

World of Concessions

10/03/2022





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Business of Concessions

MAG – A National Issue – Congressional Attention



January 29, 2021

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Congressional Leaders:

As you consider the next phase of coronavirus relief, we urge you to provide much needed assistance to airports and the diverse group of aviation concessionaires that provide valuable services at airport facilities across the country. Both airports and airport concessionaires have been hit hard by the pandemic and the significant loss of revenue throughout the aviation system as passenger traffic remains 60 to 70 percent below pre-pandemic levels. The impacts on airports and the businesses that serve them have been severe, and the prospects for a quick recovery are dim. Air passengers, upon whom airports and concessionaires depend, are not projected to return to pre-pandemic levels for several years at best.

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

“Collectively, we also ask that Congress provide an additional \$3.64 billion in federal assistance to allow airports to provide “minimum annual guarantees” (MAGs) and rent relief for airport concessionaires.”

MAG – A Concern Before COVID

Concession model requires ‘more flexibility’, say panelists

By ANDREW PENTOL | Friday, 11 May 2018 14:11

A lively panel discussion debating the current airport concession model illuminated the second plenary session of the TFWA Conference at the Marina Bay Sands Expo and Convention Centre this today (7 May).

Travel retail executives including Lagardère Travel Retail Asia Pacific Chief Operating Officer Emmanuel de Place; King Power (HK) Managing Director Sunil Tuli; Aer Rianta International CEO Jack MacGowan; Hunter Palmer Global Retail Solutions Co-Founder Keith Hunter; and Neuhaus CEO Ignace van Doorselaere all took part in the discussion.

Tuli said: “Airports release tenders and provide interested parties with all the relevant information and participants then make the necessary calculations and offer a proposed minimum annual guarantee.

“What happens if sales are not what they projected?”

LACK OF FLEXIBILITY

He continued: “Normally, retailers pay the minimum annual guarantee or percentage rent depending on which is higher, but what happens if things don’t turn out as planned on the sales front? There is no flexibility.”



A six-strong panel debated several key issues including the current concession model and the sharing of data.

MAG

If MAG is used as a baseline safety net, how much value does it provide?

