

## Unlock the hidden value of infrastructure

*Commercial offering – the new value engine of airports, stations, highways, stadiums and hospitals*



Airports, PT stations, railway stations, stadiums, highways, clinics and hospitals are diversifying their activities in retail and services to secure sustainable new growth relays and enhance customer experience. The need for additional value creation and customer experience improvement is leading infrastructure operators to redesign their commercial and services strategies. Airport hubs are already changing infrastructures to the “airport city” concept – a destination in itself. Infrastructures are at a turning point, and should catch up with the example of airports by setting new objectives, upgrading offers and designing new industrial strategies. Arthur D. Little, which has extensive experience in infrastructures, asserts the need for change and explains how to get success out of such strategies.

### Commercial activities were historically considered non-core and limited to necessity services – far from the raison d’être of infrastructures.

Airports, railway stations, sports stadiums, highway clinics and hospitals are all major infrastructures with significant amounts of capex to amortize.

Historically, these infrastructures focused their development on core business and left commercial activities (such as retail, bookstores, food & beverages and other services) aside with limited offers and miscellaneous revenues.

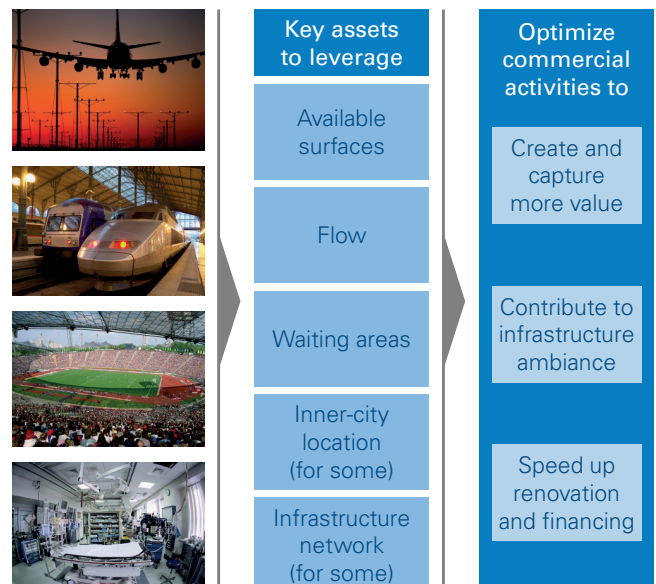
Commercial offers were limited to necessity services, with no specific ambition or reflection on commercial-area layout and customer service:

- Retail offerings were limited to basic activities, with no innovation, which led to aging concepts.
- Depending on the attractiveness of the infrastructure within the railway station or clinic network, offers were heterogenous: small entities’ offers, with limited flows and high break-even points, were reduced to the most basic vending machines and aging bookstores.
- Commercial activities were not integrated within the infrastructure. Perceived as constraints, most shops were added later in the infrastructure’s lifecycle, where ultimate residual surface was available. As a result, for example, old-

style cafeterias were operated with reduced opening hours in narrow corridors patronized by only a few visitors.

As a consequence, value creation of commercial activities was low, and operations were mainly outsourced to historical incumbents with limited challenge levels: tenders every five

### Infrastructures key assets and opportunity of commercial activities optimization



years usually led to replacement of incumbents due to limited room for growth and low ambition of owners.

However, infrastructures are key assets to leverage if some distance is taken from their original mission: Considering potential available surfaces, concentration of flows, higher-than-average waiting time, central location in railway stations or hospitals, and variety of possible clients – from visitors to employees to local residents – most infrastructures can be perceived as having high potential for commercial and services activities.

This opportunity has been identified by best-practice infrastructures, and appears all the more likely to catch up with, given its economic and global context.

### The need for additional value creation to improve the customer experience has led infrastructures to redesign their commercial and services strategies.

Infrastructure shareholders have been raising their expectations towards revenue diversification to counterbalance possible slowdown or uncertainty of core activities. From the slowdown of traffic growth, to the increase of capex for travel infrastructures, to the inevitable decrease of care reimbursement for healthcare centers, the need for change and new growth relays has emerged.

In addition to these financial considerations, the internationalization, digitalization and omniscience of visitors have increased industries' standards and best-practice sharing towards an improved and outstanding customer experience. Negative

feedback can, more than ever, subsequently impact client retention, and has thus led infrastructures to reconsider their commercial and services activities as key assets and differentiating attributes of their client journeys.

