

# South East Businesses' Use of Air Travel for Business Growth

## Survey Report Findings

September 2009

# Contents

## Headline messages

## Project background

- Project background / Objectives
- Air intensive sectors/ Airports as economic enablers
- Methodology / technical note

## Survey results

- **Businesses' Use of Air Services**
- **Importance of Proximity**
- **Future Use of Air Services**

**Annex A:** International connectivity by sector/ company size

**Annex B:** Main differences between 'Core and Wider area'

## Headline messages (1)

### From where, for what, to where?

- Heathrow is the most important airport overall for businesses based in the South East of England (3 in 5 businesses).
- Businesses most frequently use air travel for activities which are vital for the success of their business and where face-to-face contact is essential: 46% of surveyed businesses fly weekly or monthly for the purpose of servicing/meeting with clients/prospective clients.
- Air intensive businesses are internationally strongly connected: 3 in 10 businesses are owned internationally. This is reflected in the flying pattern: more than a quarter of companies flying weekly/ monthly for the purpose of 'management company/ subsidiaries' (internal company flights).
- Almost 40% of businesses make weekly/ monthly flights to Europe, but also one in three make weekly/ monthly flights to domestic destinations. One in five companies flies weekly or monthly to North American destinations.

## Headline messages (2)

### Importance of availability and proximity of air services

- The results show that businesses are highly dependable on air services: Almost 3 in 10 of companies would be affected badly if the air services currently available to them were to determinate.
- If asked in which way, loss of customer contact is cited by more than half of the companies (56%), followed by increased costs (42%) and loss in orders/businesses (31%).
- However, very few companies would actually consider relocating if the requirements for air services are not matched by the major airports in the region.
- Proximity to air services is one of the strongest drivers in companies' location choice: two thirds of businesses regard proximity to airports at least 'important', and 2 in 5 at least very important.
- Other factors, like transport connections (road/rail) and access to suitable staff are also ranked highly by businesses as locational factors.
- The availability of direct flights is essential to businesses: 54% of companies rate the availability of direct flights as essential/very important.
- Half of the companies regard low fare services and ease of access to airports as also highly significant.

## Headline messages (3)

### Future demand

- Increased use of air service is expected by a significant positive balance of companies: 22% of businesses anticipate increasing requirement of air services, whilst 12% expect air service requirements to decrease.
- More importantly, 43% of businesses (of those who anticipate growth) expect growth in new/emerging markets - a service which can only be provided by a major hub airport (range and frequency of flights).
- It is therefore important to note, that frequency of flights and range of flights (destination) is rated highly within companies' priority future requirements.
- Among those companies expecting reduced demand: rising costs (45%) was cited on the top, followed by increased use of ICT (33%) and corporate attitude to climate change (24%).
- Although the survey shows that face-to-face contacts are still a very important element in the way companies operate, it also illustrates that some share of air services are likely to be substituted by increased use of information and communication technologies (ICT): 31% of the companies expect their use of air services to be substituted by ICT somewhat/ to a large extend.

## Background

The main role of airports in supporting economic activity in the South East is through the connectivity they provide to business travellers which has helped to build the success of the South East economy. However, while airports are also an important generator of employment opportunities in acting as a major local employer, this study focuses on the role airports play for largely internationally operating businesses.

The Regional Economic Strategy for the South East highlights the importance of airports as gateways to UK and global markets and focuses its policy priorities on ensuring that South East airports continue to provide efficient access to those markets and are efficiently connected to the region and its businesses. SEEDA's Corporate Plan makes substantial resource commitments to provide strategic leadership to deliver these RES objectives.

## Objectives

The aim of the study is to establish the extent to which businesses across the South East, particularly those which operate internationally, will need to fly more to grow their business, and the extent to which proximity to an airport with the widest possible range of destinations will be key to their being able to do this efficiently.

The main objectives of this study were therefore to:

- Establish the **importance of location** (proximity to airport) to 'air intensive' businesses in South East.
- Ascertain the **propensity** of air intensive businesses **to use air travel for business growth**.
- Identify the likely **future demand** from growing businesses for additional air services.

## Air intensive sectors

According to analysis by Oxford Economics (2006) there are a number of sectors in the economy that are more likely to use air services. These sectors which:

- Spend a substantial share of their overall transport budget on air transport (>20%) and/or
- Have comparatively high levels of expenditure per head (>£1k).

York Aviation LLP has introduced a concept of 'air intensive' sectors' as part of their work on the English RDAs response to the Future of Air Transport consultation. The analysis by York Aviation showed that the South East economy is highly reliant on sectors that require access to air transports: in 2006 'air intensive sectors' according to York Aviation employed some 1.46 million people in the South East or 40% of the total workplace based employment in the region.

Through its supply chains this type of largely knowledge-based activity is not just an important source of revenue for a range of other SMEs across the South East but is increasingly globally focused, with operations, customers, suppliers and partners all over the world.

## Airports as economic enablers

- Role in expanding international trading in global economy (market reach to customers, suppliers).
- Key influence on business location decision-making ('first tier' factor for investment/ re-location\*).
- Closely linked to expansion of UK Knowledge Economy (air intensive sectors).
- Among 20 fastest growing UK sectors, 15 are classified as 'air intensive'†.
- Strong case for asserting that virtual connectivity (ICT) may actually reinforce and/ or expand demand for air travel as new markets are opened.

\*European Cities Monitor (2007)

†ONS/ REMI-ECOTEC Model

## Methodology / technical note

### Telephone interviews (CATI):

- A total number of 532 businesses in the air intensive sectors were interviewed between May-June 2009 (range of error +/-4.2%).
- All interviews were conducted with business owner/ MD/ directors.

### Air intensive sectors

Based on the analysis by Oxford Economics and York Aviation, air intensive sectors have been re-defined. These can be summarised within:

- Business/other services & financial intermediation
- Consumer services
- Manufacturing & production
- Transport

Together, these represent around a quarter of total employment in the South East.

### Geographical splits

- **'Core area'** - Berkshire, Buckinghamshire, Surrey, Oxfordshire (296 interviews, range of error +/-5.7%).
- **'Wider area'** - Kent, East Sussex, West Sussex, Hampshire (236 interviews, range of error +/-6.4%)

**Quotas and weightings** were set to ensure the sample was representative of businesses in the 'air intensive business' population by sector (determined by Employment ABI (National Statistics) Data).

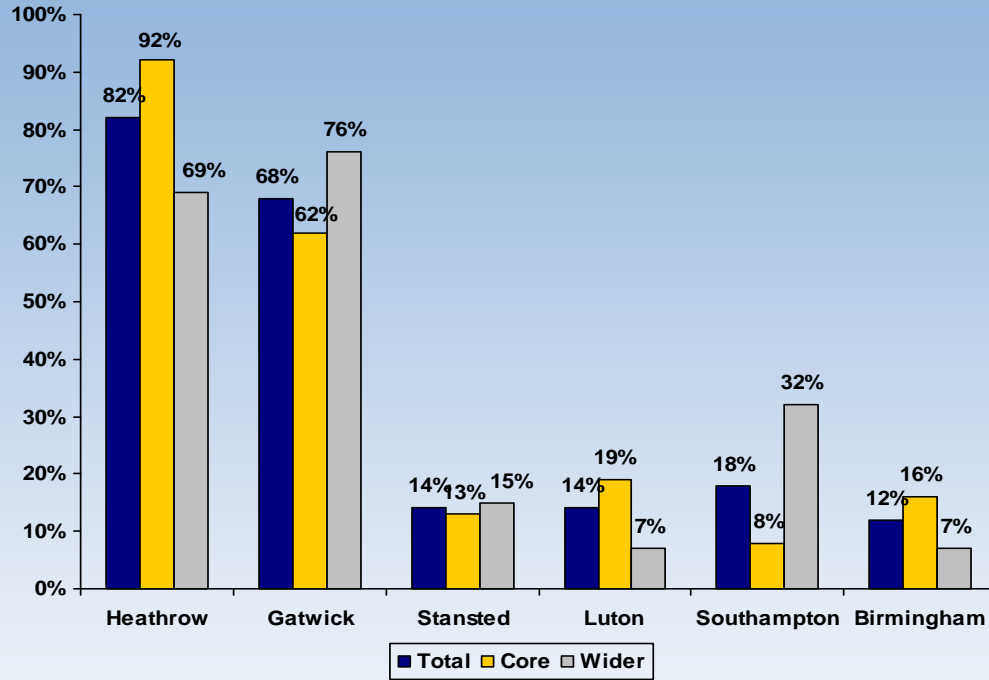
**NOTE:** Where possible, the results are shown by sector and company size (micro=1-10, small=11-49, medium 50-199, large=200+). Due to a small sample size, mainly in the manufacturing and transport sectors (which account for a lower share in the air intensive sectors) the range of error is higher as for the overall results.



