

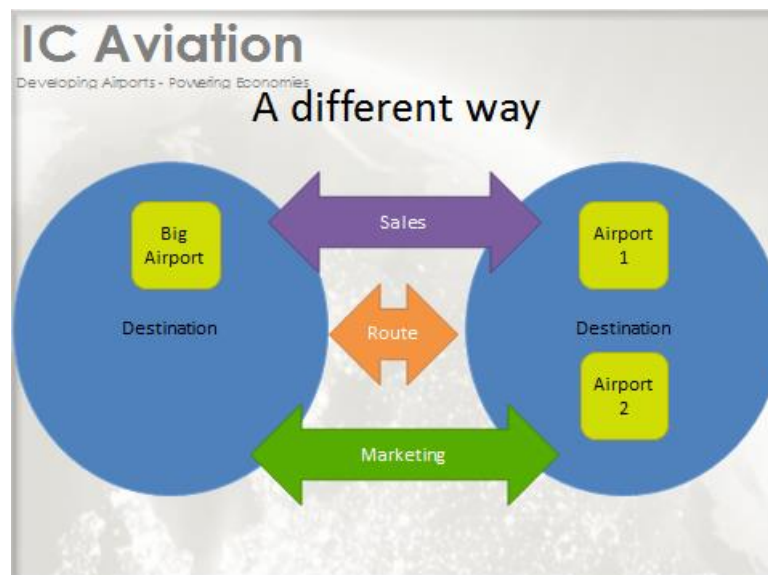
IC Aviation Ltd.

BALTIC BIRD Project

Work Package 5.1 - Elaboration of an Airport Marketing Toolbox

Output Report - **Pilot Project**

7th June, 2013



Background

Many airports perform their route development in a traditional way. They visit airlines, sometimes with local tourism authorities and state their case. Often it is just the obvious things described, such as, runway length, inflight instruments and so on. At the end of the meeting the take-off fee and pax-fee will be presented, sometimes with an incentive scheme and/or a marketing plan.

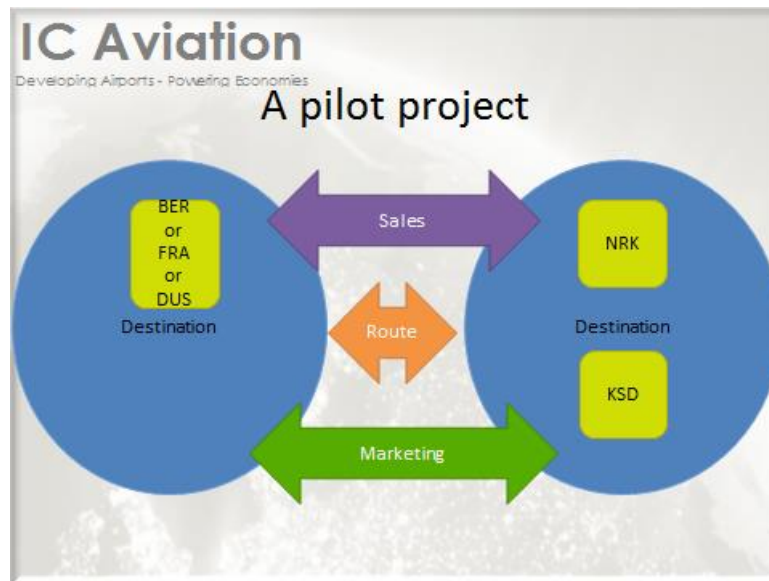
The idea of the Pilot Project was to build a Business Case that is performed in a different way and that is involving everyone that is in favour of a new route at an airport. This case will be conceptualised so that it can be used by the airports in the Baltic Bird project.

Karlstad Airport and Norrköping Airport want to try, within the framework of the Baltic Bird project, a new approach to route development. It is an interreg approach where the two airports/regions on both ends of a route approach the airline with a case where most chairs already are sold to travel-agencies, tour-operators, companies and/or local authorities. As Karlstad and Norrköping airports have a wish for a route to Germany for outbound and inbound tourism, the new Berlin Airport was considered to be a perfect key partner.

The choice of Karlstad/Norrköping and Berlin/Brandenburg is based on the production performed by the airline Flysmåland in Växjö Småland Airport, that successfully operated VXO-BER-VXO. Without any marketing in Germany the load factor on the planes are 50 % Swedes and 50 % Germans. The use of two different, not competing Swedish airports is to offer a combined production for airlines. A route can, in the short term, be accepted as seasonal but should, on long term basis, be a yearly production in order to attract leisure travellers and business travellers.



