

➤ IN TIMES OF CRISIS, IT IS WISE TO PUT DIFFERENCES ASIDE, JOIN FORCES WITH YOUR ADVERSARIES AND MOVE FORWARD TOGETHER. IT WAS IN THIS SPIRIT THAT THE ALLIANCE WAS ANNOUNCED IN NOVEMBER LAST YEAR BETWEEN SCHIPHOL AND AÉROPORTS DE PARIS. LUCY SCHWERDTFEGER SPEAKS TO **FRANÇOIS RUBICHON** OF AÉROPORTS DE PARIS AND **AD RUTTEN** OF SCHIPHOL TO GET BOTH SIDES OF THE STORY.

COVER STORY

If you can't beat them...

Aéroports de Paris (ADP) and Schiphol Group claim to have the same strategic vision, 'We both want to participate proactively in the current transformation of the air transport industry,' explains François Rubichon, deputy CEO of ADP. 'Airlines tend to consolidate into strong interpretational alliances; competition is shifting increasingly towards direct confrontation between large hubs; incumbents are threatened by the emergence of powerful hubs and airlines in up-and-coming countries; and ground products and services are becoming ever-more key factors in differentiating between airlines and key drivers of passengers' choice.'

Although this is uncharted water for the French contingency, Schiphol has established an alliance with a major European hub before. In December 1999 they established the Pantares agreement in order to offer a wide range of services to the global airport market. The key desire was to realise cost synergies from optimising hub operations at Amsterdam and Frankfurt airports and to gain a market share in the global airport market. They expected it to build momentum quickly and to be the leading player in the upwards curve the industry was then taking. This however was not the case and the agreement was phased out.

So what are the key similarities between that agreement and the unnamed alliance they have now created with ADP? For Pantares, the basis of their cooperation covered six key business areas; passengers and retailing, aviation ground handling and cargo, real estate development, facility management, information and communications technology and international activities. For the recent alliance there is a much more obvious, financial and contractual bond, a share-swapping agreement of 8% percent solidifies their cooperative intent.

Dual-hub concept

The alliance they agreed at the end of last year has the main concept that cooperation will improve the competitiveness of both airports 'Through consolidation of a dual-hub we will be able to offer one of the highest number of destinations [143] among all European hub airports. We will

'ADP and Schiphol both want to participate proactively in the current transformation of the air transport industry'

cooperate to provide a greatly enhanced value proposition to end users through best-in-class service levels, broader product offerings and continued competitive visit costs for both airlines and passengers,' explained Rubichon.

Gerlach Cerfontaine, former president and CEO of the Schiphol Group, agrees. 'This collaboration venture signifies an important strategic choice for the dual-hub system in the consolidation process that is taking place in the global aviation industry. It gives ADP and Schiphol Group the edge over other airports and creates a leading network of connections for European and worldwide transfer travellers. This move is certain to improve our competitiveness, as well of that of SkyTeam, relative to our competitors in Europe and the Middle East. In addition, the

PREDICTED SAVINGS

Schiphol Group and Aéroports de Paris have identified combined revenue and cost synergies of around €71 million per annum on a fully phased basis by 2013 and expect to reduce capital expenditure by €18 million on average per annum from 2013 onwards. Approximately 15% and 18% of the revenue and cost synergies are expected to be achieved by 2010 and 2012 respectively. Of the total identified synergies, €55/14 million (2010/2012) are expected at Aéroports de Paris and €16/4 million (2010/2012) are expected at Schiphol Group.

Savings breakdown Aéroports de Paris

Aviation – 45-50%
Retail – 30-35%
Other activities – 20-25%

Synergies will result, in particular, from common equipment purchases (electro mechanics, baggage handling, security, airside etc.) with Schiphol Group, introduction of new services such as Privium and increased yield per passenger in retail.

Schiphol Group

Aviation – 40-45%
Retail – 20-25%
Real estate – 10-15%
Other activities – 15-20%

Synergies will result, in particular, from common equipment (electro mechanics, baggage handling, security, airside, etc.) and retail purchases with Aéroports de Paris.



strengthening and the quality of the services and our principal airport processes will offer advantages to all users of our airports –airline and passengers alike.'

The newspaper, *Financieele Dagblad* says a closer alliance between the two airports will also fit in with the Air France/KLM alliance. 'By sharing respective practices, improving competitiveness of both platforms and developing collaborative approaches, Schiphol and ADP expect to strengthen their relationship with the largest clients among which is Air France-KLM,' says Rubichon. 'We have combined our respective catchment areas to create of the largest passenger market with 59 million inhabitants. Our passengers will be offered new travel opportunities on destinations served by only one platform and increased frequencies of flights to common destinations. Harmonisation of processes and products offered on both platforms will align customer experience.'