## A. Businesses' Use of Air Services

## Use of South East Airports

“Which airports do you currently use for business travel/ services?”



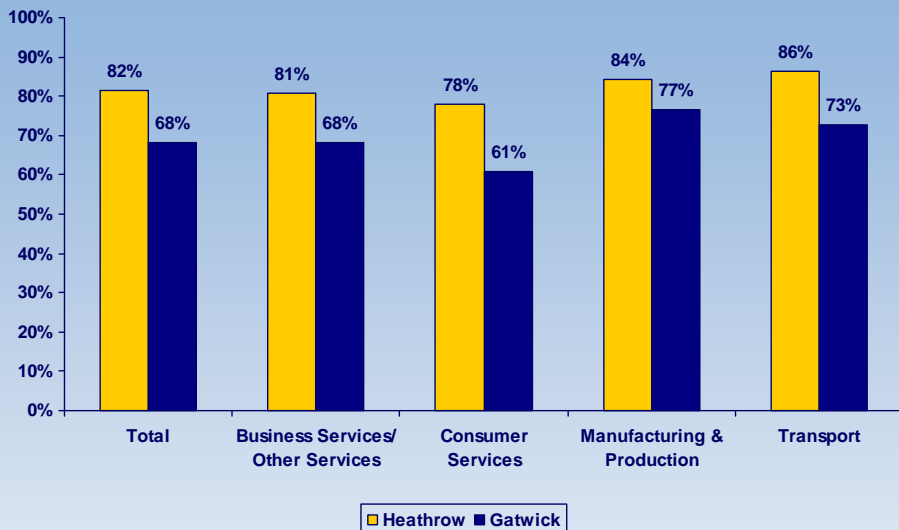
- Heathrow used by >4 in 5 businesses, but more by businesses located in the Core area (92%).
- Gatwick also frequently used (68% overall), particularly by businesses in the Wider area (76%).
- Heathrow most important overall for 3 in 5 businesses (3 in 4 in the Core area).
- Gatwick most important for a third of companies in the Wider area.

“ Of these, which is the most important airport to your business?”

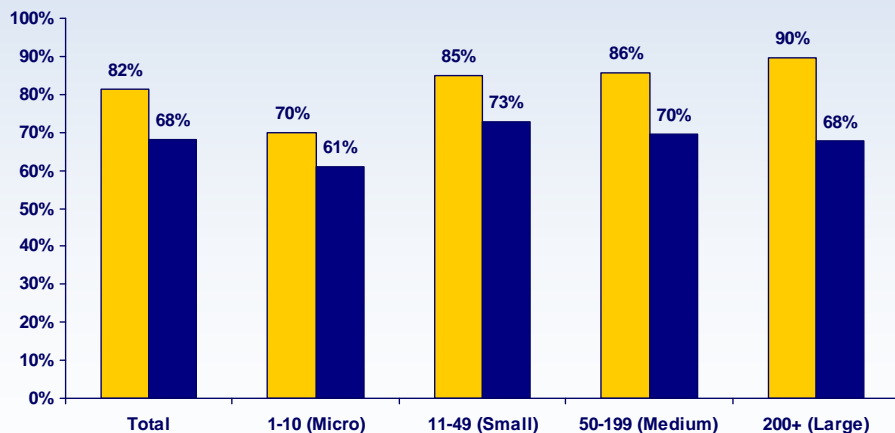
Airport	Total	Core	Wider
Heathrow	59%	74%	41%
Gatwick	21%	13%	32%

## Use of South East Airports

“Which airports do you currently use for business travel/ services?”

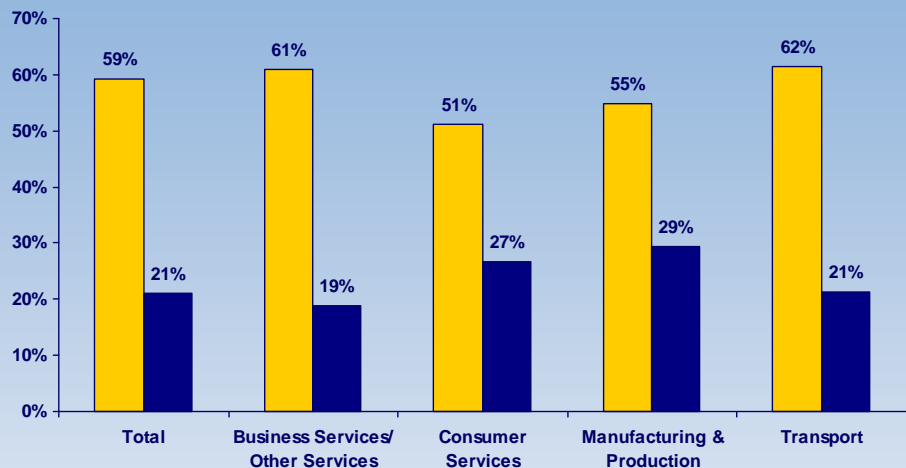


- Companies in the transport and manufacturing sector are more likely to fly from Heathrow.
- However, firms in the manufacturing and transport sector are also more likely to use Gatwick (above average), companies in the service sector are in line with the average, consumer services is below average.
- Larger firms tend to use Heathrow more. Small firms make more use of Gatwick.

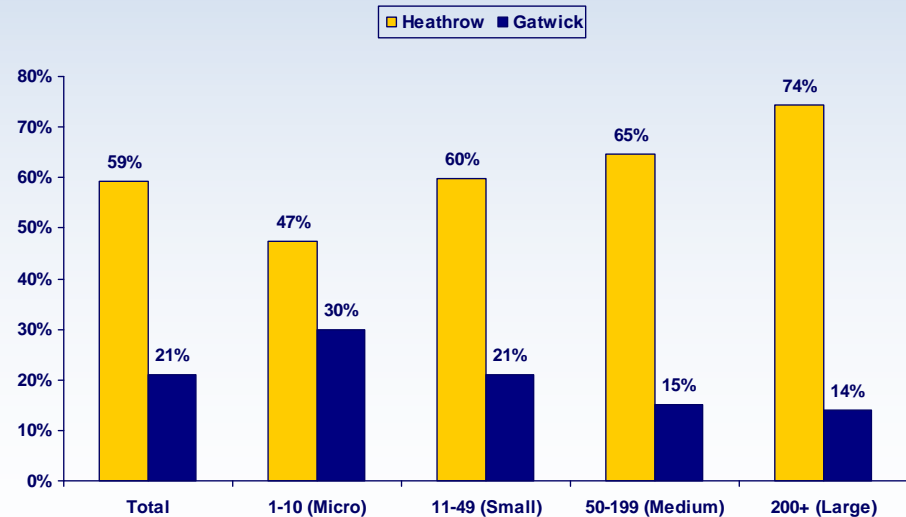


## Use of South East Airports

“ Of these, which is the most important airport to your business?”

