

## Effect of airport expansion on business opportunities in Kisumu

Abiud Ochieng Awiti<sup>1</sup>, Oduol Stephen Okoth<sup>1</sup>, Fredrick O. Aila<sup>1</sup>, Simeon Okelo<sup>1</sup>, \*Odhiambo Odera<sup>2</sup>, & Prof Martin Ogutu<sup>3</sup>

<sup>1</sup>School of Business and Economics, Maseno University, <sup>2</sup>University of Southern Queensland, Australia and Masinde Muliro, University of Science and Technology, Kenya, <sup>3</sup>Department of Business Administration, School of Business, University of Nairobi, Kenya.

\*oodera@yahoo.com

### Abstract

*The objective of this study is to analyze the effect of airport expansion on business opportunities. The study location was in Kisumu, Kenya and the population was 11,132 businesses comprising of wholesalers, retailers, hoteliers, car hires, bankers and beach management units. Systematic sampling was employed to select 100 wholesalers and retailers while a census was conducted for the 30 hotels, 22 car hires, 25 banks and 8 beach management units respectively. Semi structured survey questionnaires were utilized to collect primary data. Data collected was analyzed using descriptive statistics and the results indicate that the airport expansion has led to: increased visitors and tourist visits; increased sales of both wholesale and retail trade and increased number of financial institutions. The study concludes that despite the airport expansion creating relatively meaningful benefits to the business community, the facility has not been fully utilized to create maximum business opportunities in Kisumu.*

**Keywords:** Business opportunities, airport expansion, Kisumu

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### 1. Introduction

The expansion of airport has awakened Kisumu with the business community optimistic it will boost trade in the region. The expansion started in 2008 at the cost of Sh3 billion and involved the extension of the runway by 3,000 meters, taxi way construction, apron and terminal that can hold 700 people per hour (Gichuki, 2011). The business community is encouraged that the airport is the motivation the region needed after the 2007 post-election violence. The resultant losses of investments lead to the loss of jobs, displacement of investors as well as the markets for the various goods and services. This was compounded by the national inflation with the accompanying rise in the prices of fuel and food.

The expansion is motivated by the increased passenger traffic. Kisumu Airport passenger statistics 2010/2011 indicates that passengers using Kisumu Airport in December 2010 were 24, 271 representing a growth rate of 31.3% over the traffic handled in December 2009 which was 16, 989 (KAA, 2011). Aircraft movements grew by 24.0% from 562 to 740. According to Cherry (2010), passenger traffic reflects the level of economic development, demographics, business activity and tourism while cargo volumes are an indication of the strength of the economy. However, for Kisumu Airport, it is not clear whether the high number of traffic passengers relating to the expansion, are translating into business opportunities. This study therefore, seeks to establish if the expansion of Kisumu Airport has encouraged growth in business opportunities.

## **2. Literature Review**

Economic growth and globalization have seen demand for air travel advance rapidly in the last 20 years. The economic and demographic evidence allude to the accelerating trend. At the same time, planning and constructing new infrastructure takes an extremely long time and history has shown the construction of new airports and the expansion of existing ones to be highly controversial (Haines, 2012). Where in other cases, land reserved for development remained vacant for decades. In the more successful cases, increased growth of aviation and increased airport capacity combine to attract economic activities (Wijk, 2007).

As business markets become national and international in scale, airports are increasingly being viewed as incentive for local economic development. Their ability to generate jobs and attract new business is being used in many locations as a justification for public investments in new airport construction and expansion (Weisbrod, 1993). Airports are intermodal nodes that have transformed into multifaceted business enterprises to secure mixed-use activity centers, corridors and zones. They are shaping new urban forms that reach way beyond the airport barrier. The "Airport area" has emerged in many cities worldwide as a generic postmodern landscape of offices, hotels, warehouses, shopping complexes, and logistics facilities (Guller & Guller 2003). The income that a nation receives from tourism benefits that nation in several ways. Income is generated to the government in form of taxes while at the same time tourism creates employment (Hudman & Jackson, 2003).

The economic importance of airports includes major generators of economic activity and executes a motivation for a wide range of economic activities. An airport can act as a strategic impetus by: Influencing business location decisions; attracting new investment from a country and overseas companies; retaining and securing the expansion of existing businesses in the face of competition from other areas; Promoting the export success of businesses located in the area; Enhancing the competitiveness of the economy through the fast and efficient delivery of passenger and freight services; Attracting high technology businesses that have a high demand for air travel and the shipment of goods; acting as centers of employment and training in a region by generating demand for a wide range of skills; Integrating isolated communities with the global community (Jacobs, 2007).

Often it is the financial and business services sectors which make the greatest use of air transport and for whom accessibility to air services will have the strongest influence on location decisions (Burke, 2004). During the weeks after 2007 post-election violence, Eldoret International Airport became the lifeline of traders in the region. When fish, fruits and flowers produced in the region could not access markets in the nearest towns in Rift Valley Province due to the many illegal roadblocks, traders airlifted their cargo to international markets through the airport. Children going back to school, people moving to and from Western Kenya through the airport increased when roads in the region were blocked (Omondi, 2008).

