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TIME TO LOOK AHEAD

As the economy starts its recovery, now is the time to make decisions about the future of airport concessions

BY JODI RICHARDS



The past year has been called the worst recession since the Great Depression, and airport concessions programs were not immune to its effects. By no means has it been doom and gloom for the industry, but retailers, airports and consultants all agree now is the perfect time to re-evaluate operations and look for new opportunities.

Sales per enplaned passenger have held steady, but overall revenue at airports is dropping because passenger numbers are dropping, said Christina Cassotis, vice president and leader, Airport Services with SH&E.

Bruce Boudreau, director at Jacobs Consultancy, said specialty retail has taken the hardest hit. Depending on the airport, he has seen drops anywhere from 1 to 8 percent in specialty retail spend rates.

Food and beverage numbers, typically the least elastic of any of the concessions, have held up a little bit more, Boudreau said. There is a trend toward smaller, cheaper and more frequent meals, while breakfast has been the most affected meal for airports.

Duty free, which affects fewer airports, is also seeing some strong declines in spending rate. Because of double-digit declines in international enplanements at some airports, Boudreau said, "we have seen some places that are off 30 to 40 percent in terms of gross sales."

"THE opportunity here is for the individual concessionaires and the airports to insist on the cashiers and clerks being more than that and being educated people who can help the passenger be converted into a purchaser."

Christina Cassotis, vice president and leader, Airport Services with SH&E

Business Terms

At several airports seeking proposals for their retail space, Boudreau said business remains competitive among "the usual suspects," or the major concessionaires. "We're seeing the big concessionaires being very competitive in chasing deals," Boudreau said. Companies like HMSHost Corp., acquired by Autogrill, and Hudson Group, acquired by Advent International, have put pressure on retaining and gaining market share on renewing contracts.



Missouri Vineyards at Lambert-St. Louis International Airport is a new restaurant to serve travelers.

While that's good news for airports that have programs expiring, Boudreau said, "it also makes it a bit tougher to get the local guy to submit."



"The local and regional concessionaires are having to use a much sharper pencil and are much more concerned about their ability to finance the cost of improvements," Boudreau said.

"THERE is still a need for airports to rationalize their concessions space, find more concessions space and to take a hard look at how they're using that space to meet future demand. Traffic is going to recover. It always does."

Bruce Boudreau, director at Jacobs Consultancy

Airports trying to attract local businesses have to do more to reach out to those potential operators, such as using smaller contracting packages and more flexible business terms. "Generally there is commitment because they believe that those local businesses bring a certain authentic, local flavor to the airport," Boudreau said.

Retail Response

For concessionaires like HMSHost, 2009 has been full of deliveries, including new restaurants, partners and concepts. Some additions to HMSHost's portfolio include: Gladstone's and Pinkberry at Los Angeles International, ChopHouse at Denver International, Sammy Hagar's Beach Bar & Grill at McCarran International, Cross Pens at Salt Lake City International and Missouri Vineyards at Lambert/St. Louis International.

These openings were tied to contracts awarded in 2007 or 2008, said HMSHost spokeswoman Susan Goyette. And, while the economy and traffic numbers have had an impact on some of the locations in terms of timing, the company wanted to make sure the locations were ready to go when traffic returned.

For BAA USA, the past year has been highly focused on transforming — renovating, expanding and bringing in new tenants — the entire retail space at Cleveland Hopkins International, Mark Knight, president of BAA USA said. "It's really a huge and dynamic project for our company. It is not without its challenges in these times, but we've been pleased with our success."

Like others, HMSHost has been affected by the closing and moving of gates. To deal with the lack of traffic to those areas of the airport, she said reducing hours at some retail locations to better reflect the times those gates are in use is one way to manage. HMSHost also manages to stay until after the last flight leaves, Goyette adds.

At Baltimore-Washington International Airport, Southwest Airlines gave back five gates at the end of Concourse B, Knight said. In conjunction with the airline and one of the tenants, BAA used ticket jacket stuffers to prompt customers to use the restaurant. "It had a tremendous impact," he said.