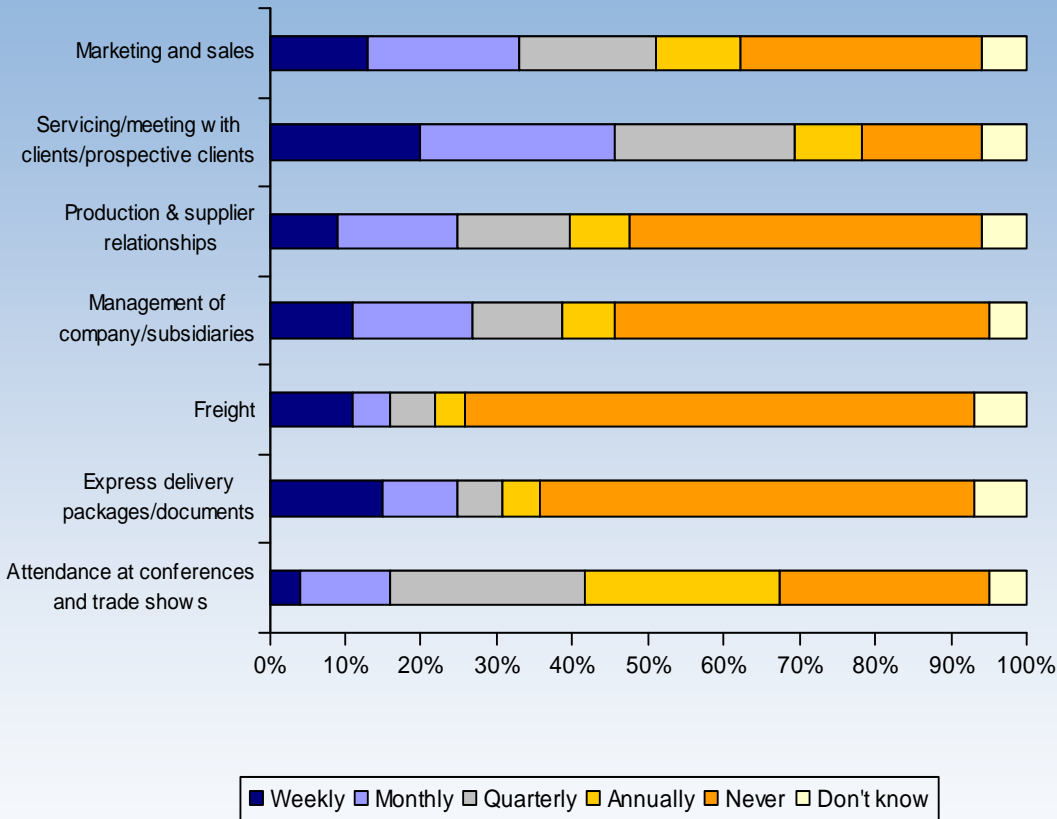


- Heathrow is slightly more important for companies in the service and transport sector.
- Heathrow is significantly more important for large businesses and also more important for medium sized companies.
- Gatwick is more important to companies in the manufacturing and consumer services sector and to micro businesses.
- NOTE: Southampton airport is the most important airport for almost 10% of businesses.



## Purpose and frequency of flights

“How often does your company use air services for the following purposes?”



- Businesses most frequently use air services for 'servicing clients' and/or 'marketing and sales'.

- Air services also important for 'management of company/ subsidiaries' (i.e. internal company travel), 'supplier relationships' and/or 'express deliveries'.

- Companies based in the Core area tend to fly more frequently.

## Purpose and frequency of flights

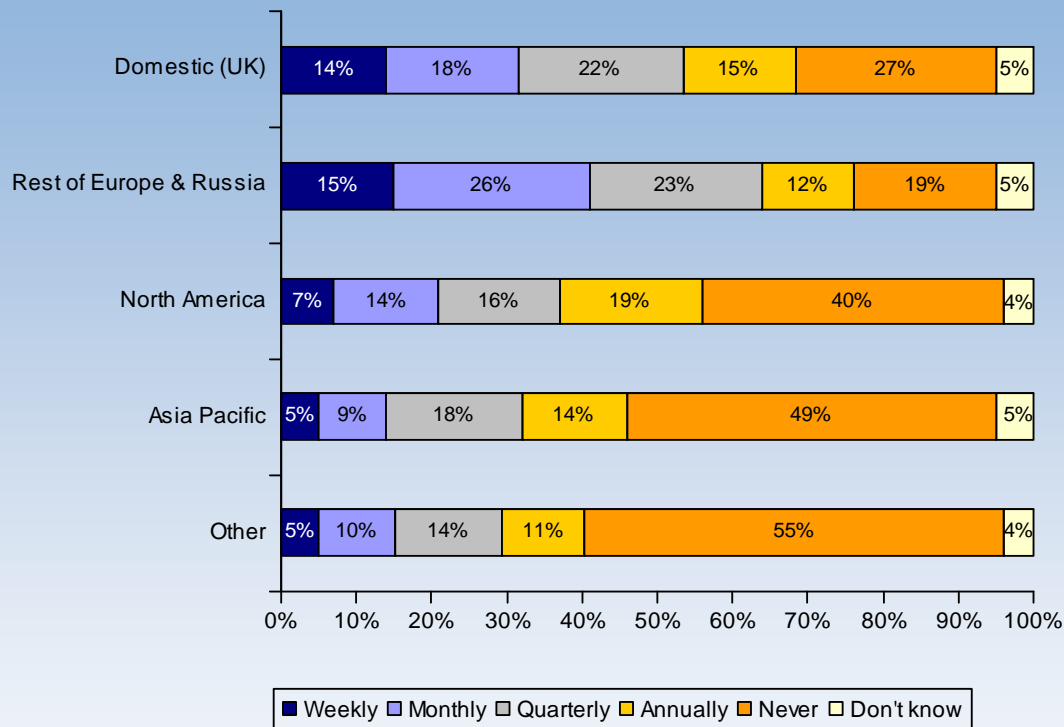
“How often does your company use air services for the following purposes?” – weekly/monthly

	Total	Business- / Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
Marketing and sales	33%	35%	17%	29%	41%	23%	29%	41%	50%
Servicing/meeting with clients/prospective clients	46%	49%	29%	53%	48%	35%	47%	52%	54%
Production and supplier relationships	24%	25%	7%	37%	32%	17%	22%	28%	41%
Management of company/subsidiaries	27%	28%	15%	25%	32%	15%	20%	37%	50%
Freight (movement of goods)	15%	14%	5%	24%	29%	10%	13%	23%	18%
Express delivery packages/documents	25%	24%	20%	24%	32%	15%	22%	34%	30%
Attendance at conferences and trade shows	15%	16%	7%	20%	18%	7%	14%	20%	29%

- Marketing & Sales is most important for companies in the transport and business-/ other services sector, and for large and medium sized companies.
- Servicing/meeting with clients (or prospective clients) is the most important for the manufacturing & production sectors, followed by business-/ other services, and for large and medium sized firms, but also small firms.
- Production and supplier relationships is significantly more important for manufacturing & production and large firms.
- Internal company travel is essential especially for the transport sector and large companies.
- Companies in the consumer service industry and micro firms tend to fly below average.

## Destinations

“ How frequently does your business use air services to the following destinations?”



- More than 40% businesses make weekly or monthly flights to Europe.

- 1 in 3 businesses make weekly/ monthly domestic (UK) flights.

- Approaching 40% companies make at least quarterly flights to North America.

- More firms in the Core area fly to European destinations weekly/monthly (45% vs 38%) or to North America at least quarterly (40% vs 32%).

## Destinations

“ How frequently does your business use air services to the following destinations?” – weekly/monthly

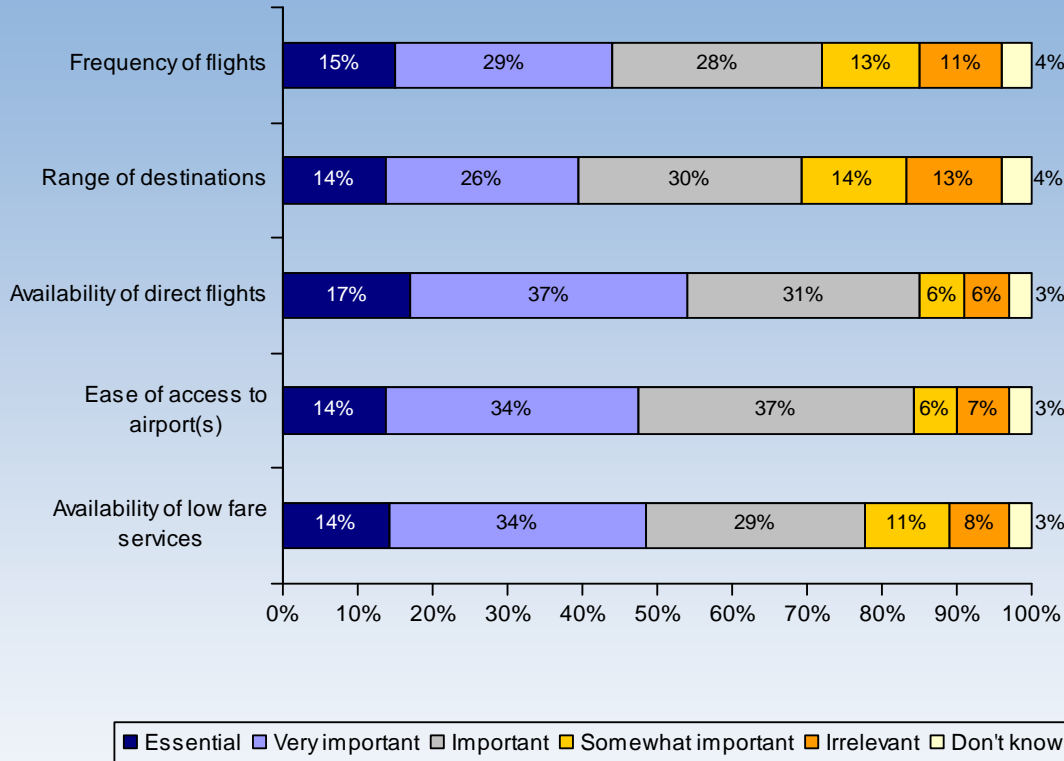
	Total	Business- / Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
Domestic	31%	32%	20%	39%	37%	18%	31%	38%	46%
Rest of Europe & Russia	42%	41%	37%	43%	48%	31%	42%	49%	46%
North America	21%	20%	12%	22%	29%	13%	16%	28%	38%
Asia Pacific	14%	12%	7%	18%	26%	9%	14%	16%	28%
Other	15%	12%	10%	20%	28%	12%	12%	18%	25%

- Companies in the manufacturing and transport sectors tend to fly more frequently, as do large and medium sized companies.
- The consumer services sector reports the lowest flying frequency, also micro sized companies tend to fly less than the average.



