



Picture by Gerard Uferas, ADP

## “Airports are no longer protected players”

*How the world’s second largest airport group is handling competition*

An interview with Augustin de Romanet, Chairman & CEO, Aéroports de Paris

Augustin de Romanet has been Chairman & CEO of Aéroports de Paris since 2012. Under his leadership, Aéroports de Paris has become the second largest global player in the sector by market capitalization. Here he shares his views on the challenges faced by airports and the aviation industry, and how his group is addressing them. Having held high level positions in both the public and private sectors, he describes how his own approach can drive change in the face of a changing customer landscape and hyper competition in the aviation industry.

**Arthur D. Little:** Air transport has undergone profound changes over the last decade. What major drivers will impact your industry in the next 20 years?

**Augustin de Romanet:** My answer lies in three words: growth, productivity, differentiation. Firstly, global air traffic will continue to increase at nearly 5% per year over the next 20 years. With about 3 billion people by 2020 and 5 billion by 2030, the middle class will fuel this growth, particularly in emerging countries. Urbanization will also contribute strongly, with aviation mega cities<sup>1</sup> expected to double to 91 by 2030. Since there is no big city without a big airport, infrastructure investments will be needed, either through public offerings or public private partnerships. Secondly, greater productivity will be essential in order for airports to remain competitive. About 10 mega hubs in Europe and the Middle East are battling to serve connecting flights to and from Asia. While airports cannot relocate, airlines, and in particular, low cost players, are free to move away if conditions are not right. Airports therefore now have to focus on costs and efficiency. Finally, to attract more passengers, airports will need to push to differentiate themselves, offering personalized services for air travelers. They will have to develop a strong brand identity.

**Arthur D. Little:** How will airport relationships with airline customers evolve?

**Augustin de Romanet:** Between 2008 and 2013, the number of connecting passengers between Asia and Europe through the four biggest European hubs increased from 85 to 92 million people. Over the same period, this number went from 25 to 56 million for the three major Gulf hubs. As you can see, competition between airports has been fierce and will intensify over time. To stay in the race, airports will need to work hand-in-hand with airline compa-

*“Over the last 5 years, the number of connecting passengers between Asia and Europe increased 4.5 times more rapidly in the three major Gulf hubs than in the four biggest European hubs”*

---

<sup>1</sup>Aviation Mega Cities: with more than 10,000 daily international long-haul passengers

nies. And this is even truer for international hubs such as Aéroports de Paris. We need to consider carefully the route structures of our main customer Air France and its Skyteam Alliance members, in order to make the right investment choices. Such co-operation is key to allow each of us, airports and airlines, to remain competitive in our respective markets.

**Arthur D. Little:** Do you foresee any change in the business model for airports and the distribution of value, in particular with airlines?

**Augustin de Romanet:** Firstly, I find it curious that people are focusing the value distribution question on airports, while there are other players in the industry with much higher margins. Airport fees represent less than 5% of the costs of a traditional European airline against nearly a third for fuel or personnel costs.

Secondly, I know that some of our customers feel that they should have a great-

er share in the value generated by our activity, in particular in the retail business, where we have seen significant progress. However, the “adjusted till system” is the more efficient in balancing responsibilities between the airport and airlines. It is the only system that incentivizes both regulated and unregulated activities to perform at their best. In regulated activities, airports are encouraged to improve their operational efficiency and become more competitive, benefiting airlines. The profitability of unregulated activities, such as retail, can be used to support non-aeronautical direct investments, which benefit airports, airlines and their passengers. For example, these profits will help finance CDG Express, the planned 20 minute non-stop train service between Paris and CDG airport, massively improving passengers travel experience.

**Arthur D. Little:** Airports are complex ecosystems involving stakeholders with different characteristics. How important is it for an airport to manage them efficiently?

*“In a more competitive and globalizing industry, our ambition is to make Aéroports de Paris Group, a world leader in airport design, construction and operations”*

**Augustin de Romanet:** Airports are not just a link in the transport chain. Their responsibilities go beyond that. They have to pay attention to their different stakeholders, starting in particular with local communities. In this respect, it is interesting to see how an airport project becomes more or less acceptable, from an environmental point of view, depending on whether it is carried out by a public or private majority shareholder. Populations have difficulty embracing a project, in spite of its public interest, when the project is driven by a private company.

**Arthur D. Little:** What are your views about passenger expectations and how do you intend to meet them?

**Augustin de Romanet:** Passenger satisfaction is at the heart of our strategy. We want to offer them a unique experience and make the time spent at the airport as enjoyable as possible. Our focus is to provide improved facilities and make the passenger route through airport terminals fast, fluid and safe. But I also believe that airport operators should consider themselves accountable for everything that occurs on the platform and the value chain. This mindset had to change and is changing. For example, when bags are being delayed, even

if airlines and their subcontractors are to blame, our employees now consider themselves responsible for this situation.