MAG

19 Years of Revenue Data

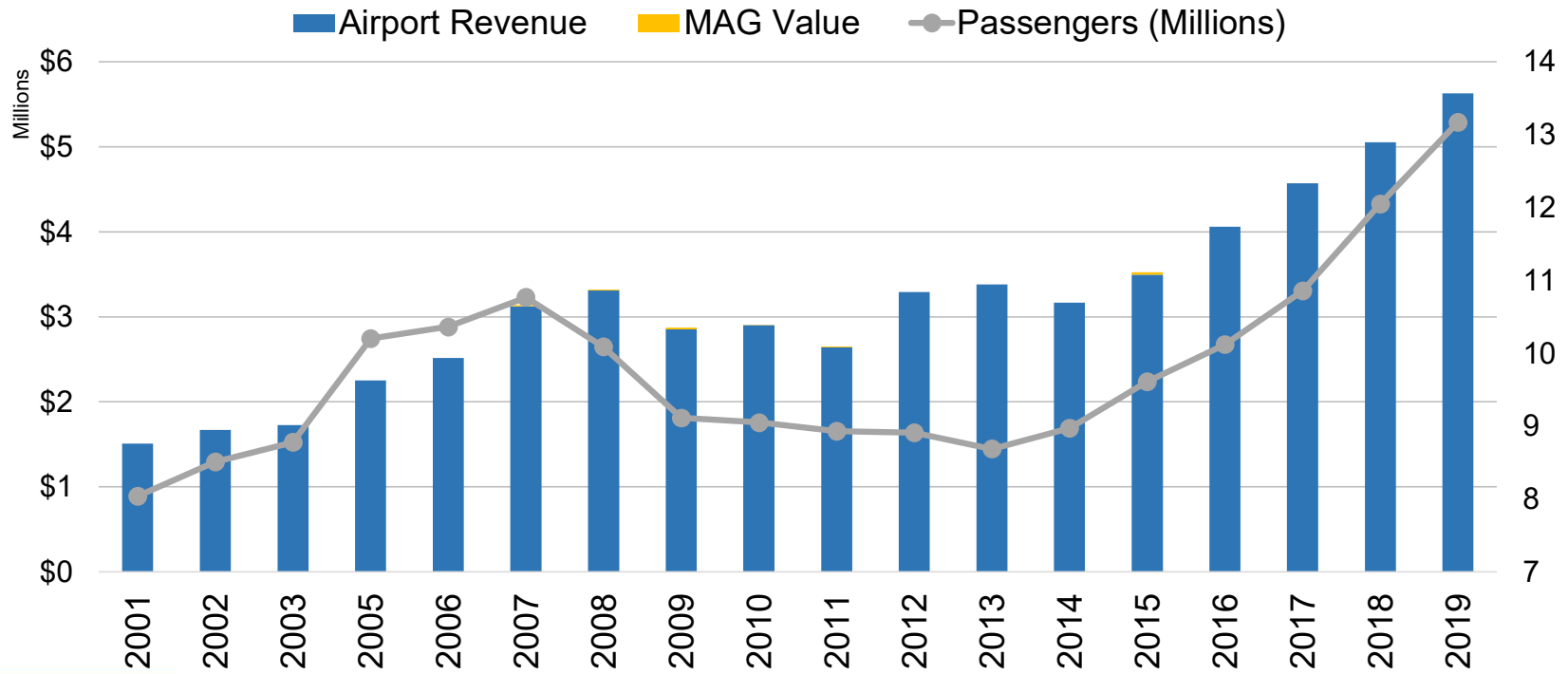
Food & Beverage | Retail | Rent A Car

MAG Value by Program

	F&B	Retail	RAC
Average MAG Value Per Year	\$4,637	\$7,038	\$49,180
Revenue from Percentage Rent	12.46%	12.41%	9.95%
Revenue from MAG as a Percent	.02%	.06%	.05%
Revised Rate to Cover MAG	12.48%	12.47%	10.00%