The dual-hub concept is a step further than either airport has experienced before. 'This is very different from the Pantares agreement – that was based solely on commercial gains, either airport could get out at any time.' The noticeable difference here between the two agreements is the time of year that they are agreed. The Pantares alliance was founded during a major upwards economic curve, meaning they had

KEY FACTS

- 'A share-swapping agreement of 8% solidifies AdP and Schiphol's cooperative intent.'
- The combined catchment area creates the largest European passenger market, with 59 million inhabitants.
- Schiphol and Aéroports de Paris have identified combined revenue and cost synergies of around €71 million per annum.

SUSTAINABLE TOGETHER

'We are the guinea pigs for the new ACI-supported programme Green Initiative. It's a programme that lets other airports across Western Europe assess themselves and how well they are achieving a sustainable output.

'Using technology we are working together to look at waste control from the airports. We have hired the same company to look at how best to deal with this and create a more sustainable future for both airports.

'Self assessment is key, it's the only way in which you can grade yourself on how effective you are really being.'

Ad Rutten, COO Schiphol Airport Group.



everything to gain from each other. There must have been a much lower risk factor than there is in agreeing the alliance they did at the end of last year. The focus of this marriage is based on the dip in passengers and minimal available revenue. If anything there are elements of genius about this move. At the time of the alliance, although we were on the brink of a global recession, there were still the funds available to find the €530 million Schiphol needed for their 8% of shares and €370 million for ADP to get their 8%, where as if they were to look for it now, or in a few months' time, it's likely that it would have been a different story. Now they are contractually and financially bound together, for better or worse. 'You have to get commitment from them. This is the key difference between this and the Pantares agreement,' confirms Ad Rutten, COO of Schiphol, 'You are held to the contract so it's a long-term commitment'.



AD RUTTEN

➔ Ad Rutten is executive vice president and chief operations officer of Schiphol Group.

The agreement states that this alliance is in place for 12 years, and will therefore keep them in each other's pockets for the long term. With economic analysts differing on the longevity of this downturn, it appears they are becoming allies at a perfect time. They are bound to each other should the aviation industry decline further.

But what does this mean for the other major European hubs? Thomas Weyer of Munich Airport spoke up on the matter 'I think it's a great deal to do with KLM/Air France, but I have never seen that it actually works. I've had time to think about these synergy effects and to be honest there aren't a lot. You can work on issues like training or purchasing, but that doesn't cut the mustard.'



FRANÇOIS RUBICHON

➔ François Rubichon has been chief operating officer of Aéroports de Paris since October 2005.

Non-aviation

A key trend within the aviation industry is the alliances and collaborative efforts to help all areas of business, whether it be airlines and

airports, or to do with the industry as a whole, air traffic control, open skies, or business partnerships that helps us all in this volatile climate.

The key element here is the shift from a 'commercial agreement', as Rutten describes it, to a contractual one. It has been described as a bold strategic move that is expected to generate mutual benefits in all key business areas. The difference here is that the focus is more on the non-aviation business sector. This is a strategy adopted by both airlines and airports in the face of an economic crisis. It can be construed as a knee-jerk reaction to the unstable price of fuel, and therefore heavily reduced profit margins but it is important to acknowledge that this is a long-term plan. They intend to leverage their respective know-how to accelerate growth and profitability in their retail, real estate and telecoms activities.

'AdP and Schiphol Group intend to leverage their respective know-how to accelerate growth and profitability in their retail, real estate and telecoms activities.'

As Schiphol has modelled itself on the airport-city concept they have best-in-class practices to share with their French counterparts. But Paris will not be left behind, 'We plan to exploit our non-aviation-related real estate potential at all of our airports. We are planning to invest €340 million of our own resources between 2008-2012 [63% of which will be for diversification real estate]. Outside the Paris airports, we will continue to use our know-how in highly specialised related technical activities such as telecommunications, project management, engineering, architecture, airport management, and training of executives and staff in the airport context or similar contexts involving the management of significant flows of people. These activities enable the group to maintain its skills at the highest level and to increase its technical reputation abroad, as well as to build up industrial partnerships in areas experiencing strong growth such as Mexico or China.'

This revolutionary alliance has brought about mixed opinions from the industry. Some see where the synergies lie, but only the future will show its level of success. ○