

The Amazing Anatomy of Risk - Berlin Airport Case

What Went Wrong with the BER Project?

How Did this Impact its Owner FBB?



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What went wrong in the BER Project?

1. Wrong Location

4. Wrong Rebuilding

2. Wrong Governance

5. Wrong Business Model

3. Lacking Competence

6. Lacking Equity Finance

How did this Impact the Owner Firm FBB?

1. Cost Overrun

Building Cost and Financial Cost

2. Revenue Gap

Lower Revenues than planned

3. Time Overrun

Lost Revenues and Compensations

4. Weak Financial Position

Lost Equity, increased Liabilities

5. Operational Problems

Lost flights, Lost time, Lost services

6. Weak Strategic Position

Lost Reputation & Bargaining Power

BER: 10 Years later than planned – Cost 4,4 Billion Revenue Losses

Mio Passengers 2011-2019		Revenue Loss per Passenger			Mio Euro Revenue Loss	
278,6	*	15,9	=	4428		

BER: 400% Over Budget: 8 billions spent instead of 2 billions planned!

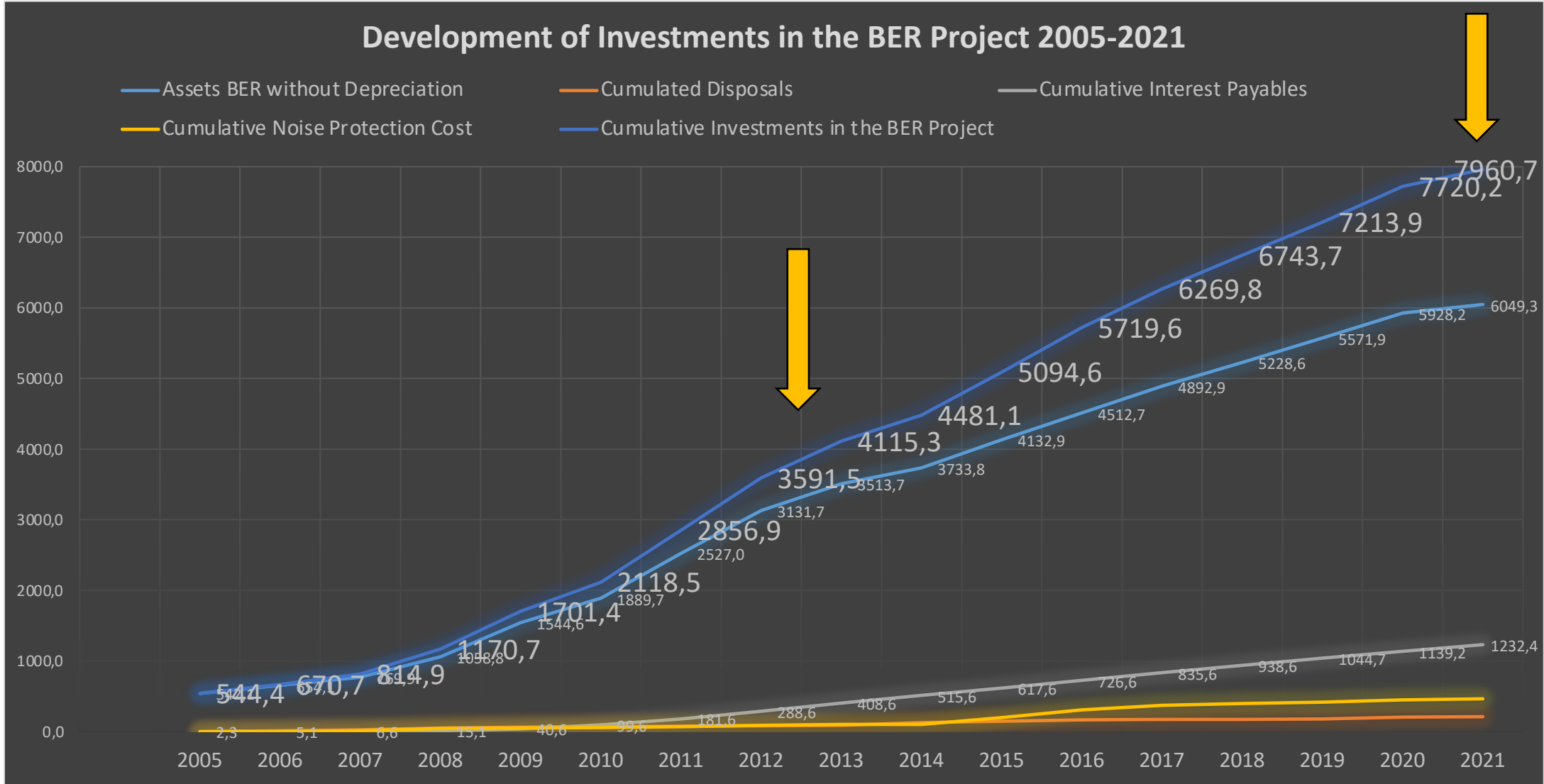
In **2004**, the Corporate Control Board of the **FBB planned 1.983 billion Euro**.