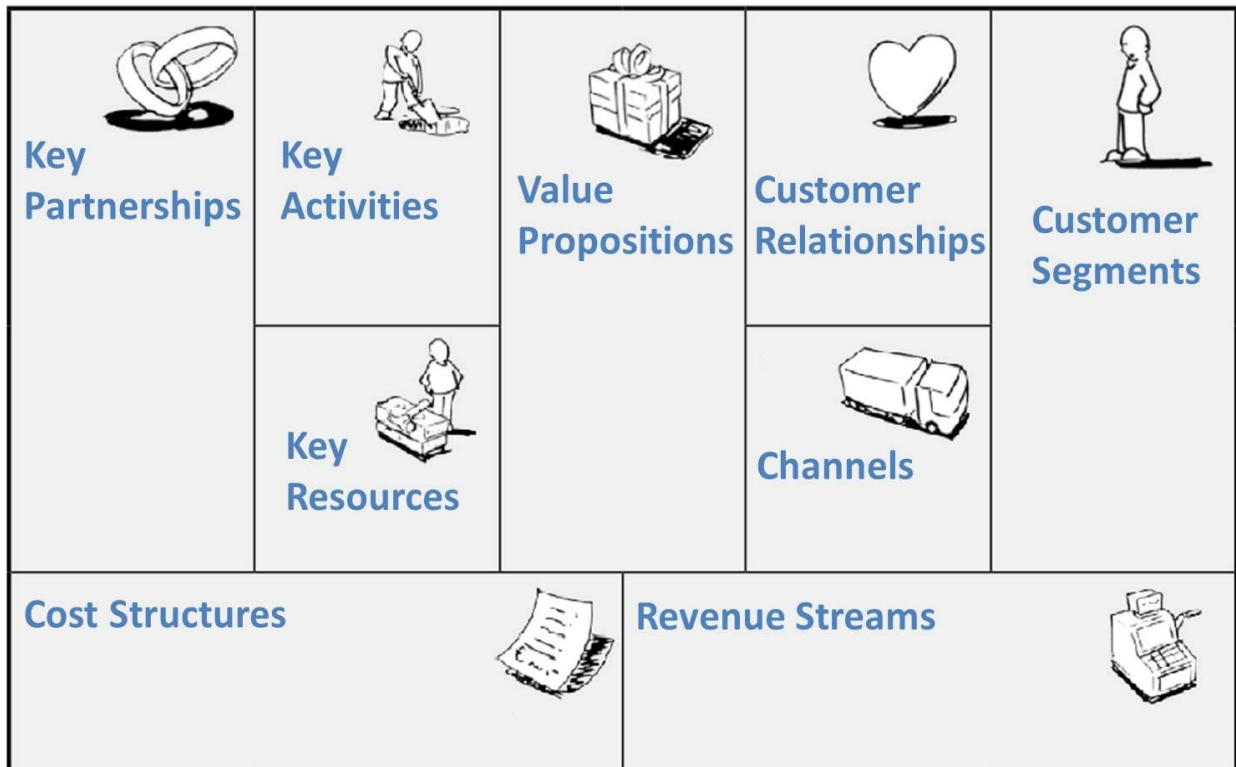
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The findings in the Pilot Project shall be a vital input in the development of the Airport Marketing Toolbox in the WP 5.1 part of the Baltic Bird project.

Methodology

In order to conceptualize the project it was decided to use the "Business Model Canvas", that is a strategic management and entrepreneurial tool. It allows you to describe, design, challenge, invent, and pivot your business model and encourages you to systematically understand, design and differentiate your business model. The model was invented by Alexander Osterwalder.



Osterwalder's work and thesis propose a single reference model based on the similarities of a wide range of business model conceptualizations. With this business model design template, an airport can easily describe its business model.

1. Customer Segments

To build an effective business model, an airport must identify which passenger it tries to serve. Various sets of customers can be segmented based on the different needs and attributes to ensure appropriate implementation of the airport's strategy meets the characteristics of the selected group of airlines.

2. Value Proposition

This is collection of products and services an airport offers to meet the needs of its customers. An airports value proposition is what distinguishes itself from its competitors. The value proposition provides value through various elements such as newness, performance, customization , price, cost reduction, risk reduction, accessibility and convenience/usability.

3. Channels

An airport can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute an airport's value proposition in ways that are fast, efficient and cost effective. An airport can reach its clients either through its own channels, partner channels, or a combination of both.

4. Customer Relationship

To ensure the survival and success of any businesses, airports must identify the type of relationship they want to create with their customer segments.

5. Revenue Streams

The way an airport makes income from each customer segment.