As business markets become national and international in scale, airports are being viewed as catalysts for local economic development. Their ability to generate jobs and attract new business is being used in many locations as a justification for public investments in new airport construction and expansion. Anticipation of new business activity requires appropriate land planning. Investment in airport expansion involves risks associated with future revenue streams which will be borne by the private sector (Frost, 2009).

### **3. Research Methodology**

The study location was in Kisumu, Kenya and was conducted using a survey research design. Secondary data were collected from Kenya Airports Authority, Lake Victoria Tourism Association, Ministry of Fisheries, Municipal Council of Kisumu and Kenya Institute of Bankers. The study population was 11,132 businesses comprising of wholesalers, retailers, hoteliers, car hires, bankers and beach management units. Systematic sampling was employed to obtain primary data from 100 wholesalers and retailers. Census sampling was utilized to access data from 30 hotels, 22 car hires, 25 banks and 8 beach management units respectively. Starting from a random sample of the registered wholesalers and retailers, every 110<sup>th</sup> wholesaler or retailer was included in the study. Data collected was analyzed using descriptive statistics.

### **4. Results**

Less than average of the business opportunities were established in the five year period between 2007 and 2011. These included 23% hotels, 45% Car Hire, 37% Wholesale and Retail, 32% Banks and that all the Beach Management Units were created before 2006. However, in the five years period between 2002 and 2006, the percentage of business opportunities initiated included; 37% hotels, 45% Car Hire, 48% Wholesale and Retail, 40% Banks and 100% of the Beach Management Units were launched before 2006. The findings indicate that most businesses were established before the five year period between 2007 and 2011, and airport expansion was not a factor in their establishment. Most businesses among them 83% Hotels, 91% Car Hire, 68% Wholesale and Retail were created with anticipation of high business that will result from increased passengers using the expanded airport.

There was more than average level of expectations with the expanded airport. 100% of Hotels, 100% of Car Hire, 81% of Wholesale and retail anticipated increased customers. 88% of Banks projected an upward growth in loan uptake and 68% of increased population to consume banking products. 100% Beach Management Units projected expanded fish markets due to export. The findings indicate that there is high anticipation of business products and service consumption that will result from increased passengers using the expanded airport.

57% of the hotel sector within Kisumu agrees that airport expansion has promoted increase in visitor/tourist visits. 53% of the respondents highly concur at that the expansion has advanced growth in internal capacity of the hotel industry. 70% acknowledge that the expansion has encouraged opening up of tourist attractions in Western Kenya. 80% confirmed that the airport expansion has accelerated growth in number of hotels. 55% of

the respondents were convinced that the airport expansion has encouraged car hire business operators to increase their capacity by adding more vehicles.

51% and 41% acknowledge that the airport expansion has encouraged the locals to start investing in wholesale and retail businesses respectively. 68% admit that the expansion has promoted growth in sales to the existing wholesale and retail business. Nevertheless, 87% of the wholesalers and retailers are convinced that their sector had opportunities for growth as a result of the expansion.

64% and 48% of respondents accept that the expansion has encouraged the opening up of financial institutions and has had an effect on the number of clients respectively. 60% of respondents confirm that the expansion had an effect in the increase in number of products offered by financial institutions. 36% of the bankers consent that the expansion has encouraged financial institutions to relocate their services. 75% accept that the fishing sector has opportunities for growth as a result of the expanded airport,

### **5. Discussions**

The study establishes that the airport expansion has an effect of promoting growth in tourism, financial services, wholesale and retail. It reveals that several hotels have been constructed over the last five years; others expanded their internal capacity while the airport expansion has promoted growth in the number of hotels. There has been an upsurge in the number of car hire business, following an increase in the number of flights to Kisumu from Nairobi. Mathis & Guller (2003) ascertain that the "Airport area" has emerged in many cities worldwide as a generic postmodern landscape of offices, hotels, warehouses, shopping complexes, and logistics facilities.

The expansion has activated growth in the development of wholesale and retail business. Upsurge of visitors and passengers have motivated wholesalers and retailers to expand their business to meet the demands of the growing market. Several shopping malls have come up indicating growth in sales to the existing businesses. Jacobs (2007) observes that an airport can act as a strategic catalyst by: influencing business location decisions; attracting new investment from a country and overseas companies; retaining and securing the expansion of existing businesses in the face of competition from other areas.

The growth in business has enhanced the presence of many banks since 10 more banks have joined the market since 2008. The bankers project an upward growth in mortgage loan application since middle income earners have a steady income. Weisbrod (1993) determines that anticipation of new business activity calls for appropriate land planning. The airport expansion has not fully motivated the local fishermen to start aggressive fishing because the airport does not have a cargo handling facility which can be used to export fish. Omondi (2008) indicates that airports can be useful in promoting agriculture when other means of infrastructure are inaccessible.

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