### Airport hubs are already changing infrastructures to the "airport city" concept of a destination in itself.

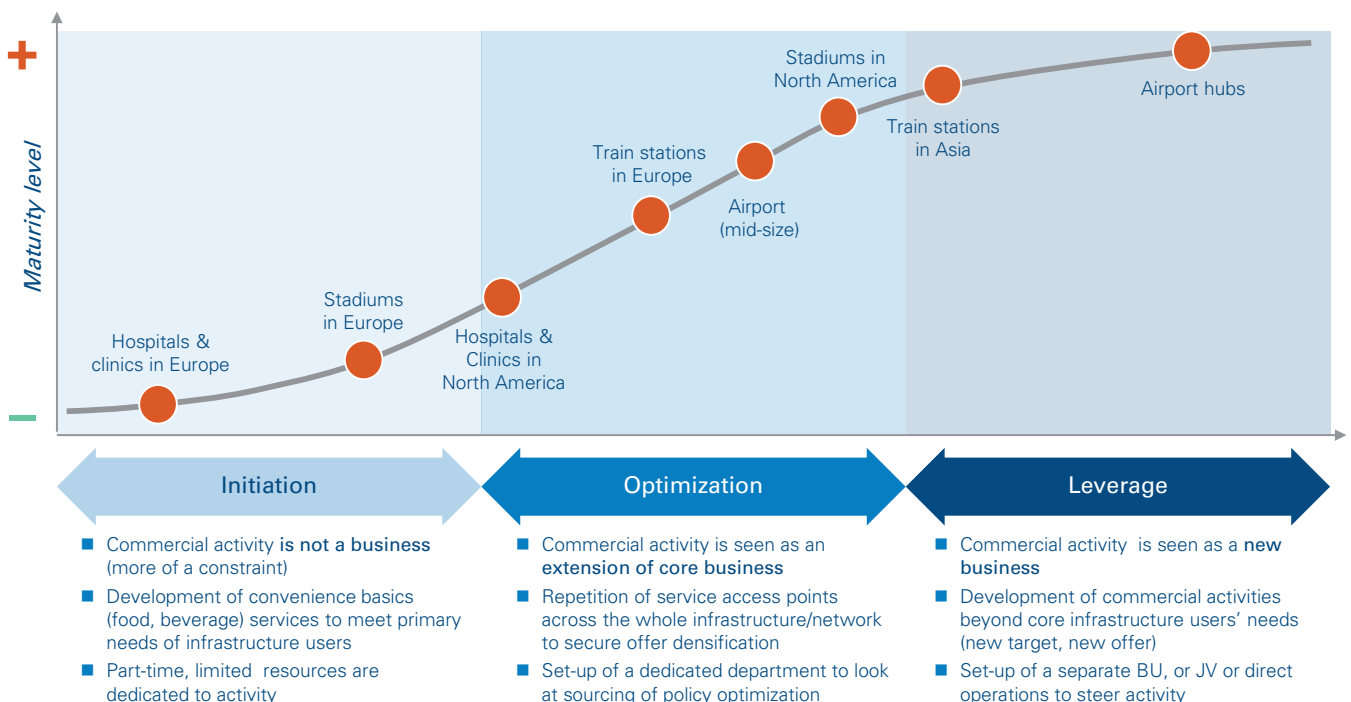
Airport hubs are ahead: in their fight for connecting competitiveness, airports have focused their value creation on non-aeronautical activities, which represent more than 50% of revenues in the most mature initiatives.

Retail and services are generally the primary revenue sources among these activities; the development of commercial areas near city malls have turned travel infrastructure into a destination in itself. Hong Kong International Airport's SkyCity is one example.

Commercial and services variety and quality have enabled infrastructures to significantly increase their average spend per passenger. This has grown by more than 50% in some best practices. An example is Paris's CDG, which developed a luxury, gastronomy and fashion offer that enabled it to capture the attention of BRIC passengers.

In addition to value creation, the development of such services has strongly contributed to the improvement of the customer experience, as commercial areas are now anticipated upfront in the renovation of old terminals and construction of new ones. They are part of the ambiance of the zone, as they help to decrease stress and entertain passengers.

### Infrastructures maturity level



Other infrastructures need to catch up with airport hubs. Some initiatives and emerging best practices show that infrastructures are at a turning point:

- Railway stations are starting to follow this trend of turning transit infrastructure into city living centers: following on from Asian leaders such as MTR and JR East, European stations such as St Pancras in London and Gare Saint Lazare in Paris have developed new commercial areas to target catchment-area residents.
- Singapore Sports Hub, currently under construction, has forecasted a commercial space of 41,000 square meters for leisure, shopping and dining, with long opening hours and stadium access from the immediate surroundings.
- Hospitals and clinics are turning their infrastructures into health and wellness centers. For example, Florida Hospital Health Center in Orlando, which is forecasted to open in 2023, has anticipated close to 10,000 square meters of commercial surfaces.

Leading-edge infrastructures are integrating commercial activities as a key part of their future growth. However, looking at airport hubs and best practices, which strategies and approaches should those infrastructures develop to catch up with the current momentum and secure the appropriate ambition and relevant value creation?

A successful commercial and services strategy redesign usually involves three main steps: set-up of new aims, an upgraded offer, and a new industrial strategy and closer steering of activities.

### Correlation between spend per passenger improvement and satisfaction level







1. establishing a vision for infrastructure aims is an absolute must, and should address the question of targeted clients and the width of the activities portfolio.