By end of **2021**, the **actual investments** amounted to nearly **8 billion Euros**.

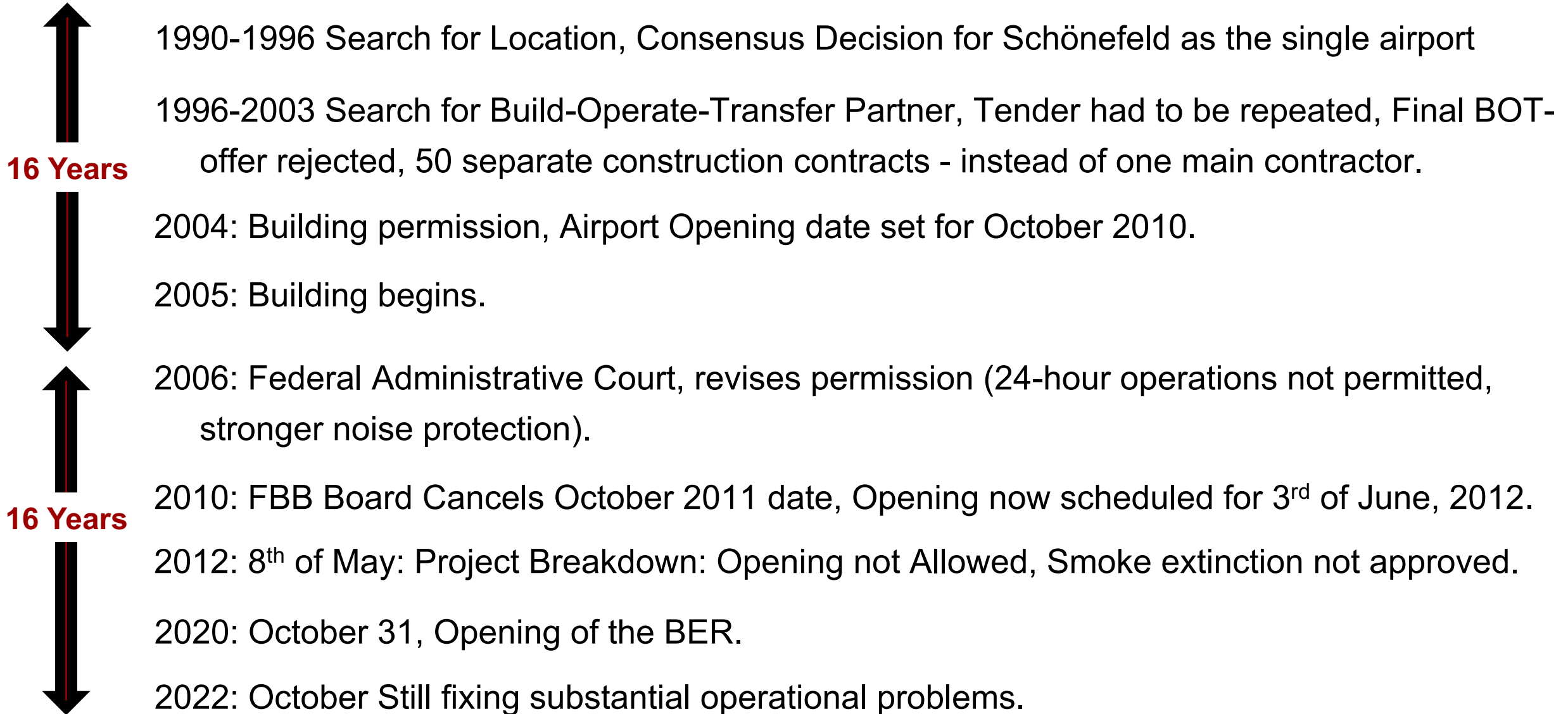
**Overall, 4 billion revenue losses plus 6 billion overspending =
a 10 billion project failure**

You could have built **five airports** with the lost money
– **but you only get the revenues from ONE airport** –
which can probably never recover the huge losses.