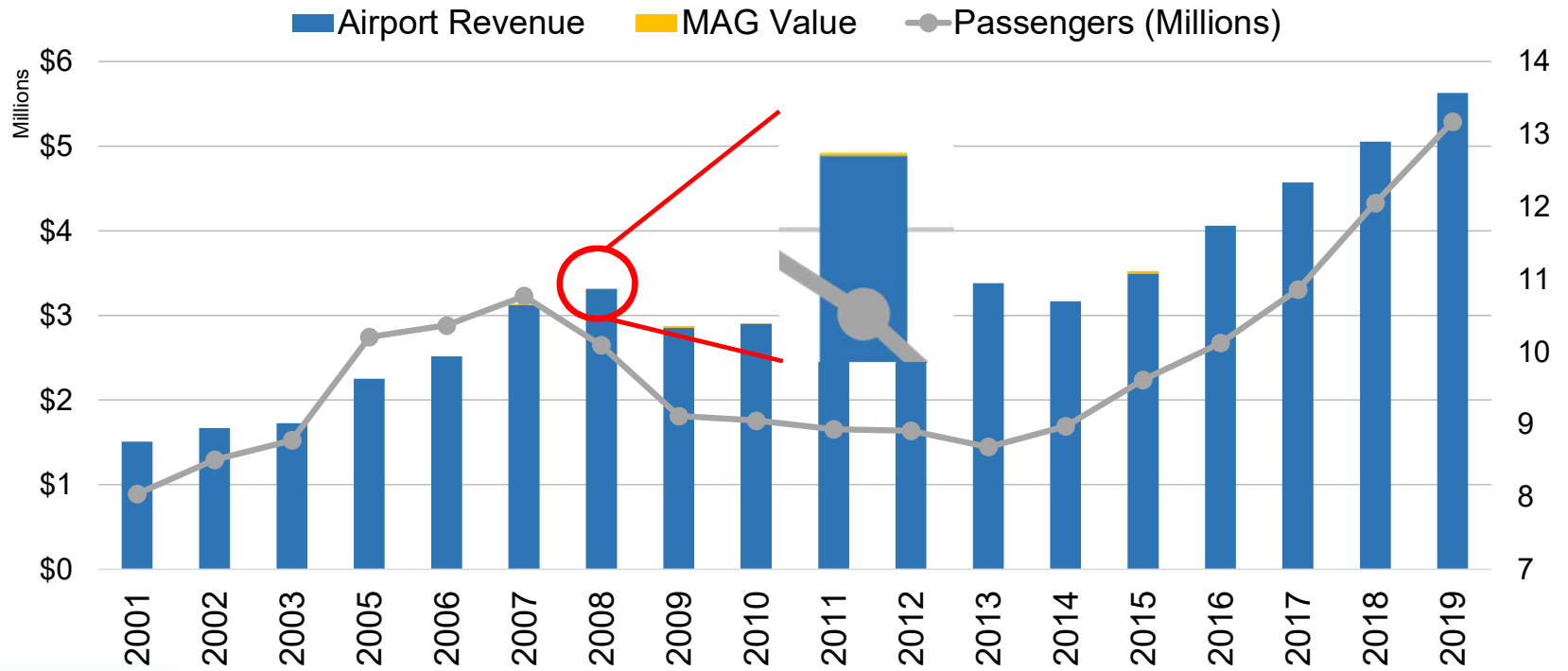
MAG Value Depicted

Food And Beverage Revenue To Airport



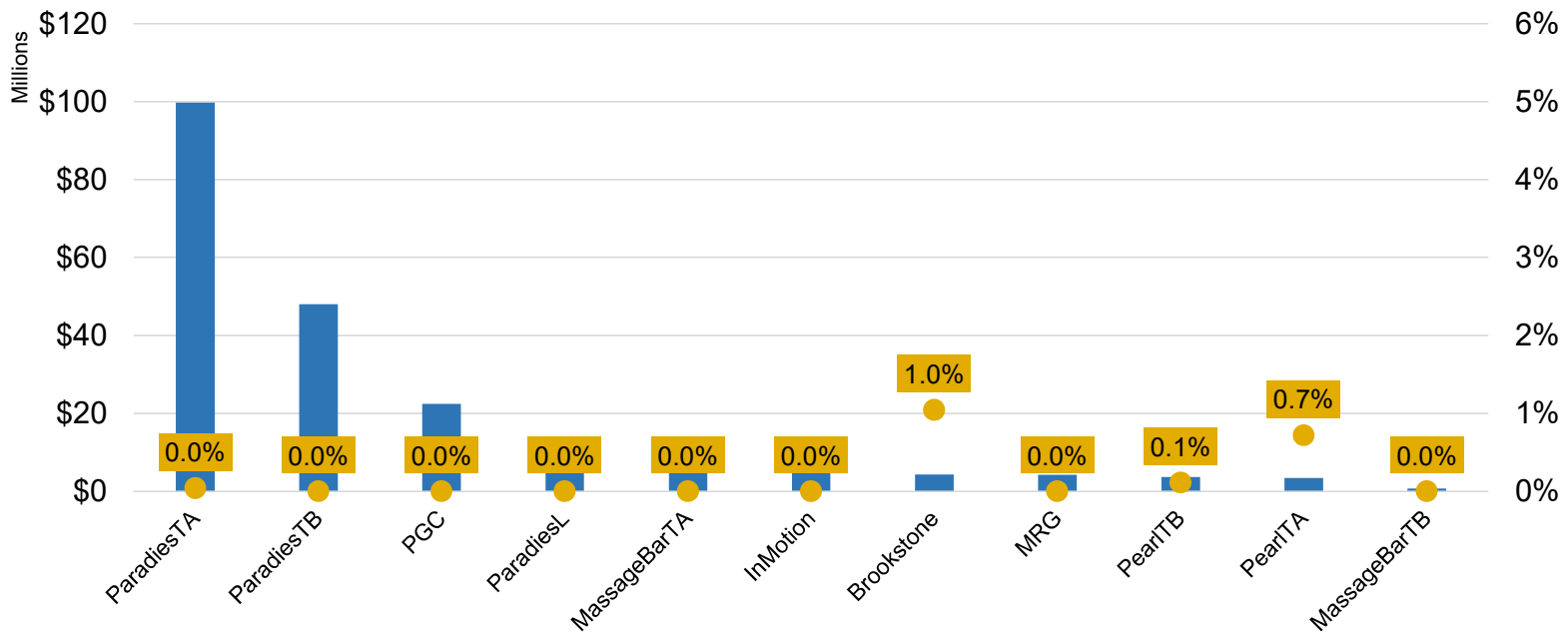
MAG Value Depicted

Food And Beverage Revenue To Airport



MAG Impacts Smallest Operators Most

Total Retail Tenant Revenue Compared to Percent of Revenue That Came From MAG



Question: MAG – Any Changes?

SMF is taking steps to eliminate MAG from new concessions contracts

2 Questions:

1. Is your airport changing the approach to MAG?
2. If not, what remains important about the program to your team?

SMF No MAG – instead - Baseline Rates

Per Location Revenue	Up to	Up to	Above
Annual Revenue	\$750,000	\$1,500,000	\$1,500,000
Coffee	9%	11%	13%
Quick Serve	10%	12%	14%
Sit Down	10%	11%	12%
Alcohol	18%	18%	18%

SMF No MAG – instead - Baseline Rates

Gross Revenue	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Enplanements	6,500,000	6,695,000	6,895,850	7,102,726	7,315,807	7,535,281	7,761,340	7,994,180	8,234,006	8,481,026
Coffee	\$7,800,000	\$8,034,000	\$8,275,020	\$8,523,271	\$8,778,969	\$9,042,338	\$9,313,608	\$9,593,016	\$9,880,807	\$10,177,231
Quick Serve	\$15,743,000	\$16,215,290	\$16,701,749	\$17,202,801	\$17,718,885	\$18,250,452	\$18,797,965	\$19,361,904	\$19,942,761	\$20,541,044
Sit Down	\$9,578,400	\$9,865,752	\$10,161,725	\$10,466,576	\$10,780,574	\$11,103,991	\$11,437,111	\$11,780,224	\$12,133,631	\$12,497,639