**Arthur D. Little:** Having been a public establishment for 60 years, Aéroports de Paris became a limited company in 2006, with a state majority share. What do you consider as the main achievements of the company since its IPO?

**Augustin de Romanet:** Between 2006 and 2012, Aéroports de Paris went through major transformation due to two key programs: the expansion of capacity by 30 million passengers, and an increase in retail floor space to around 50,000m<sup>2</sup>. This second program has led to us being ranked as one of the top 5 airports in the world for shopping in 2014.

**Arthur D. Little:** What have been your own priorities since taking your role?

**Augustin de Romanet:** Since 2012, I have made hospitality and service quality our top priority, through various initiatives, such as harmonizing employee and contractor uniforms. This policy is bearing fruit. In 2014, Paris-Charles de Gaulle Airport was awarded the “World's Most Improved Airport” by Skytrax, which recognizes the highest prog-



Picture by Gerard Uferas, ADP

## Augustin de Romanet

Chairman and CEO of Aéroports de Paris

Born on 2 April 1961, a graduate of the Institut d'Etudes Politiques in Paris and a former student at the École Nationale d'Administration, Augustin de Romanet was Managing Director of the Caisse des Dépôts from March 2007 to March 2012. Prior to this, he was Deputy Secretary General to the Presidency of the French Republic from June 2005 to October 2006 and held senior positions

in various ministries. Between 2002 and 2005, he occupied the position of Chief of Staff (or Deputy Chief of Staff) to several ministers (Budget; Economy, Finances and Industry; Employment, Labour and Social Cohesion), as well as to the Prime Minister. Since November 28th, 2012, he has been Chairman and Chief Executive Officer of Aéroports de Paris.



*“Public private partnerships can be the best or worst things”*

ress in terms of service quality and customer satisfaction. Second, we are undertaking an unprecedented effort to increase productivity. At a group level, operating expenses are being controlled. They were up slightly by 0.6% in 2014, but this compares with a 6.9% annual increase in 2012. With about €30 million savings in 2014, we have exceeded the expected results of our efficiency and modernization plan. Third, we need to improve access to the airport. It is key for economic development and tourism. Construction of the CDG Express by 2023 is therefore a strategic priority for us.

**Arthur D. Little:** Aéroports de Paris is currently managing 38 airports in the world. What are your plans for international development?

**Augustin de Romanet:** We remain on the look out for opportunities to strengthen our engineering, construction and operating know-how abroad. But we are expanding cautiously, with structured teams and high quality human resources. We have restructured and beefed-up our international teams at our ADPM and ADPI subsidiaries. We have recently won a 20 year concession at the Santiago de Chile International Airport and we are pursuing the development of TAV Airports in Turkey.

**Arthur D. Little:** How important is digital transformation for your company?

**Augustin de Romanet:** Few companies are dealing with digital technologies more than airports. Every day, we serve hundreds of destinations, with a very complex set of connecting flights. Every day, our passengers – and we have 93 million of them annually – spend time in our retail spaces, transport and parking facilities. Digital is therefore a major component of our development, not only to improve our aviation operations, but also to provide our passengers with an enhanced airport experience. In February 2015, Paris-Orly Airport became the second airport, after San Francisco, to open a highly innovative business lounge, with digital services encouraging travelers to interact.

**Arthur D. Little:** As urban ecosystems, airports are particularly suitable for concentrating sustainable development initiatives. What are your environmental ambitions?

**Augustin de Romanet:** We have to be at the forefront in sustainable development. We have put in a lot of initiatives to save energy, develop the use of renewable power and reduce greenhouse gas emissions. Since 2012, this policy has enabled us to gain the Airport Carbon Accreditation third level both for Paris-Charles de Gaulle and Paris-Orly.

**Arthur D. Little:** As CEO of Caisse des Dépôts, the French state-owned long-term investor, for 5 years, you have been a privileged observer of public private part-



Picture by Cambon, ADP



nerships (PPP). What judgment do you have on PPP? What is necessary to achieve a fair balance between the benefits received by shareholders and customers?

