flexible and adaptable strategic directions** that the organization will pursue to achieve its vision (as distinct from overly prescriptive and specific goal and objective sets)
- **Demonstrable relevance and benefits,** for both the short and longer term
- **A plan for the organization and resources needed** to facilitate delivery of the vision and achieve alignment within the organization

Strategic planning exercises can take many forms. However, in an environment of austerity and stress, most organizations have neither the time nor the resources to engage in protracted collective planning exercises. Effective strategic plans can be developed intensively over a short period of time (typically, 3 months) led by a small group of the right people with appropriate, targeted input from stakeholders. Planning starts with senior executives establishing high-level goals, and then engaging the organization and stakeholders in a targeted manner to refine goals and define sub-strategies and programs to implement goals and to build support.

The high-level strategies they develop should be defined as directions in which the organization wants to move—specific enough to establish clear goals, but flexible enough to adapt to changing circumstances.

Effective strategic planning is no longer about scenario planning, but rather about getting the fundamentals right that will tend to drive positive outcomes in all scenarios—such as progressively reducing the cost base, diversifying revenue sources, ensuring that all airline space can be used flexibly, and migrating away from cumbersome “general fund” processes.

However, it should be recognized that strategies take on value only as people infuse them with energy. Therefore, stakeholder involvement and communication are critically important, but do not have to drive the process.

**Key Areas of Emphasis for Airport Strategic Planning**

Every airport strategic plan needs to reflect different local priorities. However, recognizing the common structural challenges facing the industry, airport strategic plans going forward will likely need to focus on six key domains, where new strategies have the most potential to fundamentally enhance enterprise strength and resilience:

1. **Funding and Finance** – With the eroding value of AIP funding (see chart on page 4), ongoing uncertainty about the AIP itself, continuing constraints on PFC levels, and potential elimination of tax-exempt financing for airports, it is likely that the U.S. airport industry is facing a tipping point in relation to its traditional capital funding sources. In this context, airport operators increasingly need to develop nontraditional strategies to secure the capital they need to deliver upgraded facilities, potentially to include greater use of private-sector partnerships, and pursuing greater rate-setting autonomy. The Airports Council International – North America “Airports for the Future” initiative is exploring greater financial independence for U.S. airports, and paving the way for regulatory change that may result in a new paradigm for airport financial operations, and which, in turn, will create a greater need for airport operators to develop their own innovative funding strategies, optimized for unique local conditions.

2. **Margins and Performance** – Airport enterprises are expected to maintain consistently positive operating margins, irrespective of operating conditions. To maintain margins across a broad range of operating scenarios means managing costs down and revenues up. More than ever, airport operators need innovative nonaeronautical revenue development strategies, and a sharp focus on efficiency and effectiveness. The lower the cost base, and the stronger and more diversified the revenue base, the greater the resilience to market volatility and external shocks, and the smaller the enterprise risk exposure.

3. **Asset Flexibility and Optimization** – In an ongoing environment of austerity and preparedness for uncertainty, all assets – physical, human, and technological – must be optimized. This means developing strategies for how to best use what currently exists before building new, and how to harness technology and human capital to increase productivity, without over-stressing the organization.
have shown that organizations can frequently increase productivity by 10% to 20% by a combination of procedural change, training, and technology, and by thinking differently about what people do. In the current environment, all airport operators need to develop strategies to capture the value of such potential performance improvements.

4. **Airports as “Brands” – Competitiveness and Customer Service** – While airport operators do not have complete control over all aspects of customer service, overall service levels should be recognized as a key competitive factor, and strategies should be developed to increase direct and indirect control over the total airport customer experience. It is time for airport operators to start developing their airports as distinctive “brands,” with strategies in place to strengthen competitiveness in the local, regional, and global marketplaces. The operators of airports such as those in Amsterdam and Dubai have pioneered this concept, and have shown that strong brands can directly affect consumer choice in a competitive marketplace.

5. **Governance and Organization** – Continued public ownership and operation of U.S. airports is likely to be the norm for the foreseeable future. While public ownership can certainly deliver world-class airports, requirements to follow general fund processes and procedures may not necessarily provide the speed of response, agility, and flexibility necessary to optimize U.S. airports as businesses competing in a future characterized by change and uncertainty. At a minimum, airport strategic planning will need to include consideration of how customized processes and procedures can be developed to enhance efficiency and promote agility within existing governance structures. While potentially more controversial, strategic planning for airports could also consider migration to special purpose governance models, such as regional or multimodal authorities, with more fluid, less hierarchical, organizations that can typically enable greater agility and adaptability while retaining full public accountability.

6. **Public-Private Partnerships** – Greater incentives to secure alternate capital program funding, to secure the specialist sector expertise required to develop airport ancillary property, and to contain costs by outsourcing will likely result in a trend for more extensive private sector participation in the development, management, and operation of airports over the coming decade. It will be important for airport operators to remain ahead of this trend, and to explicitly develop programs as part of their strategic plans to ensure that the private sector is engaged efficiently, to do what it does best, on terms that make sense for the airport enterprise.

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**Strategic Planning to Manage Enterprise Risk**

In a structurally changing environment, airports face a future that does not necessarily look much like their past. In this context, airport operators need to take a fresh look at their strategic plans, their planning process, and the emphasis of these plans.

Strategic plans will need to emphasize self-sufficiency, flexibility, and agility. Strategic planning must look beyond scenario planning and focus instead on getting the fundamentals right that will tend to drive positive outcomes in all scenarios. Pragmatic, flexible strategic plans need to be developed by senior management via focused, intensive, output-oriented planning processes. Recognizing that strategies only take on value as people infuse them with energy, strategic planning processes should appropriately involve staff and stakeholders, but should avoid becoming “committee driven.”

Precisely because peering into the future is more difficult today than it was in the past, airport executives should be using every available means to analyze what the world could look like in the coming years, and developing strategies and targets using this analysis. Ongoing strategic planning processes are now a necessary investment to manage enterprise risk and ensure sustainable success in the inherently unstable and uncertain business environment likely to face the airport industry over the next decade.

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**Reduced levels of federal funding and PFCs (in real terms) underpin the future need for greater airport self-sufficiency and self-determination**

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