The Investments in the Assets of the BER from 2005 to 2021



BER: Long Road toward a new Airport for Berlin and Brandenburg



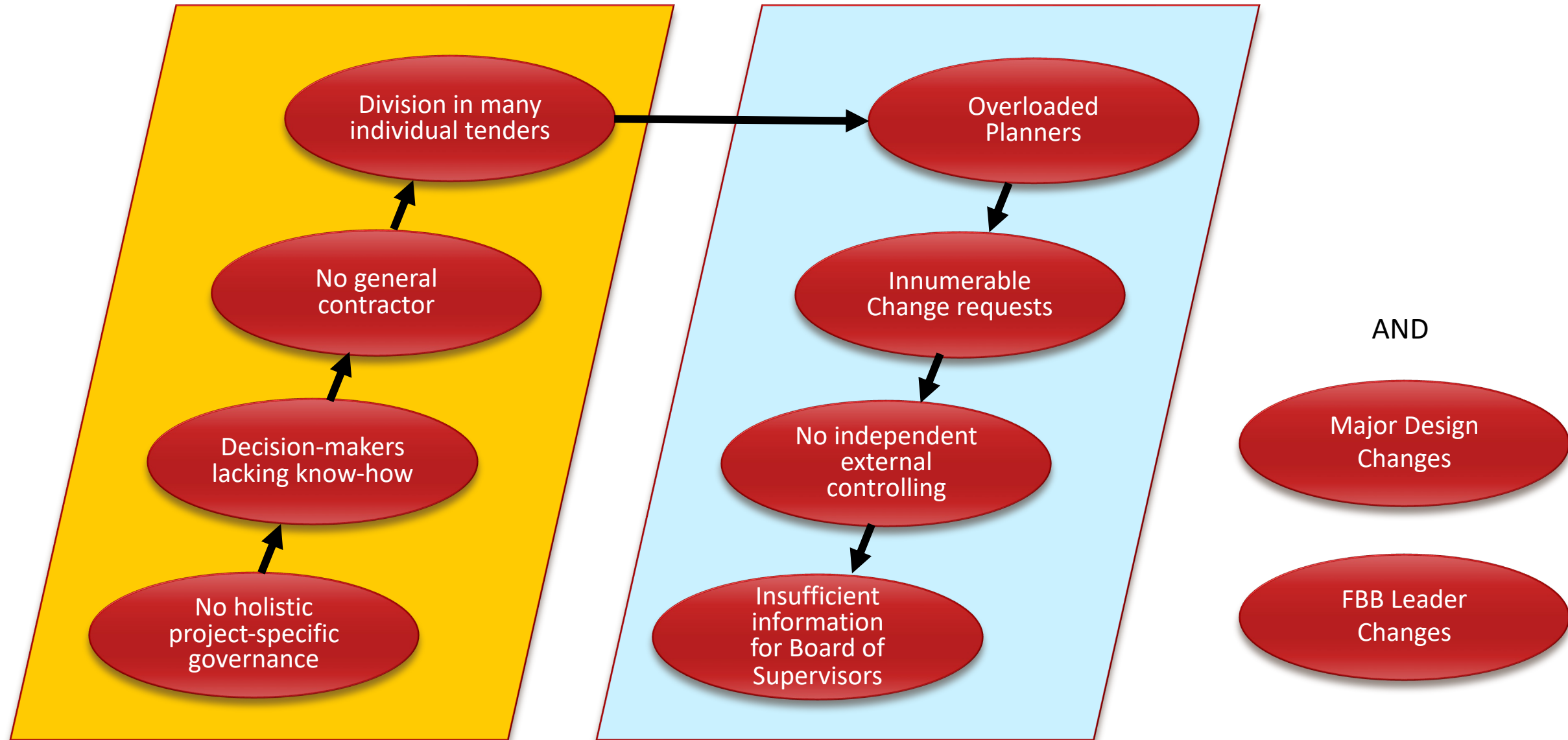
Wrong Location

Out of seven examined locations Schönefeld was chosen.