## Availability factors

“ In terms of the air services available, how important are...?”



- More than 1 in 2 businesses rated the availability of 'direct flights' as either 'essential/ or very important'. This was even more significant for businesses operating in the Core area (58% vs 49%).

- Notably, 'ease of access to airports' and 'low fares' are also regarded as highly significant factors among businesses (1 in 2)
- Ease of access particularly important for firms in the Core area (51% vs 43%).

- Frequency essential/ or very important for almost half of companies (44%), but more so for companies in the Core area (46% vs 41%).

## Availability factors

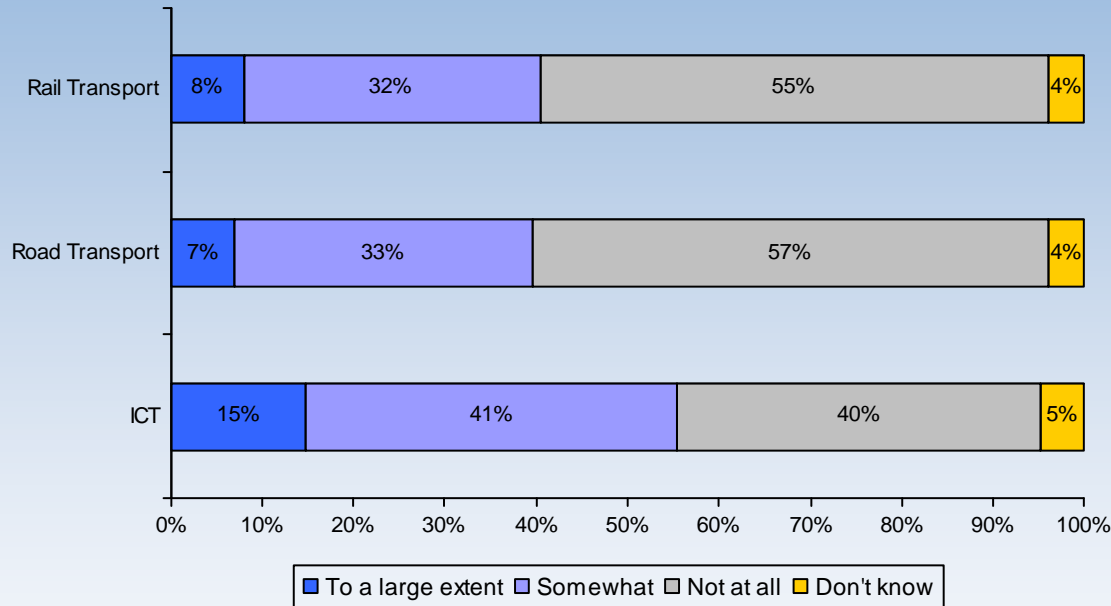
“ In terms of the air services available, how important are...?” - essential/ very important

	Total	Business- / Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
Frequency of flights	44%	43%	34%	43%	56%	38%	42%	48%	56%
Range of destination	39%	36%	37%	47%	51%	33%	39%	41%	50%
Availability of direct flights	54%	53%	44%	49%	65%	47%	59%	56%	48%
Ease of access to airport (road/rail)	48%	50%	39%	45%	50%	43%	52%	46%	49%
Availability of low fare services	49%	47%	49%	45%	56%	41%	49%	53%	53%

- The frequency of flights is especially important to companies in the transport sector and for large and medium sized companies.
- Range of destinations is more important to companies in the transport and manufacturing & production sectors. It is also more important to large companies.
- Direct flights are rated especially high by companies in the transport sector, and by small and medium sized companies.
- Ease of access to the airport is most important to companies in the businesses-/ other services and transport sectors, and by small firms.
- Low fare flights is above average essential/ very important for companies in the transport sector, medium and large sized companies.

## Potential substitutes for air services

"Thinking about your current business operations, to what extent do you think your use of air services could be substituted by these other modes of transport/forms of communication?"



- Use of ICT is reported to be more likely to replace the need for air services than road and rail.

- 15% of companies say their use of air services could be substituted by the use of ICT to a large extent, 41% expect it to reduce the need to fly somewhat.

## Potential substitutes for air services

“Thinking about your current business operations, to what extent do you think your use of air services could be substituted by these other modes of transport/forms of communication?”  
- to a large extend

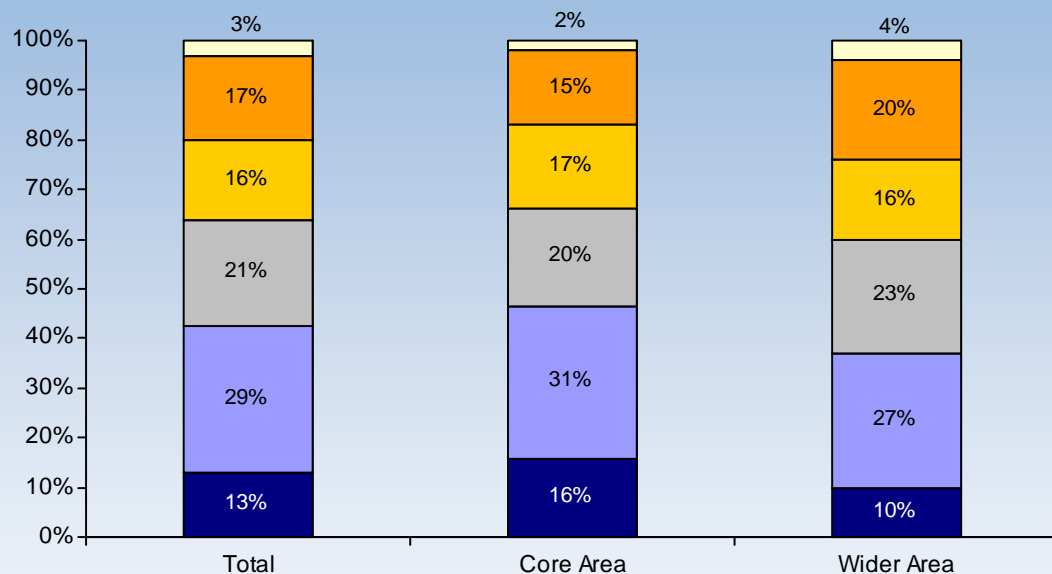
	Total	Business Services/ Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
Rail transport	8%	7%	20%	2%	7%	10%	8%	7%	11%
Road transport	6%	6%	7%	6%	7%	6%	6%	7%	9%
ICT	15%	13%	22%	12%	15%	14%	12%	16%	20%

- There are some interesting differences between the sectors: Companies in the consumer services sector, which tend to fly less often than the average, are the most likely to say that use of air services could be substituted to a large extent by rail or road transport and ICT.
- However, large companies, who tend to have a higher flight frequency, are also more likely to say that these aspects could substitute their need to fly to a large extent.

## B. Importance of Proximity

## Proximity to airports

“How important would you say the proximity to air services/ airports is to the location of your company in the South East?”