The development of airport cities has significantly widened the customer portfolio to focus not only on passengers, but also on local residents and employees. Proposed activities go far beyond the purpose of traveling, with the development of convenient stores at arrival gates and business centers and hospitals outside terminal areas.

How far should the infrastructure go? Less-mature infrastructures, such as sports stadiums and hospitals, are still focused on their core activities and clients, but it appears that the potential value creation should be considered based on

### Infrastructure best practice example

Aéroports de Paris towards Air Mall	Railway Network UK towards City Living Center	Euroborg Stadium towards Sport Center	Florida Hospital Health Village towards Health & Wellness Center
 <ul style="list-style-type: none"> <li>■ Charles de Gaulle (CDG) and Orly (ORY) airports, France</li> <li>■ Integration of retail zone development into airport surface planning</li> <li>■ Tailor-made offering: development of a retail offering coherent with Paris image (i.e. luxury, beauty, fashion and gastronomy)</li> <li>■ Creation of joint ventures to leverage retail partners' capabilities</li> <li>■ Results:                             <ul style="list-style-type: none"> <li>- +9.5% annual commercial revenues per pax in 2006–2011</li> <li>- Increase in passenger satisfaction in all terminals: from ~82% in 2007 to ~86% in 2011</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>■ Operator of 16 train stations in the UK: Birmingham, Edinburgh, Glasgow, Leeds, Liverpool, Manchester and London (x10)</li> <li>■ Transformation of train stations into retail destinations</li> <li>■ Major investment plan enabling new retail facilities to be added to the station environment, offering customers a wider choice of food &amp; beverage and retail brands</li> <li>■ Results in 2013: +6.4% in retail sales (vs. +0.4% in the UK market):                             <ul style="list-style-type: none"> <li>- London King's Cross: +38.2%</li> <li>- London Cannon Street: +32.3%</li> <li>- London Euston: +7.7%</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>■ Groningen, Netherlands</li> <li>■ Multipurpose stadium opened in 2006</li> <li>■ Integration of various commercial functions inside the main complex, as well as in direct premises:                             <ul style="list-style-type: none"> <li>- Within the stadium: Cinema (10 screens), Casino (2.000 m<sup>2</sup>), Offices (6.000 m<sup>2</sup>), Restaurant (800 m<sup>2</sup>)</li> <li>- Near the stadium: supermarket (5.000 m<sup>2</sup>), fitness &amp; wellness (5.000 m<sup>2</sup>), offices (15.000 m<sup>2</sup>), two 75m apartment towers (180 apartments)</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>■ Orlando, Florida, USA</li> <li>■ Modeled as a destination for visitors and residents</li> <li>■ Current development plan includes the expansion of non-medical space:                             <ul style="list-style-type: none"> <li>- Retail: 11,000 m<sup>2</sup> (multiplied by 40)</li> <li>- Hotel: from 163 to 300 rooms</li> <li>- Residential: from 84 to 670 units</li> </ul> </li> <li>■ Retail spaces development focused on health-centered restaurants and shops</li> <li>■ Achievement expected in 2023</li> </ul>

available square meters, location and catchment area, leaving the core activity separate. There is then a question of whether it would be consistent, or at least politically acceptable, to develop a hotel franchise inside a hospital area, for instance, or casino games within a travel infrastructure.

2. Once the ambition is defined and agreed upon, the commercial or services offer must be upgraded to reach the target. Key success factors for upgraded offers usually rely on:
  - Surface area (for instance, +20% in King's Cross railway station in London, leading to 15,000 sqm in total).
  - Centralization of the retail area, mixing services and food and beverage activities in the heart of the infrastructure, integrated with the overall layout.
  - For inner-city infrastructure, opening of the infrastructure towards the city center, with additional entrances and a city-side terrace.
  - New categories and shop development, from focus on core clients and activities (for example, a drugstore in a hospital) to focus on non-core clients and activities (such as a casino in an airport or a hotel in a hospital).
  - Strong brand selection (such as Starbucks for coffee and Burger King for fast food). Each category must present the best-known brands to secure high penetration and client retention.
3. The development of a strong commercial and services ambition goes along with the deeper consideration of activity steering, which leads to improved industrial strategies.

If historical purchasing habits were based on activities outsourced to an incumbent operator – with one shop equaling one contract – and pressure organized around regular tenders with a high minimum guarantee, alignment with best standards and redesigning of retail activities as a core and central attribute of the customer experience would significantly change concession terms.

Concessions are now designed as strengthened partnerships, with deeper implications for infrastructure owners, including longer-term agreements, visibility of operators, and critical mass. They are balanced by joint governance and high incentives for turnover development in order to secure efficiency and alignment with objectives.

The pre-emption of competitive positioning among infrastructure owners will be key to securing optimal offers and partnerships before downtown retailers can react. Now infrastructures need to catch up with airport hubs' model in order to secure speedier return on investment for their infrastructure capex and benefit from the full potential of this new business.

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## Arthur D. Little

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