Drawbacks

- 24 hours operations forbidden, limits freight business and passenger capacities in peak times.
- Additional capacity was restricted by court decision, no room for expansion.
- High cost for noise protection.
- Problematic treatment of citizens living in the neighborhood.

BER: Spiral of Governance Problems based on Fiedler & Wendler (2016)



Lacking Client Competences

1. Governance structures need to be filled with **expertise** on all levels to be effective.

2: Increase client competences to create a „**Smart Client**“:

Skilled to select, to negotiate with and to control the private sector companies undertaking the design and construction work.

Wrong Rebuild

The breakdown of the project was a severe **discontuity** disclosing **huge bungle** in construction.

In spite of this, they decided to **rebuild** the main building – without having a clear plan how to do this, what this would cost and how long it would take.

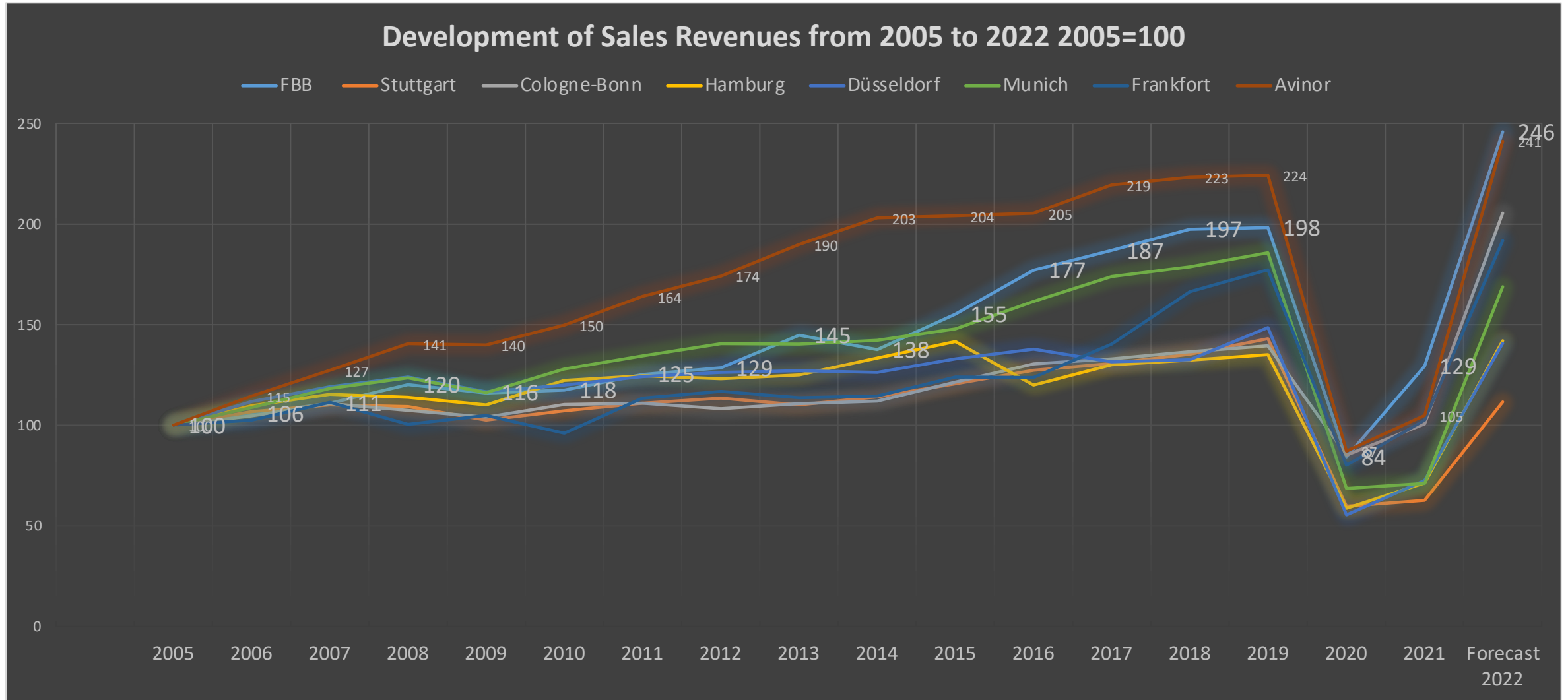
The purpose of an airport company is to process passengers quickly and safe.

