Definitions of Air Service Incentives

ACRP AIRPORT COOPERATIVE RESEARCH PROGRAM

Airline Revenue Guarantee / Minimum Revenue Guarantee: With this type of incentive, the airline is guaranteed it will generate a specified amount of revenue from ticket sales associated with the new service. If the airline does not meet the target revenue, the local entity providing the guarantee makes a cash payment to the airline for the shortfall. The terms and guarantee periods associated with these agreements vary widely. Revenue guarantees are provided to limit the airline's risk associated with the service provided. Generally, airline managers favor revenue guarantee incentives. The downside of this type of incentive is that it does not motivate the community to use the new service.

Airport Fee Waiver: Airports can waive airline fees and charges (e.g., landing fees, terminal rent) associated with the use of the airport in return for air service improvements. Such waivers must be for a limited period, typically no longer than 12 months. Although airport fees are a relatively small part of an airline's total operating cost, as the financial difficulties of the airline industry have evolved airport fee waivers have become an important and integral part of airline incentive programs.

Cash Payment and/or Subsidy: With a cash payment or subsidy, the airline is paid a specified amount by the local entity for providing service. The payment is not tied to the revenue generated from the service. The number of cash payments can vary from a single payment to monthly installments. From the community's perspective, the downside of cash payments or subsidies is that the community pays the airline the agreed upon amount regardless of how the airline performs in the market. In addition, this type of incentive does not motivate the community to use the new service.

Facility Upgrades: For most new air service, the airline will incur the cost of upgrading the space that it will occupy in the airline passenger terminal building. These responsibilities vary from airport to airport, but it is typical for the airline to cover the cost of installing phones and computer lines, ticket counter inserts, baggage handling equipment, arrival/departure boards, passenger hold room counters and equipment, and company logos and signage. Depending on the airline's personnel requirements and/or the layout of the terminal building, the airline may absorb the expense of remodeling its terminal spaces to meet its needs. These costs can be considerable and much of the expense is a sunk cost for the airline. Often, as part of an airline incentive package, the airport will agree to cover all or part of the cost of modifying the airline passenger terminal facility to meet the needs of the new airline. In some cases, airports have also provided financial support for the relocation of airline equipment and personnel associated with new air service offerings.

Communities continue to investigate various ways to attract and support local airline service improvements. The types of incentives detailed above cover the most common types of incentives in use today. However, there is a wide mix of other types of airline incentives that include community funded training programs for airline personnel, locally provided aircraft hangars, airline designation as a "preferred provider" by state agencies, and the purchase of ground support equipment.

Ground Handling Services: In order to provide air service to a community, an airline must have provisions for ticketing, baggage, and ground handling of aircraft. All of these require equipment and personnel at the airport. In most cases, airlines elect to provide for these needs with their own equipment and manpower. At smaller airports that are served by smaller regional airlines, these ground handling costs on a per passenger basis may be relatively high. In some cases, from a cost standpoint, it makes sense for a single provider to serve all of these airlines thereby reducing the duplication of personnel and equipment. As an incentive to airlines, the trend is toward the airport providing more ground handling and airport services. Overall, the concept is to reduce airline operating costs at the airport in order to make the airport more attractive (less expensive) to airlines.

Marketing Support: By far, the most used airline incentive is community and/or airport provided marketing support. Community air service marketing programs range from advertisements in the local newspaper to well-planned multimedia advertising and promotion programs with six figure budgets. In many cases, the local community is responsible for the planning, production, and implementation of the entire program. In other instances, the airline handles the production and placement of advertising and a local entity pays the associated invoices. With regard to new air service offerings, these programs provide name and service awareness needed by the general public. This is especially important in smaller markets where airlines do not typically spend money on marketing new service.

The weakness of this incentive is that it typically reaches only half of the market. With the exception of resort areas, typically 40 to 60 percent of the total passengers in a market are inbound passengers who originate outside of the community that has the new air service. When possible, it is desirable to enlist airline assistance in at least highlighting the new service in their frequent flyer communications. Though not without its shortcomings, marketing support remains an important incentive tool.

Pledges of Support: Because business travel is critical to the success of most air service initiatives, airlines are always concerned about the amount of support they will get from local businesses. To give the airline some assurance of local support, communities often provide letters from area businesses stating they will use the service if it is available. Unfortunately, there are cases where airlines have initiated service based on these pledges of support, at least partially, only to find little follow through on the promise to use the new service. More often than not, this happens because competitive forces in the market influence ticket purchase decisions in favor of the incumbent airlines. Factors like frequent flyer programs, travel agency relationships with incumbent airlines, and existing corporate purchase agreements with these same airlines all serve to maintain the status quo. The upshot is that airline managers are distrustful of community promises and/or pledges of support.

Travel Bank: Travel banks capitalize on the airline's interest in business travelers. Instead of local businesses promising to use the new service, local businesses deposit funds into a bank account that can only be used for purchasing tickets on the target airline. This has the effect of providing the new airline with local passengers regardless of the barriers-to-entry that may exist in the market. The effectiveness of travel banks at influencing local passenger traffic in favor of the new airline is dependent on the number of local businesses participating in the travel bank program and the total dollars committed by participating companies. Travel banks are grassroots incentive programs that require a highly motivated business community for success.

Source: Northwest Regional Air Service Initiative, pp. 53-54