6. Key Resources

The resources that are necessary to create value for the airline. They are considered an asset to an airport and are needed in order to sustain and support the business. These resources could be human, financial, physical and intellectual.

7. Key Activities

The most important activities required to execute an airport's value proposition.

8. Key Partners

In order to optimize operations and reduce risks of a business model, airports usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances should also be considered through joint ventures, strategic alliances between competitors or non-competitors.

9. Cost Structure

This describes the most important monetary consequences while operating under different business models.

Categorizing



The use of the Business Model Canvas contributed to have a different approach in the Pilot Project. The usual airports vs. airline approach was scrutinized and was found to be unpractical in today's competitive aviation market and therefore we decided to create a new model.

1. Customer Segments

Instead of thinking about airlines as customers, the passengers became the customers. As a German route was the foundation for the route development we wanted to achieve, the following segments were identified:

- Outgoing business men
- Outgoing leisure City Breaks
- Incoming business men
- Incoming tourism as in "Nature Breaks" and "Inga Lindström" visitors (Inga Lindström is a popular "TV soap" in Germany and it is recorded in the surroundings of Norrköping Airport).

Fulfilling the needs of at least one of the above segments was set as a goal for the project.

2. Value Proposition

The value proposition is directed to the customers (the passengers) and was therefore expressed as: "To give our regions a gateway for outgoing business flights and short city breaks as well as air born new tourists. With the airport as an active player, that will generate new revenues to the region"

3. Channels

The following airlines (channels) were decided to be targeted:

- Air Berlin
- Lufthansa
- Ryanair
- Norwegian
- Regional carriers

4. Customer Relationship

Norrköping and Karlstad Airports are active in marketing their airports in their catchment area in different kinds of media with ads, social media,



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Google Adwords, events, etc. However, they are, to a certain extent, suffering of a passenger leakage to Oslo (OSL) and Stockholm (ARN). But clearly, the better offer the airport can give to the passengers, the more loyal they will be.

5. Revenue Streams

The proposal directed to airlines will generate a positive revenue stream after year two.

6. Key Resources

- The passenger potential analysis from MK Metrics
- EUROstat statistics
- National statistics
- Regional surveys
- Infrastructure as in the actual airports
- Marketing skills at the airports

7. Key Activities

The defined key activities were:

- Making personal visits to each airline at their office.
- Participating at the Routes Europe event in Budapest.
- Workshops for travel agencies and tour-operators

8. Key Partners

The following key partners were identified:

- Berlin Brandenburg Airport
- Export companies in the catchment area of Norrköping and Karlstad
- Regional tourism authorities in Norrköping and Karlstad and Visit Sweden
- German tour-operators

9. Cost Structure

It was decided that Karlstad and Norrköping Airports were to present a common proposal to the airlines. It should contain:



- A three year, flat, passenger fee all inclusive (incl. takeoff fee, passenger fee, ramp handling and passenger handling but national excluding security fee).
- A three year marketing support package
- Pre-sold seats from travel agents and tour operators

Project status as per 2013-06-07

Route Development is a dynamic process and rapid changes in the European aviation business is something to always expect. Using the Business Model Canvas is therefore helpful. In the below we describe the different factors that have occurred since the start of the Pilot Project and changes taken to cope with them.

1. Customer Segments

Customer segments has not changed since the start and will be the same as below.

- Outgoing business men
- Outgoing leisure City Breaks
- Incoming business men
- Incoming tourism as in "Nature Breaks" and "Inga Lindström" visitors (Inga Lindström is a popular "TV soap" in Germany and it is recorded in the surroundings of Norrköping Airport).

Fulfilling the needs of at least one of the above segments is still a goal for the project.

2. Value Proposition

The value-proposition that is directed to the customers (the passengers) is still the same: "To give our regions a gateway for outgoing business-flights and short city-breaks as well as airborne new tourists. With the airport as an active player, that will generate new revenues to the region"

3. Channels

The following airlines (channels) have been targeted and below is a description of actions taken:

- Air Berlin



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Air Berlin was initially contacted but did not respond to calls or emails. This can be understood as they, at the time, were having hard cutbacks to save their financial situation. A meeting with them took place in Budapest at the Routes Europe Event that also was unfruitful. However, a new opening came in early June as Norrköping and Karlstad Airports have a chance to get in to a plan for an Air Berlin expansion in Sweden. New negotiations is planned to take place during June 2013.