**Augustin de Romanet:** Public private partnerships are an excellent tool for developing infrastructure, but they can also be the best or worst ways of operating it. Projects suppose that each party, public or private, shares the same technical level of knowledge and awareness of what is at stake. The problem is that often the two parties do not speak the same language. Most of the time, they are not on an equal footing, and they are not even conscious of their common responsibility to make sure they work as equal partners. When the public

sector imposes conditions that are too harsh or are often changed, it discourages the private sector from investing. On the other side, when the private sector hopes to benefit from frameworks that are too vague, the PPP can generate massive over spending and lead the public sector to react by throwing the baby out with the bathwater. For me, the real challenge is to have a charter for good PPP behavior. On the public side, it should be recognized that the private sector has the right to be compensated fairly for the risks it takes; and on the private side, companies should acknowledge their responsibility not to abuse their strong technical position and not to plunder public funds.



Picture by ADP-Seignette, Lafontan

*“Managing in the public sector is more complex than in the private sector, with multiple stakeholders challenging the definition of goals; besides, levers to manage individuals are more limited”*

**Arthur D. Little:** What differences do you see between management in the public and private sector?

**Augustin de Romanet:** I see two main differences. Firstly, in the public sector, setting goals for action is more complex, since the concept of public interest means goals belong to everyone and no-one. Anyone can challenge it. Besides, stakeholders are much more numerous. In the private sector, the social interest of a company is more straightforward, with a limited number of stakeholders. Secondly, while the public sector is the most complicated, you also have fewer tools to incentive individuals, with very little flexibility on employee remuneration for example. This asymmetry between the two sectors should be reduced gradually.

**Arthur D. Little:** Airports are complex business ecosystems with multiple activities. How is your organization dealing with such complexity?

**Augustin de Romanet:** You need three ingredients: a high quality workforce, delegation and innovation. Above all, it is critical to have the right people in the right roles. I pay great attention to it, regularly taking the

time to personally welcome our new commercial agents at a 5 Star hotel. By doing so, I want them to understand the quality we aim to bring to our customers. Secondly, delegation: because a substantial tree cannot grow in a tiny pot, you need to build a system that allows greater autonomy and individual initiative. This remains a challenge for pyramidal, hierarchical organizations such as ours. Then, you need to anticipate and innovate. When you build a terminal, you need to have in mind its environment ten years from now when it will still be operational, and be able to adapt to technological breakthroughs.

**Arthur D. Little:** On many occasions, you have been praised for the combination of forward thinking and strategic long-term choices. How do you explain your appetite for taking a long-term view? How do you rally your employees around this requirement?

**Augustin de Romanet:** For me, preparing for the long term leads to particular practical managerial techniques. Firstly, we must ensure that we build the next generation of the company's employees, both in terms of numbers and quality. This is why I am focused on recruitment and career management and why we have recently launched





Picture by Jouanneaux, ADP

## About Aéroports de Paris

Aéroports de Paris builds, develops and manages airports, including Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget. In 2014, Aéroports de Paris handled around 93 million passengers and 2.2 million metric tons of freight and mail at Paris-Charles de Gaulle and Paris-Orly, and more than 41 million passengers in airports outside France. Boasting an exceptional geographic location and a major catchment area, the Group is pursuing its strategy of adapting and modernizing its terminal facilities and upgrading quality of services; it also intends to develop its retail and real estate businesses. In 2014, Group revenue stood at €2,791 million and net income at €402 million.

a leadership program dedicated to our high potential employees. Secondly, I believe absolute transparency is key to developing long-term relationships with our shareholders. There is no single piece of relevant information that should be withheld from them. Thirdly, employees should feel comfortable and able to speak their mind and argue their views positively on any topic. Through this, one can hope not to make too many mistakes in the long term.

**Arthur D. Little:** How do you define a good manager? What qualities should they possess?

**Augustin de Romanet:** If we look at it, the role of a manager is actually quite close to that of a football manager, with one significant difference: in a football game, the goals are already positioned on the field, while, in a company, the manager has to set them himself. Then, he has to select his players, choose the best, but ensure there is a mix of skills. A football team needs strikers and defenders. And, finally, a good manager has to make sure that the players pass the ball quickly on the ground. Statistically, when they do it, they are most likely to score. It is very similar for a company. A successful manager must be able to give di-

rection, recruit qualified and diverse teams, and enthuse them efficiently through open and active communication.

**Arthur D. Little:** What do you value most in terms of management?

**Augustin de Romanet:** If I had to prioritize certain values, I would pick the importance of recognizing the quality of those you work with. Of course, you need to choose the best people and trust their ability to improve and better perform every day. But, in my opinion, this demand for quality goes hand in hand with the obligation to work

harder than the others. It is important to recognize the value of hard work.

### Vincent Bamberger

is the Managing Partner of Arthur D. Little's Paris office.

### Etienne Brumauld des Houlières

works for the Global Headquarters of Arthur D. Little.