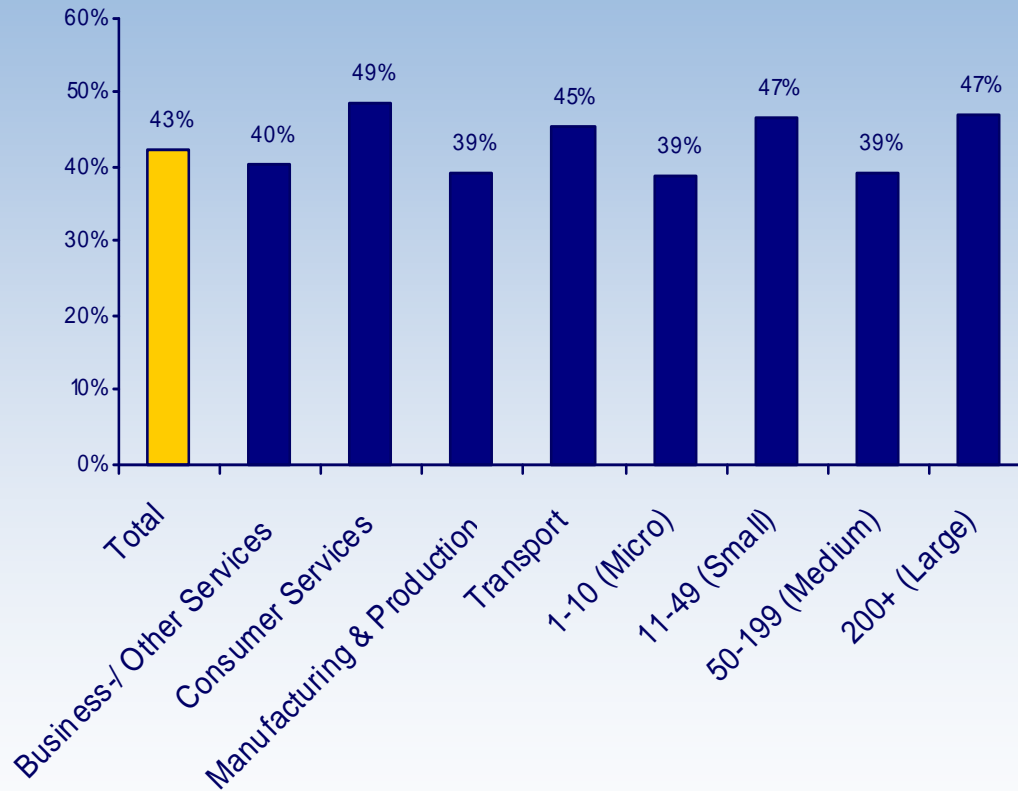


- Approaching two-thirds of businesses regard proximity to airports as at least 'important' (>2 in 5 as at least 'very important').
- Approaching one-half of businesses in Core area regard proximity as either 'essential' or 'very important' (47% vs 37%).

■ Essential ■ Very important ■ Important ■ Somewhat important ■ Irrelevant ■ Don't know

## Proximity to airports

“How important would you say the proximity to air services/ airports is to the location of your company in the South East?” – essential/ very important



- Proximity to air services is most important for companies in the consumer services sector, 1 in 2 says it is essential or very important (although this sector tends to have the lowest flight frequency).

- Small and large companies are also more inclined to regard proximity as essential / very important to their business.

## Airports as a locational factor

“ Which of the following factors would you rate as ‘important’ to the location of your business operations in the South East?”

	Total	Core	Wider
Proximity to air services/ airports	51%	54%	47%
Availability of qualified staff	50%	55%	43%
Ease of access to local markets, customers or clients	37%	42%	29%
Road and rail transport links with other parts of the UK / internationally	58%	60%	56%
Availability of suitable business premises	44%	44%	44%
Attractive living environment for employees	41%	43%	39%

- Almost 6 in 10 rate road and rail transport links as important locational factor.
- Half of all companies rate availability of qualified staff and proximity to air services as important factor for the location of their business. These are generally more important to businesses in the core area.



## Airports as a locational factor

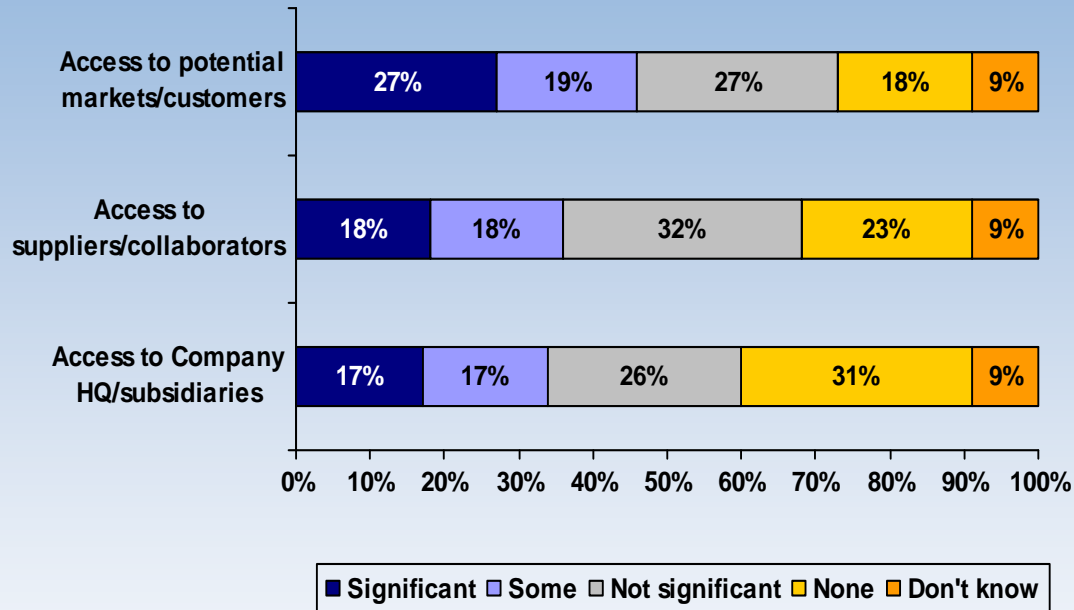
“ Which of the following factors would you rate as ‘important’ to the location of your business operations in the South East?”

	Total	Business -/ Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
Proximity to air services/ airports	51%	49%	51%	59%	56%	46%	56%	51%	49%
Availability of qualified staff	50%	50%	39%	41%	61%	38%	53%	60%	42%
Ease of access to local markets, customers or clients	37%	38%	29%	37%	38%	32%	35%	45%	33%
Road and rail transport links with other parts of the UK / internationally	58%	59%	63%	41%	56%	52%	64%	59%	56%
Availability of suitable business premises	44%	41%	39%	31%	62%	36%	50%	49%	35%
Attractive living environment for employees	41%	40%	49%	43%	39%	37%	42%	49%	28%

- There are some interesting differences in the importance of locational factors between sectors and company size. One example is that consumer services rate road and rail links most important. This sector has the lowest flight frequency but is more inclined than other sectors to rate rail/road and ICT as suitable substitutes to air travel.

## Airports as a competitiveness factor

“To what extent does the ready availability of air services increase your business competitiveness, in terms of...?”



- Access to potential markets/customers significantly increases business competitiveness, say 27% of the surveyed companies. This is more so for companies based in the Core area (29% vs 25%). This factor is also more than average significant for the transport sector and large companies.

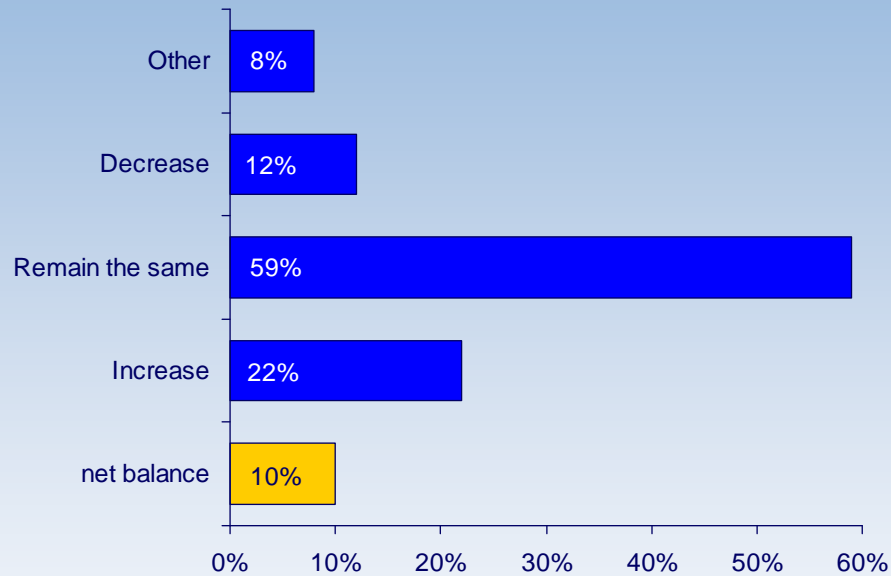
- Access to company HQ/subsidiaries is also more significant for firms in the Core area (20% vs 14%).

- Not surprisingly, access to HQ/subsidiaries is significantly more significant for large companies (27%), which tend to be more internationally connected.

## C. Future use of air services

## Future demand

**“Notwithstanding the current economic climate, how do you expect your organisation’s requirement for air services to change over the medium to long term?”\***



- Positive balance (10%) of SE companies anticipate increasing requirement for air services.

- Companies in the Wider area are more likely to say that their future demand will increase (18% vs 26%).

- **Among those expecting increased demand:** some 70% businesses foresee growth in existing UK and overseas markets; 2 in 5 growth in new/emerging markets. This is expected more by companies based in the Core area (47% vs 40%).

- **Among those expecting reduced demand:** rising costs was cited by the highest proportion of businesses (45%).