The purpose is not to repair a building.

Given the strategic disruption – a **bypass** with simple hangars – like before in Tegel and Schönefeld would have been a better solution.

This allows to exploit the new runways, railway station, and motorways, earn money, and reduce the traffic load and noise of Berlin Tegel. And it would reduce time pressure of repairing.

The Setting: Development of the Sales Revenues



The Setting: Development of Sales Revenues – in Times of Covid

Year	FBB	Stuttgart	Cologne-Bonn	Hamburg	Düsseldorf	Munich	Frankfort	Avinor in Mio NOK
2019	416,1	328,0	341,2	274,8	501,1	1568,0	3705,8	11785,2
2020	177,1	137,2	208,4	119,6	187,3	579,7	1677,0	4583,1
2021	271,7	143,8	246,3	145,2	244,7	601,3	2143,3	5514,1
Forecast 2022	516,2	256,0	502,5	288,9	474,7	1425,1	4008,0	12670,7
Forecast in % of Revenues 2019	124,1%	78,0%	147,3%	105,1%	94,7%	90,9%	108,2%	107,5%

Remarkably, FBB gets more revenues in 2022 than in 2019 with only 53% passengers.

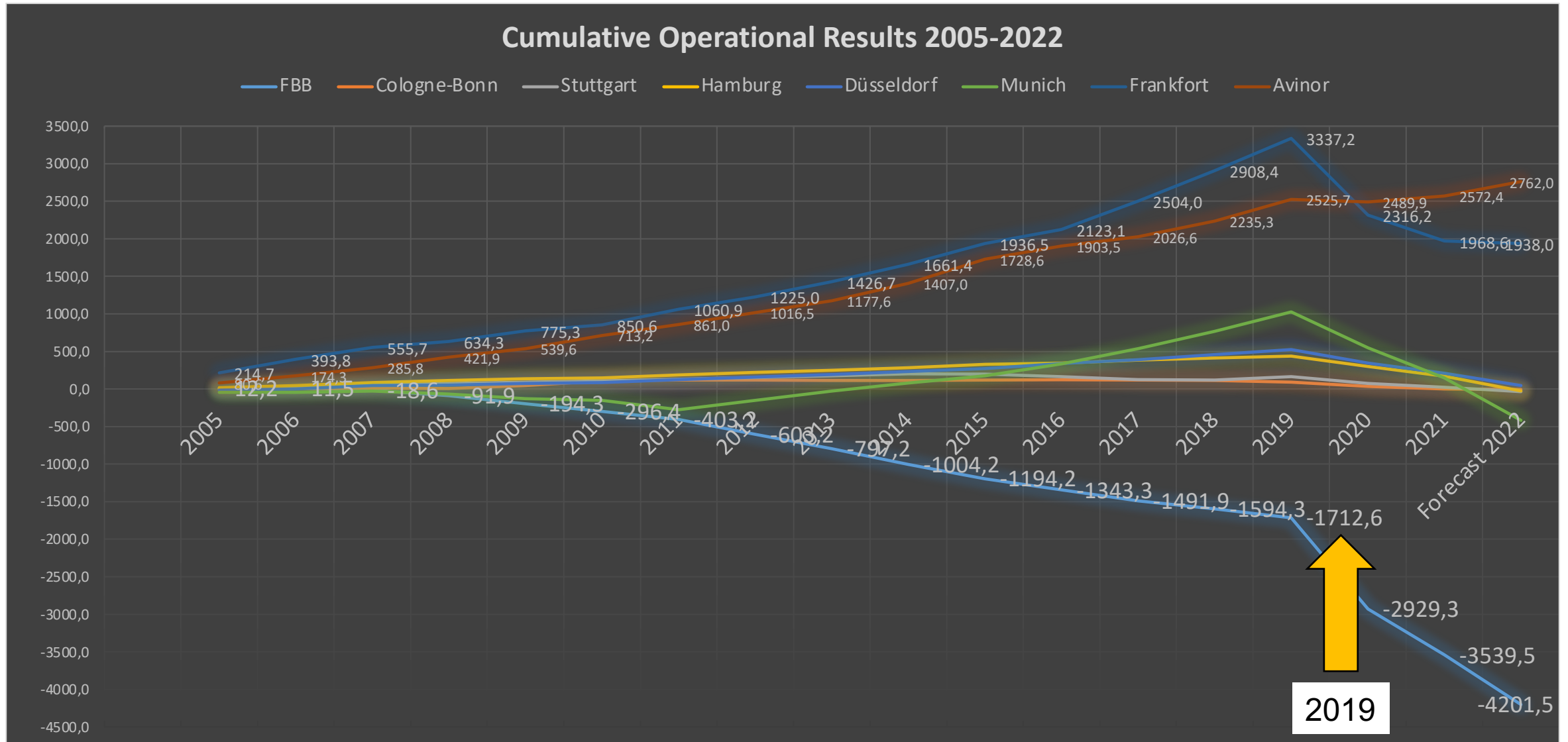
Our Definition of Operational Profits before Taxes