➤ Lufthansa

Representatives from Norrköping and Karlstad airports visited the Lufthansa head office in Frankfurt 29th of January 2013. The meeting was considered being productive from all involved parties and discussions continued at the Routes Europe event in Budapest. At this moment it seems that Lufthansa has a bigger interest in flying to Karlstad which can seem odd as Norrköping has a better catchment area and a better potential of passengers. A strong factor for Lufthansa looking at Karlstad is a much stronger commitment from the export-companies in Karlstad. A definitive answer from Lufthansa will come in early July.

➤ Ryanair

Normally Ryanair is considered being a strong brand with an ability to create new passenger streams. However, at this present Ryanair is not having any new planes coming in and therefore they are less willing to take any risks on new routes. Representatives from Norrköping and Karlstad have had several meeting with Ryanair during the project but there has been no success in persuading Ryanair to think about adding any routes from Germany to Karlstad and/or Norrköping.

➤ Norwegian

With 222 new planes on order and Europe at its feet, Norwegian is an option for growth at Swedish airports. Representatives from Karlstad and Norrköping airports have been meeting Norwegian in Oslo as well as at the Routes Europe event. As Norwegian do not have any bases in Germany yet, they can't really offer the preferred production to Karlstad and Norrköping. However, there are good chances that Norwegian will open up bases in

Germany and the relations with the airline and the airports are good and future options might well appear.

➤ Regional carriers

During the time of the pilot-project a new virtual airline was started in Sweden. Air Sweden with its website flyswedish.se, started to launch flights from Karlstad to London Stansted and from Norrköping to Copenhagen, Skellefteå and Thessaloniki. The flights were supposed to be a "wet-lease" production from Estonian Regional and should have been flown with an Embraer 70 jet. Next destination to follow from Karlstad and Norrköping was to be Frankfurt. However, the company only had one flight from Karlstad before it decided to cancel their entire programme over the summer of 2013 to restart it again at later date. At this present a meeting is planned with the airline in early June to discuss any future plans.

4. Customer Relationship

Norrköping and Karlstad Airports are continuing to be active in marketing their airports in their catchment area in different kinds of media with ads, social media, Google Adwords, events etc. Both airports are having their success in the charter (outgoing) segment.

5. Revenue Streams

The proposal directed to airlines will generate a positive revenue stream after year two.

6. Key Resources

In the pilot-project the Key Resources are the same but they have been complemented with Letters of Intent from export-companies in the Karlstad area, guaranteeing to buy seats from a new carrier.

- The passenger potential analysis from MK Metrics
- EUROstat statistics
- National statistics
- Regional surveys
- Infrastructure as in the actual airports

- Marketing skills at the airports

7. Key Activities

The defined key activities continue to be:

- Making personal visits to each airline at their office.
- Workshops for travel-agents and tour-operators.

8. Key Partners

The following key partners were identified and below is the status regarding them:

- Berlin Brandenburg Airport

Due to well-known problems with the inauguration of the new airport in Berlin, the airport didn't really become the partner that it was supposed to be. It is easy to understand that BER had other things on their mind and still do.

- Export companies in the catchment area of Norrköping and Karlstad

Karlstad has been really successful with the engagement of export-companies in their region which has been proven a good way to get airlines interested. As the situation in Norrköping is that their biggest passenger potential is among civil servants in governmental institutions, they have not been able to have the same kind of engagement. Governmental institutions are not allowed to sign such Letters of Intent.

- Regional tourism authorities in Norrköping and Karlstad/Visit Sweden/German tour-operators

Plans have been taken to prepare for workshops with travel agents and tour operators on both ends of any route. They can start rather fast as soon as any negotiations with airlines are finalized.

9. Cost Structure

The joint proposal to the airlines is still the same:



- A three year, flat, passenger fee all inclusive (incl. take-off fee, passenger fee, ramp-handling and passenger handling but excluding security fee).
- A three year marketing support package.
- Pre-sold tickets from travel-agents and tour-operators.

Summary

Persuading airlines to set up new routes to small remote airports in Scandinavia is a tough and continuous process. Different factors out of control for the airport can change the scenario directly. Norrköping and Karlstad Airports have had good discussion with several airlines. These airlines are not prepared to take any risks setting up a new route. Therefore, the less risk that is presented to the airline, the bigger the chance to have a new route. Minimizing risk can mean getting real engagement from the companies that are using the route most and it must be complimented with an engagement from the airport presenting a tempting Business Case as well.

The chance to succeed with new routes to Norrköping and Karlstad within the framework of the Pilot Project is still fairly good but the timeline is most certainly to be pushed forward.

Olle Fält

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Note. Exact details about the joint proposal to airlines can't be revealed as it is considered being confidential information between business-partners.



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