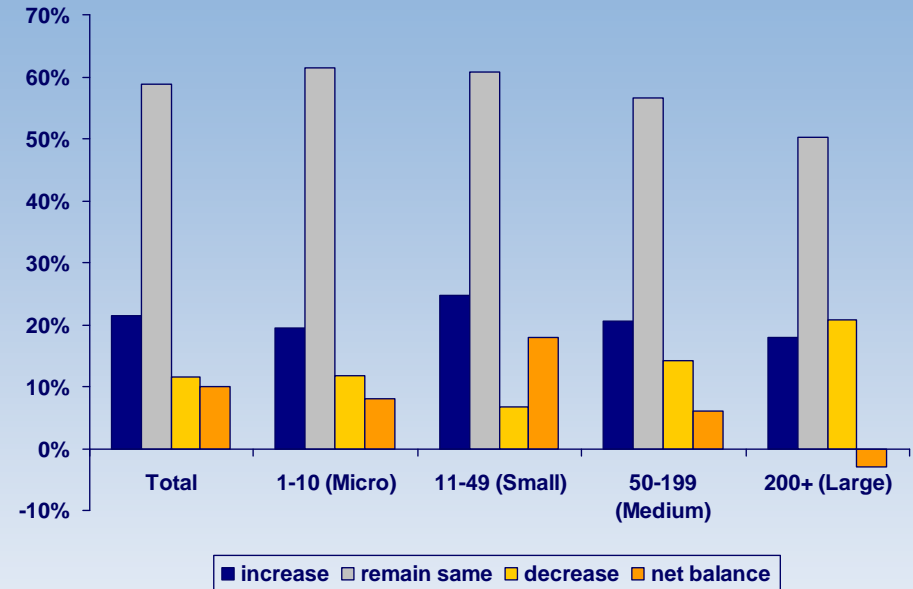
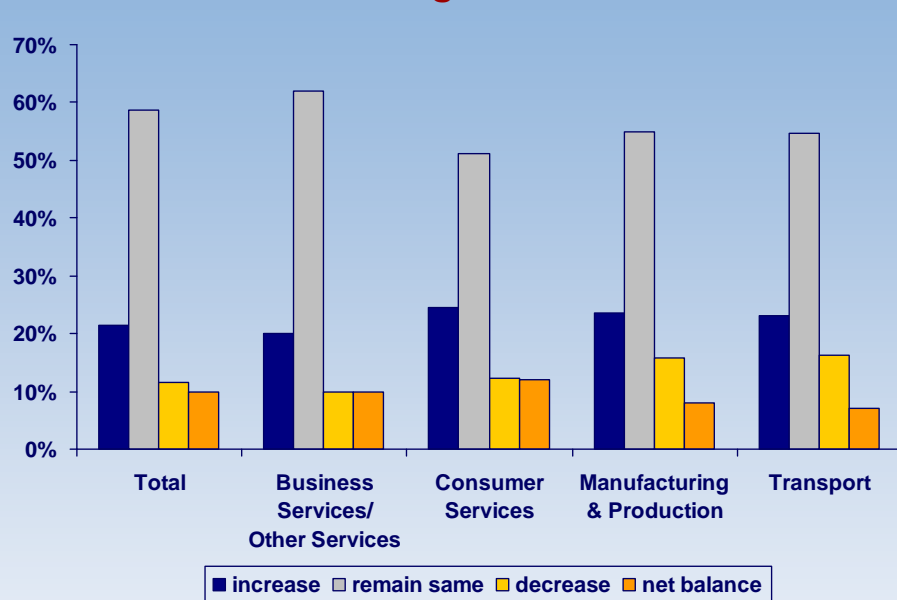
- Other notable factors cited were ‘increased use of ICT’ (1 in 3), and ‘corporate attitudes to climate change’ (1 in 4).

**\*NOTE:** there might be some variation in companies’ definition of medium and long term.

A mean could be 2-5 years (medium) and 5 years+ (long) .

## Future demand

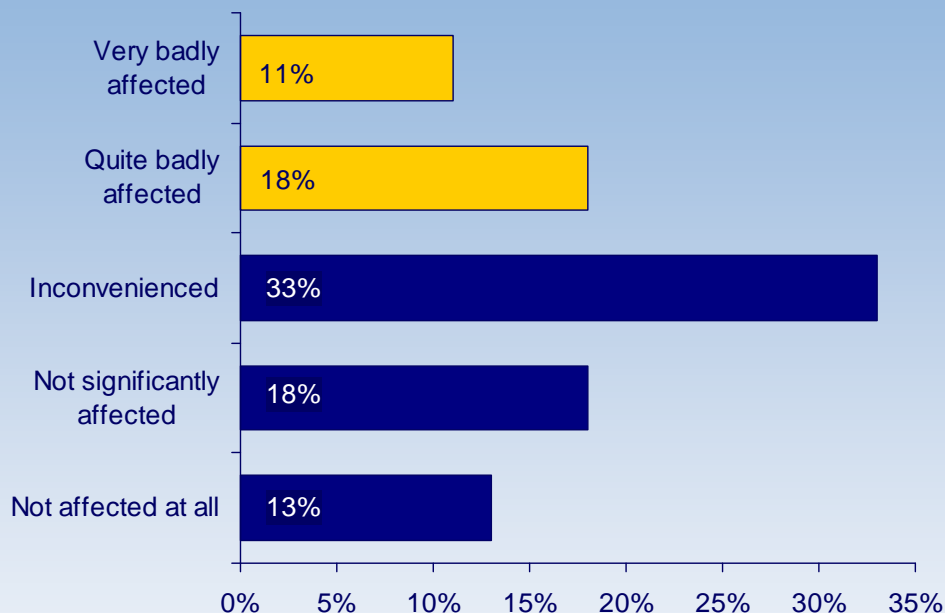
**“Notwithstanding the current economic climate, how do you expect your organisation’s requirement for air services to change over the medium to long term?”**



- An interesting trend can be seen here: those who already fly frequently (transport, manufacturing & production, large companies) tend to have a lower net-balance.
- The consumer services sector (which currently tends to fly less frequently than the average) has the highest share of companies to say their need to fly more will increase.
- Large companies show a negative net-balance, meaning more firms expect the need to fly to decrease.
- Small companies have the highest net-balance, one quarter expect the need to fly more to increase.

## Impact of service deterioration

**“If the air services currently available to your business were to deteriorate, how affected do you think your business would be? ”**



- A significant number of companies (29%) would be 'badly affected' by a deterioration in air service. This is slightly more felt in the Core area (30% vs 27%).

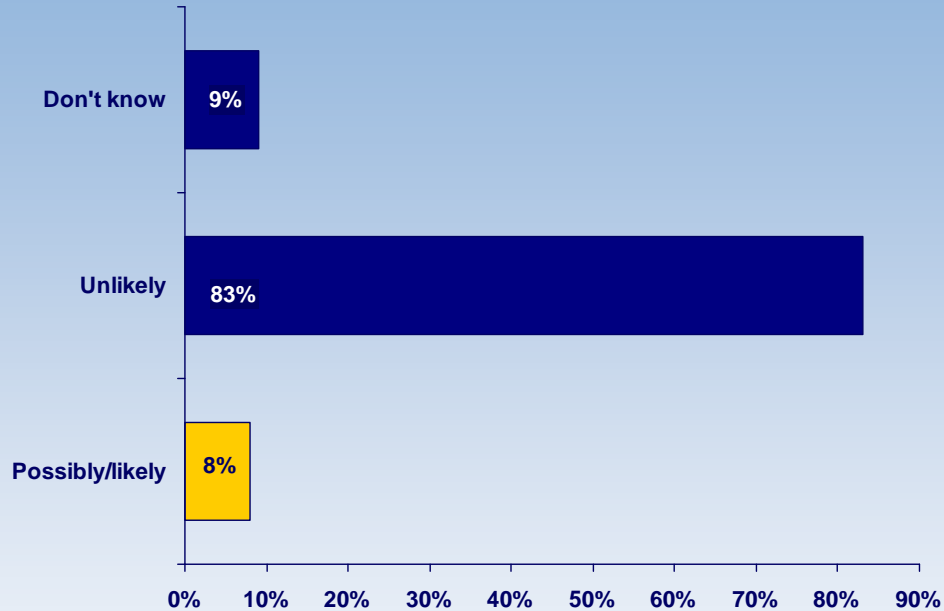
- A third of businesses felt that they would at least be 'inconvenienced' by such an eventuality.

- Businesses cited likely of customer contact, loss of business/orders and increased costs as the most significant outcome.