Sales Revenues

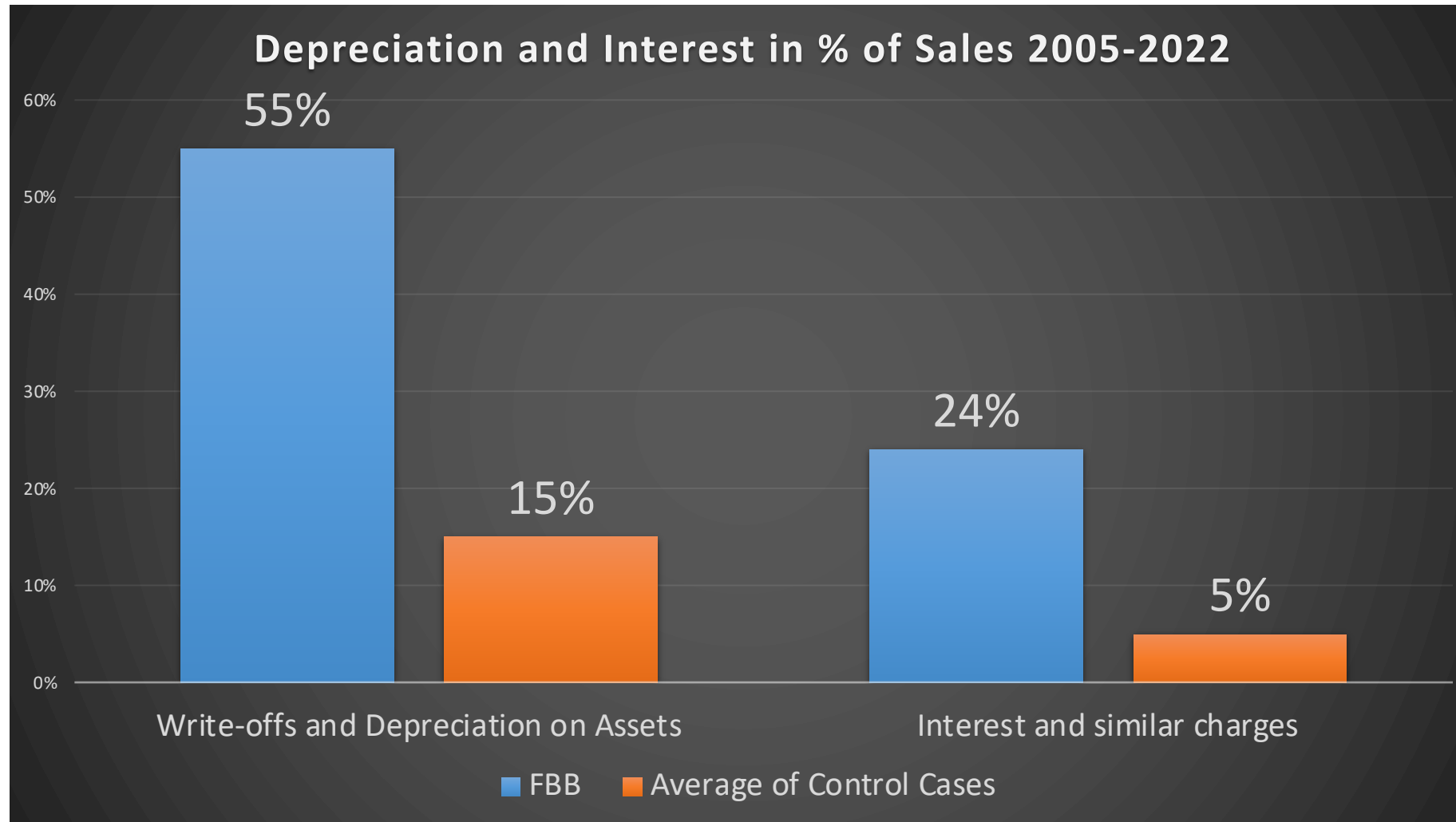
- Cost of Materials
- Personnel Expenses
- Other Operating Expenses
- Depreciation on Intangible and Tangible Assets
- Interests and Similar Expenses

