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Larry Cox, president and CEO,
Memphis-Shelby County Airport Authority

A HISTORY OF COLLABORATION



NBAA 2009

In Orlando, a sign of the times

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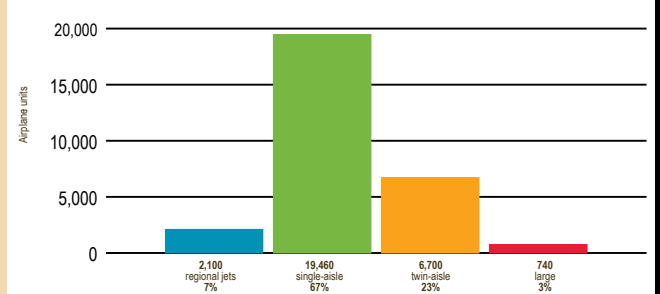
BY THE NUMBERS

Source: Boeing

According to Boeing, the world's air carriers will require some 29,000 new airplanes worth \$3.2 billion through 2028.

Airplane deliveries

2009 - 2028



By John F. Infanger, Editorial Director

A HISTORY OF COLLABORATION

Memphis International plans to build on its hub status and global interconnectivity

Executive vice president and COO Scott Brockman, A.A.E., relates that the Memphis-Shelby County Airport Authority is guided by the principles of predictability, sustainability, and flexibility. Regarding the latter he says, "We don't start a project if we don't know its impact; we don't build it if we don't know if we can sustain it." Imbedded in that philosophy is a history of collaboration with airline tenants at Memphis International Airport, a fact that explains why the airport is pursuing another residual lease agreement at a time when many airports are moving to compensatory agreements, or hybrids. Comments president and CEO Larry Cox, A.A.E., "Since we became an airport authority in 1970, we've had a residual airport agreement. We've never been denied by the airlines to do something that we thought was important to do. We have a very collaborative relationship with our airport users. It's probably unique in the industry."

That history of collaboration also extends to the community, the economic success of which is highly dependent and interconnected with the fortunes of Memphis International.

Comments Cox, "One in every three jobs, directly or indirectly, are the result of activities at the airport. FedEx alone has more than 30,000 full-time equivalent employees here; 40,000 on an actual basis with permanent part-timers.

"Everybody understands that Memphis is a transportation town. Memphis is here because of the Mississippi River; it started as a trade post and then a distribution center. When the railroads came in, Memphis was one of the few places where there was a railroad crossing the Mississippi River. So the railroads came here and

that created transportation for both passengers and cargo.

"Then you have the highways, and in the '50s the Interstate highways came through here, and that brought the trucking distribution. Then the air. We've got four modes. It makes us a logistics juggernaut here.

"We have five Class 1 railroads; there are only five cities that have that."

A recent study conducted by the University of Memphis shows that, in 2007, Memphis International pumped some \$28.6 billion into the five-county metro area's economy. It accounts for some 220,154 jobs (34.3 percent of total employment), all linked to air cargo, air passenger, and airport construc-



CEO and president Larry Cox, left, says that all of his airfield has been upgraded in recent years. The development focus today is on a new tower and renovation of the airport's terminal, which opened in 1963. Above, FedEx's newest hangar.



tion businesses. In all, it accounts for nearly \$8 billion in earnings for area residents.

Says Cox, "I have not seen another economic impact study for an airport that has a higher economic impact."

The authority also has a history of working with local groups to promote economic development, and is currently focused on connecting Memphis globally, driven as it has long been by the long reach of Federal Express.

IMPACT OF DELTA/NORTHWEST MERGER

According to COO Brockman, the combined Delta/Northwest accounts for some 85 percent of airline traffic at Memphis International. When the merger was first announced, many analysts predicted the demise of the airport's status as a connecting hub.

Explains Cox, "We feel very good about the merger. If you would have asked me two years ago, I was very fearful because the traditional viewpoint

by so-called experts is that we're one of the smallest markets to have a transfer hub. With our proximity to Atlanta [330 miles], there could very well be pressure to eliminate one or more hubs after the merger.