Growth Areas

In the last eight years, concession spending per passenger increased by 50 percent, Boudreau said, without an inflation factor. "That's because airports are doing a better job at giving people what they want," he said. "People are getting away from the cheap, fast food and they want better, healthier, freshly prepared foods and they're willing to pay more for it."

WHAT is ACI-NA DOING?

- ACI-NA sponsors the annual awards contest for airport concession operations.

- ACI-NA's Finance Commercial Management Committee hosts the annual Concession Seminar.
- Concession and revenue generating topics are discussed each spring as part of the ACI-NA Economics and Finance Conference.



Gladstone's is a new restaurant in the Los Angeles International Airport.

A shift toward more organic, local or "green" food is a "wonderful concept" and people respond to it well by "voting with their wallets" when they feel that they are getting something that is both fresh and healthy, Cassotis said.

The green movement is front-and-center with everyone, Knight said. "We certainly embrace the movement in everything we do and that

will continue to be a big theme with us and our airport partners."

Personal services and conveniences, coupled with outstanding customer service, should be the focus areas of airport concessions today. As business travelers work harder because of fewer employees at their firms, she said people want to take advantage of services and conveniences. "If you can get it done during the week at the airport, you don't have to give up that time with your family," Cassotis said.

Pet kennels are another service that airports can offer to passengers, while also providing incremental rev-

enue that will add up over the years, Boudreau said. "I think airports in the future are going to be looking not for the homerun, but trying to get some singles and doubles by adding things that create incremental revenues and meet a need of the passenger."

Boudreau expects that sleep hotels will work well for some airports. "I think we're going to see airports trying more things and becoming more sophisticated about how they go about doing that," he said.

Vending machines or automated retail, provided by companies like Zoom Systems or VIGIX (see sidebar), which typically sell high-end items, are an opportunity Boudreau sees for airports—particularly those that are space-challenged.

Looking Within

This is a great time for concessionaires to look internally for opportunities, Cassotis said. "I think every individual retailer has to look at their product mix and ask, 'What's selling and what isn't? What should I enhance and what should I drop?'"

"Every single business, whether airport operator, concessionaire at an airport or consultant, we have



Mark Knight, president of BAA USA

Consolidated Car Rental Facilities

Consolidated rental car facilities provide numerous benefits for the airport, including freeing up both airside and landside space for expansion of the terminal, providing enhanced facilities for the rental car industries and their customers and improving customer services and environmental benefits, said architect Jeff Weiner, of Pierce Goodwin Alexander & Linville.

Trends in rental car operations seem to follow just behind the airlines, Weiner said, and the industry is seeing more online booking of rental cars and self-service kiosks.

Michael Baldwin, vice president of concessions at Dallas-Fort Worth International, said the consolidated

rental car facility at the airport, which has nine tenants provides more space for the rental car companies and has expanded customer service. "For us, we wanted to provide ample space for the rental car companies but also provide an overall expanded customer service," Baldwin said. The 129,000-square-foot rental building and associated operations, which opened in May 2000, encompasses some 200 acres and cost \$150 million.

Weiner notes that consolidation of rental car operations will "certainly continue because it is a model that has continued to work."

Even in a time of struggling passenger numbers, Baldwin said other airports are planning

consolidated rental car facilities for the future. "We have had other airports come down to visit and look at our operations and planning process," Baldwin said.

Nashville International Airport is planning a new \$41 million consolidated rental car facility.

The project consists of constructing a 3-story garage facility in the long-term parking lot adjacent to the existing short-term garage. The facility will house the ready/return operations of all on-airport rental car companies. Also included are a quick-turn-around facility consisting of minor maintenance, vehicle washing facilities, vehicle fueling positions and storage area.



Victoria's Secret is one of the many retail outlets in Terminal 4 at New York's John F. Kennedy International Airport.

to look at what is old and tired and what can we be innovating with the time that we have while the economy is in this recession," Casotis said.