Total	Business- / Other Services	Consumer Services	Manufacturing & Production	Transport	1-10 (Micro)	11-49 (Small)	50-199 (Medium)	200+ (Large)
29%	26%	37%	27%	32%	30%	29%	30%	21%

## Relocation if requirements not matched?

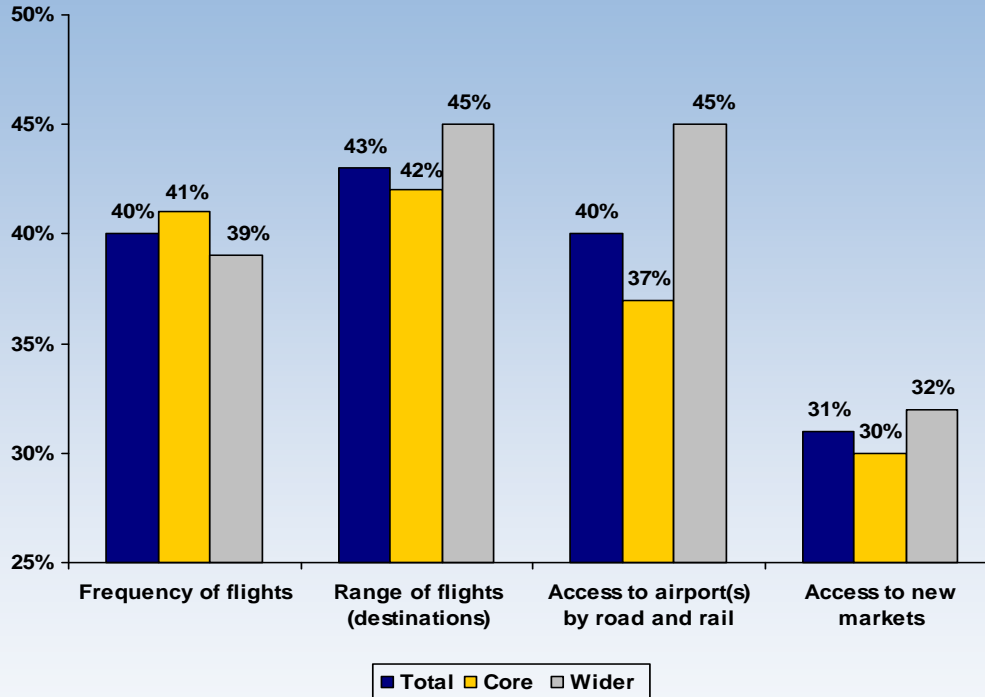
**"If your requirements for air services are not matched by the major airports in the South East, would your business consider relocating to another region within the UK or internationally?"**



- Nonetheless, companies feel that it is unlikely they would move to another region (both within UK and internationally) if the air services available to them were to deteriorate.

## Priority future requirements

**“In terms of future availability of air services, which of the following are likely to be important to the future growth of your business?”**

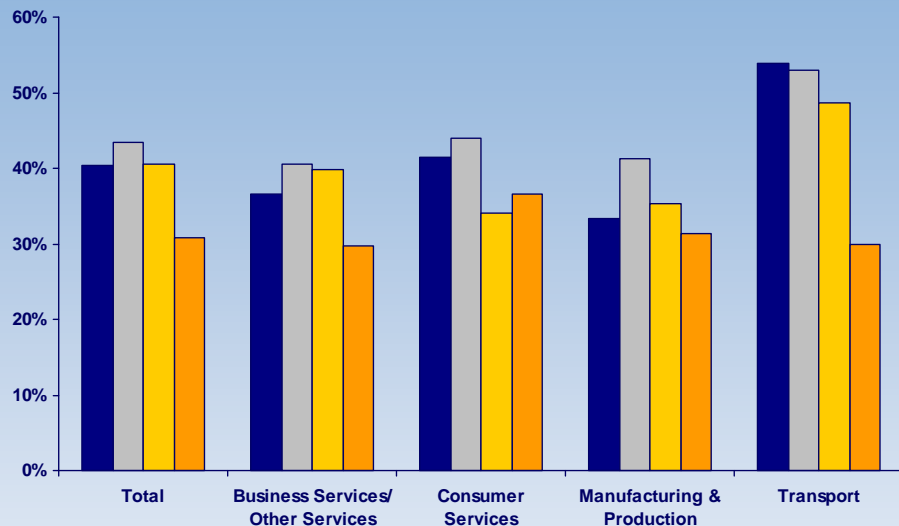


- Range of destinations is important to more than 2 in 5 companies, and slightly more important for businesses in the Wider area
- Frequency of flights, and access to airports (via road/rail) is important to 4 in 10 businesses.
- However, frequency of flights is slightly more important to companies based in the Core area, whilst access to airport is significantly more important for businesses in the Wider area.



## Priority future requirements

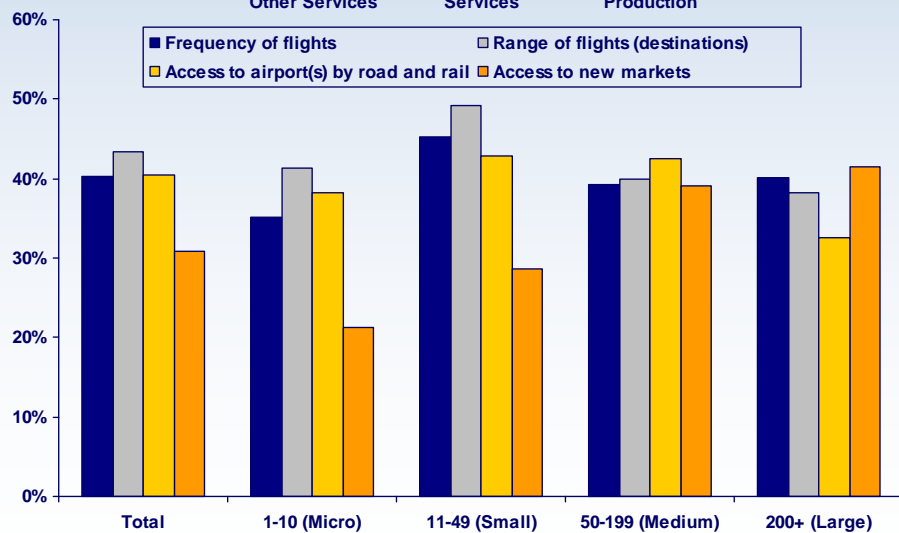
**“In terms of future availability of air services, which of the following are likely to be important to the future growth of your business?”**



- Frequency and the range of flights is more important for the transport sector and for small firms.

- Access to airport is most important for firms in the transport sector and slightly more for small and medium sized firms.

- Access to new markets is especially important for consumer services (which currently tend to fly less frequently) but also for large firms (which tend to fly very frequently).



## Effect of ICT on future demand

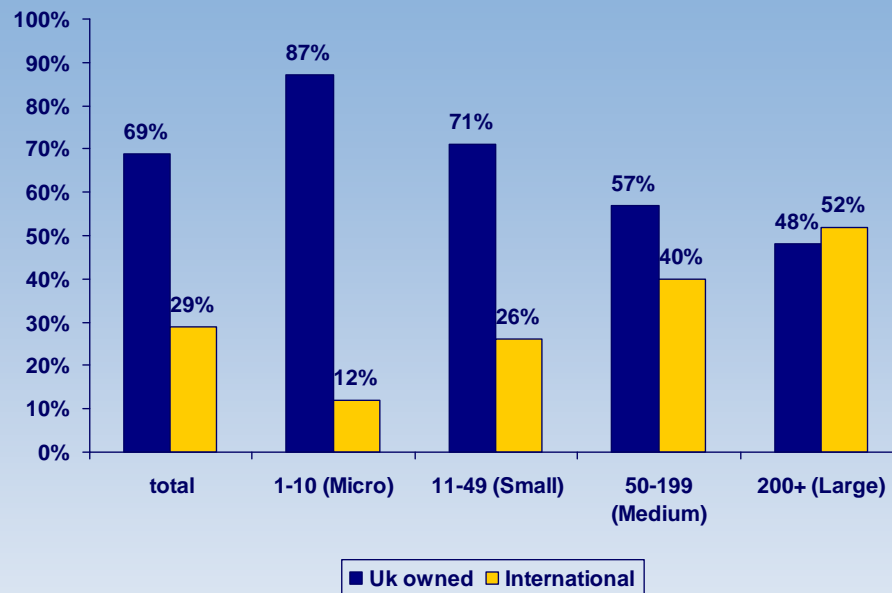
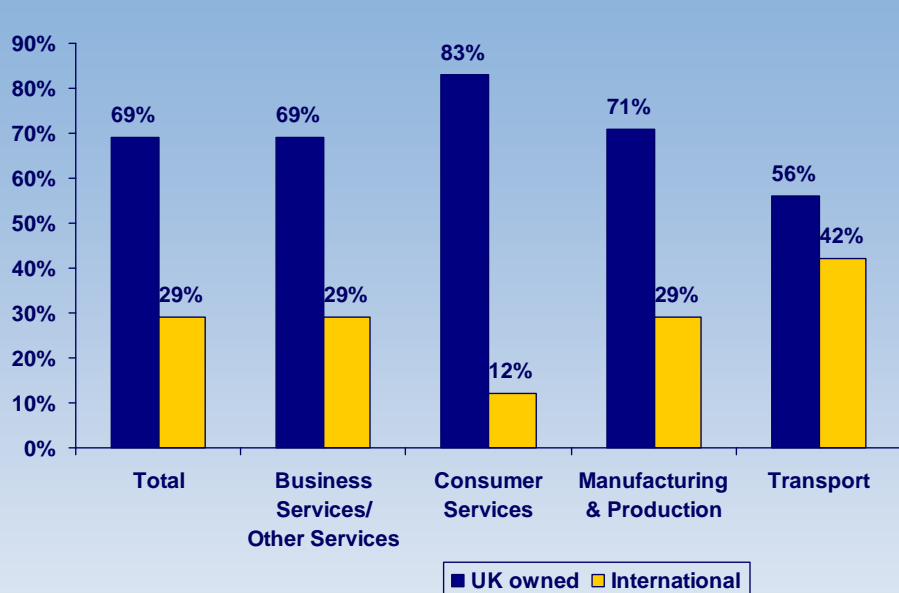
**“What effect do you expect continued advances in technology will have on your future requirement for air services?”**