= **Operational Profitability before Taxes**

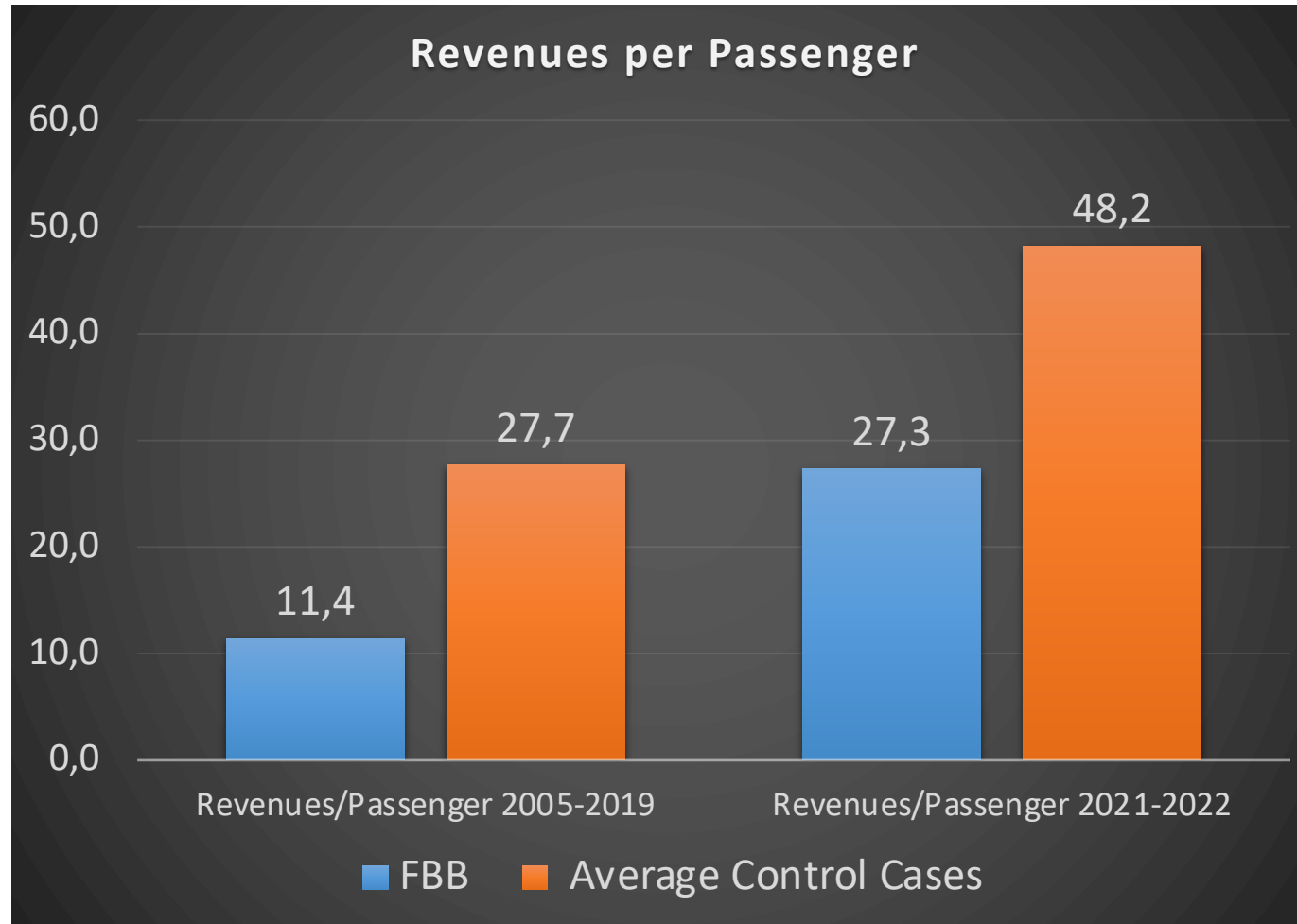
Cumulative Operational Profits or Losses of the Airport Firms 2005-2022