Boudreau agrees, "There is still a need for airports to rationalize their concessions space, find more concessions space and to take a hard look at how they're using that space to meet future demand. Traffic is going to recover. It always does."

HMSHost has looked at ways to improve the bottom line, said Goyette. For example, are the menus too large? Are there savings to be had by consolidating delivery schedules? Does it make sense to always ask if the customer would like a bag with purchase?

BAA USA has also adjusted menus to respond to current circumstances, which, for Knight, means not losing sight of the core customer and concept, but flexing the menu a little. For some food and beverage operators, which led to creating a "value range" of

SFO-Slow Food

As part of a \$383 million project to renovate its Terminal 2, San Francisco International Airport (SFO) plans a 29,909-square-foot retail development that will include 12 eating establishments with a "slow food" focus.

It will be the first "slow food" terminal in the United States — meaning it will be approved by Slow Food USA. According to the group's Web site, slow food is "an idea, a way of living and a way of eating ... that links the pleasure of food with a commitment to the community and the environment."

The airport is requiring that new food vendors agree to a 16-point sustainable food policy. The guidelines are based on portion sizing, sourcing of organic and regional produce when possible and using hormone-free meats and cage-free eggs.

"This is in line with the airport's sustainability policy and responds to consumer demand for healthier foods," explained Jane Sullivan, San Francisco spokesperson in an interview for *The Moodie Report*.

The airport is still looking for vendors to participate, and proposals will be collected through December, with concessions awarded in February 2010.

Associate Deputy Airport Director, Revenue Development and Management Cheryl Nashir told the *Moodie Report*, "There's been a lot of interest and optimism among both incumbents and new players, particularly for food & beverage, and we're hoping for some new tenants."

As to what constitutes "slow food," Michael Levine, COO and co-founder of specialty food operator Tastes on the Fly said, "What is meant by slow

food is it is the alternative to fast food." It incorporates sustainable, local, organic food.

With operations on both coasts, Levine said his company, founded in 1999, has employed a lot of the Slow Food Nation practices, such as using local, fresh, farm-raised products.

Levine believes the greening of concessions at airports will continue and that while there is a "negligible" increased cost often associated with these efforts, customers are willing to pay for it.

"As an operator, it takes a little extra work, but it pays back in guest satisfaction and doing what is right," he noted.

Tastes on the Fly has locations in three airports across the country: San Francisco; Boston Logan International Airport and, John F. Kennedy International Airport.

Shopping Apps

In early September, Dallas-Fort Worth International developed a mobile Web site (www.dfwairport.com/mobile) that offers travelers access to different tools, including an application that suggests concessions nearest to each gate. Working with Sabre, DFW has taken it a step further so the users of the TripCase app (www.tripcase.com) can receive special promotions on their iPhone or Blackberry from the airport's concessionaires based on their terminal location.

As a frequent traveler himself, Jacobs Consultancy's Bruce Boudreau appreciates the DFW's mobile site and expects it will pay off for the airport and its concessionaires.

The mobile Web site offers a "great service to our travelers," said DFW spokesman Brian Murnahan, as well as another opportunity to reach customers. "Every opportunity you give someone to find your (concessionaires) enhances their ability to purchase," he adds.

As a frequent traveler himself, Jacobs Consultancy's Bruce Boudreau appreciates the DFW's mobile site and expects it will pay off for the airport and its concessionaires. "In a linear terminal like that, I think it's really important that people know where things are because they may not be willing to make that walk once they locate their gate."

products, such as "super appetizers," where for less money, customers still receive a good portion, but not a full-meal size. "Most of our tenants have responded in that way — and responded successfully — tweaking and offering something of value where appropriate," he said.

In tough economic times, Knight said it is even more important to provide customers with great quality, choice, service and value. "In our

industry we constantly get questions and challenges from airports and tenants where they say we need to raise prices 20 percent and cut back menus and services. That's the worst thing you can do in these times to respond. You have to be much better, sharper; provide better service, better prices and better selection or else I think you'll go the other way. If anything, we have got a more demanding customer than we ever have had." ■

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