"When the merger was announced ...we came to the conclusion that Memphis was going to be a very important strategic asset for Delta going forward. And we continue to believe that."

He relates that advantages which Memphis brings to the new Delta include its geographical location, Central Time Zone, connectivity to other transportation modes, operating efficiency, and — perhaps most importantly — low costs.

Says Cox, "Memphis has minimum connect times, both domestic and internationally. We only have three banks of airplanes a day currently, so there's plenty of room to add additional banks. We virtually have no air traffic delays, either for taxi out or taxi in; we have great weather.

"And finally, we're probably the lowest cost airport in the United States. Our cost per enplaned passenger gross is less than \$5; it's about \$4.83 this fiscal year. We're one of the very few airports that does not collect a PFC [passenger facility charge].

"So, if you take the \$4.50 (PFC) and deduct it from our average cost per enplaned passenger of \$4.83, the net real cost compared to other airlines is only 33 cents. That is a huge incentive.

"We don't see ourselves as supplanting Atlanta; we complement Atlanta. It gives Delta the opportunity to take some of the pressure [off Atlanta]; where they need to feed somebody through a Southeast or



Federal Express, headquartered at Memphis International, plays a central part in the airport's role as an aeropolis and is a driver in international economic development.



South Central hub, they can do that at Memphis quicker, cheaper, and with better customer service.

"Atlanta is a fantastic airport, and it will continue to grow. But I just think there's opportunity for Delta and Memphis and Atlanta – win/win/win."

RESIDUAL AGREEMENT

Due to the joint bankruptcies of Northwest and Delta and their subsequent merger, the airline lease agreements at Memphis International have been on hold. According to Brockman, the ten-year agreement with the carriers has been extended twice and now will expire in June 2010.

"We're probably the lowest cost airport in the United States."

- Larry Cox, MEM

Explains Cox, "The airlines are out of bankruptcy, the merger is just about complete; so now is an appropriate time to sit down and come up with an agreement."

Both Cox and Brockman foresee another residual agreement being reached. "There are no problems with the existing agreement," says Cox.

That said, he does not see the term length being anything like the original 30-year agreement of another era. "I think those types of agreements are dinosaurs. I don't anticipate anything that reaches that length of term," says Cox.

"It's in our interest to try to make

the term long enough that it gives us comfort that we have tenants and a way to pay for our infrastructure and operating costs. And long enough for the air carriers that they feel like they have a long enough lease to make air service commitments."

THE FIRST AEROTROPOLIS

Much of the focus at the authority today is building on the airport's global reach and its interconnected role with the community and its future growth. In essence, playing on its role as what some have termed the first aerotropolis, a role which Memphis International earned more or less by default.

Explains Cox, who first learned of the aerotropolis moniker through a magazine article, "We knew how important the airport was and how it dominated economic development in our region. But it was the first time we knew there was an aerotropolis concept.

"We were aware of Schiphol, Hong Kong, Frankfurt, and Dubai, where they are an aerotropolis by design. It just sort of happened here, by circumstance.

"Now, we want to take that concept; we've branded ourselves and copyrighted the term, Memphis – America's Aerotropolis, so that people in the region and all over the globe will understand the importance of Memphis as a logistics and distribution scale on a global basis.

"We're already FedEx, with it headquartered here. Memphis, Paris, and Guangzhou, China are going to be their principal global hubs to serve the world. So we're trying to develop a dialog with those other two airports and to work in concert to help all three airports have joint marketing and have joint oppor-

tunities to grow air cargo and logistics and economic opportunity."

There is a growing movement to promote the region's increasing role in the biomedical industry, according to Cox. The St. Jude's Children's Research Hospital and the University of Tennessee's Medical School are central drivers, he says.

"A lot of businesses have located here because of the medical facilities, but also because of our logistics facilities, primarily FedEx. We're the second largest medical device manufacturing location in the United States for orthopedics," explains Cox. Thus, he relates, a doctor in China can order a hip implant today, have it manufactured in Memphis this evening, and have it shipped overnight.