	Total (532)
Encourage more air travel	8%
No effect	48%
<b>Reduce it somewhat</b>	<b>28%</b>
<b>Reduce it significantly</b>	<b>3%</b>
Don't know	12%

- Among companies as a whole, a significant positive balance of businesses were of the view that further advances in ICT will act to reduce the need for air travel (31% of businesses expect ICT to reduce the need for air services at least somewhat).
- More firms in the Wider area believe ICT to increase the demand for air services (7% vs 10%).

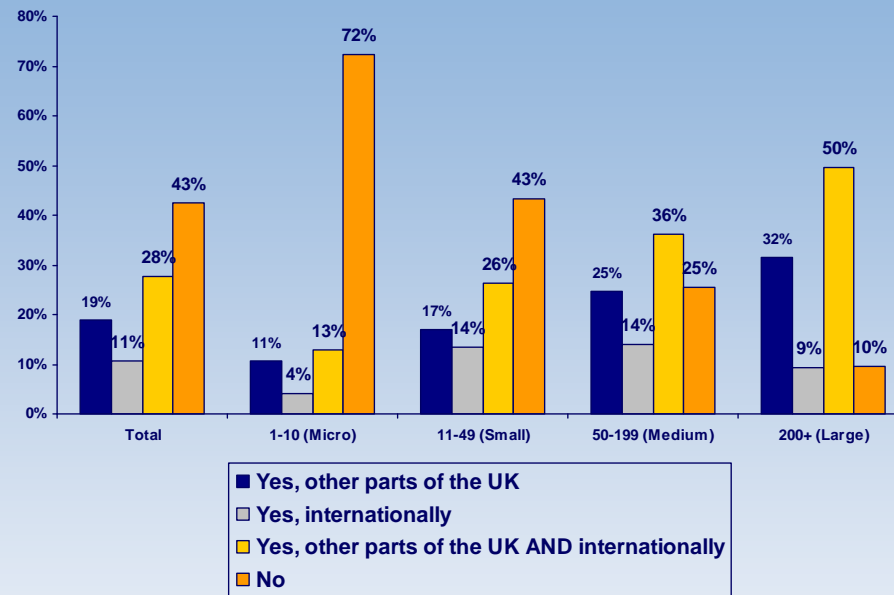
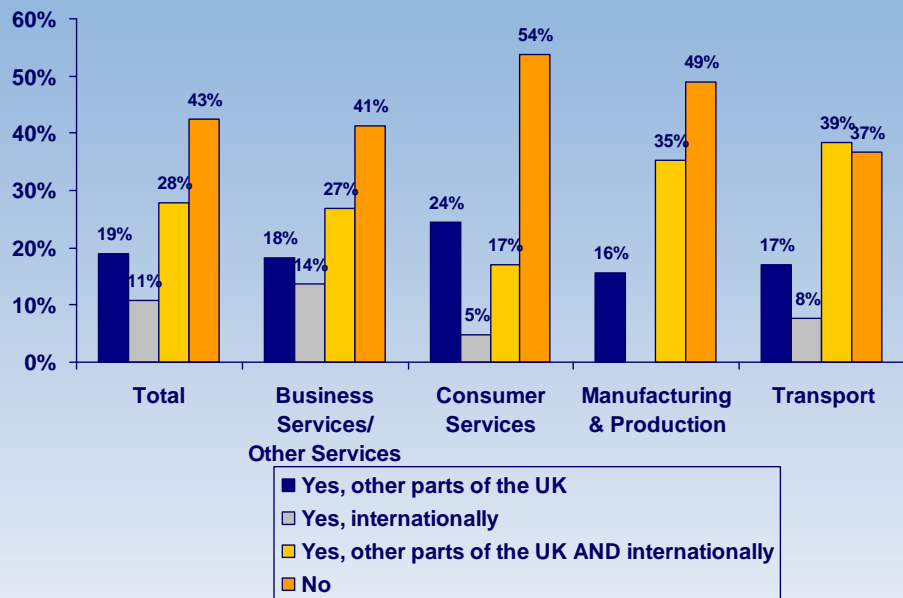
# Annex A: International connectivity by sector/size and

“With regard to your business operations, are you UK owned or international?”



- The transport sector is more likely to be owned international (13% higher than average). Services and manufacturing are in line with the average.
- Large firms are significantly more likely to be international, followed by medium sized companies.
- Consumer services and micro sized firms tend to be UK owned.

“Has your company got subsidiaries in other parts of the UK and/or internationally?”



- Companies in the business-/ other services sectors are more likely to have another subsidiary abroad.
- The transport sector and companies in the manufacturing/construction sectors are more likely to report both, subsidiaries in other parts of the UK and/or internationally.
- Consumer services has the highest share of companies with subsidiaries within the UK.
- Not surprisingly, larger firms tend to be more international than smaller firms.

## Annex B: Main differences between Core and Wider area

## Core and Wider area (1)

**Air intensive businesses are highly inclined to operate internationally, but more so in the Core area**

- 3 in 10 businesses are internationally owned. Companies in the Core area are more likely to be internationally owned than those in the Wider area (31% vs 27%).
- 2 in 10 businesses have subsidiaries within the UK. However, firms in the Wider area are more likely to be connected within the country: (15% vs 24%).
- Almost 3 in 10 businesses overall have subsidiaries in both, the UK and internationally, but this is more the case for businesses in the Core area/ (31% vs 24%).

**This profile is mirrored in the way companies use air services:**

- More companies in the Core area fly weekly/ monthly for the purpose of 'management company/ subsidiaries' (internal company travel) (30% vs 22%).
- Slightly more companies in the Wider area fly to domestic destinations at least monthly (30% vs 32%)
- And more firms in the Core area fly to European destinations weekly/ monthly (45% vs 37%) or North American destinations (22% vs 19%).

## Core and Wider area (2)

- **Proximity to air services** is significantly more essential/ very important to businesses in the Core area (47% vs 37%).
- **Frequency of flights** essential/ or important for more firms in the Core area (46% vs 41%).
- **Direct flights** more essential/ or important for firms in the Core area (58% vs 49%).
- **Ease of access to airport** (by road and rail) more essential/ important for firms in the Core area (51% vs 43%).
- But **range of destinations** slightly more important for Wider area (38% vs 40%).
- More firms in the Core area believe that rail transport could substitute their need to fly at least somewhat (44% vs 37%).
- **Availability of qualified staff** more important for businesses in Core area (55% vs 43%).
- **Ease of access to local markets**, customers or clients more important for businesses in Core area (42% vs 29%).



## Core and Wider area (3)

### Future demand

- More firms in the 'Wider area' expect their demand for air services to increase at least somewhat (18% vs 26%). More firms in the 'Core area' expect their demand to remain the same (62% vs 56%) or to decrease (13% vs 10%).
- This could be explained by the fact that, at the time being, businesses in the 'Wider area' tend to be less established on an international level than those in the Core area (see above) and that it might therefore be more relevant to businesses in the 'Wider area' to operate more internationally in the future to grow and stay competitive.
- Slightly more firms in the Core area say they would be affected badly if air services available to them were to deteriorate (30% vs 28%).
- If asked in which ways they think their business would be affected, '**increased costs**' was more likely to be cited by firms in the 'Wider area' than in the Core area (38% vs 48% Wider).
- However, 'loss of customer contact' was more likely to be cited by firms in the Core area (57% vs 54%)