Cost drivers: write-offs and interest payments



Revenue figures of FBB and Control Cases



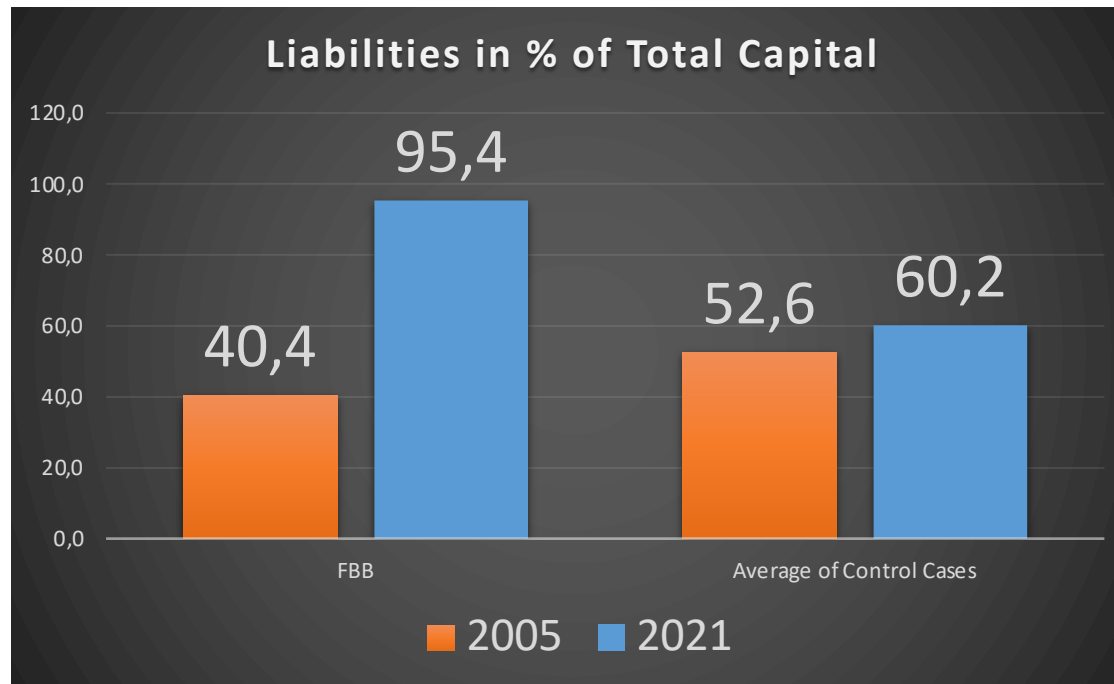
How did the Liabilities of the FBB develop?

Liabilities increased dramatically, both in absolute volume and in % of total capital.

Volume: Liabilities of FBB: **from 300 Millions to 5 billions.**

In % of total capital:

- FBB from **40.4% to 95.4%.**
- Control Cases from 52.6% to 60.2 %.



Negative Equity of FBB in 2021

Minus 530,8 Mio Euros

In its second year the BER is still plagued by operational defects

- Most moving walks are out of service, causing long-lasting walks.
- Platforms on the railway station are small and risky.
Escalators from railway station up to airport are clogged.
- Long queues for check-in and safety controls. Planes missed!

Despite 50%
Passenger Load



- “Arrival at the airport at least 240 minutes before your planned departure”
- Long waiting time for luggage delivery.

**“BER is a monument of failure.
It needs to be modernized as soon as possible.”**

Learnings

1. Major projects have a major impact on their business owners – but - not always in the expected direction!
2. The economic impacts of a major project depend on the business conditions: If the business model does not fit – a well managed project may destroy value!
3. Strategic decisions about location, delivery-model and governance matter.
4. In case of a breakdown: adaptive strategies may promise better solutions.
5. Better accounting standards and effective control of major projects.

Thanks for your attention! Questions please!



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