Alcohol	\$11,078,600	\$11,410,958	\$11,753,287	\$12,105,885	\$12,469,062	\$12,843,134	\$13,228,428	\$13,625,281	\$14,034,039	\$14,455,060
Total Gross Revenue	\$44,200,000	\$45,526,000	\$46,891,780	\$48,298,533	\$49,747,489	\$51,239,914	\$52,777,112	\$54,360,425	\$55,991,238	\$57,670,975
Revenue Per Enplanement	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80	\$6.80

Airport Revenue	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Coffee	\$845,900	\$874,877	\$904,723	\$935,465	\$967,129	\$999,884	\$1,034,380	\$1,069,912	\$1,106,509	\$1,144,205
Quick Serve	\$1,870,420	\$1,933,733	\$1,998,945	\$2,066,113	\$2,135,296	\$2,206,696	\$2,280,997	\$2,357,527	\$2,436,353	\$2,518,075
Sit Down	\$1,047,252	\$1,081,145	\$1,116,054	\$1,152,011	\$1,189,046	\$1,227,192	\$1,266,483	\$1,306,952	\$1,348,636	\$1,391,570
Alcohol	\$1,994,148	\$2,053,972	\$2,115,592	\$2,179,059	\$2,244,431	\$2,311,764	\$2,381,117	\$2,452,551	\$2,526,127	\$2,601,911
Total Airport Revenue	\$5,757,720	\$5,943,727	\$6,135,313	\$6,332,648	\$6,535,902	\$6,745,537	\$6,962,978	\$7,186,942	\$7,417,625	\$7,655,761
Airport Revenue Per Enplanement	\$0.89	\$0.89	\$0.89	\$0.89	\$0.89	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90

Effective Percent Rent	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Coffee	10.8%	10.9%	10.9%	11.0%	11.0%	11.1%	11.1%	11.2%	11.2%	11.2%
Quick Serve	11.9%	11.9%	12.0%	12.0%	12.1%	12.1%	12.1%	12.2%	12.2%	12.3%
Sit Down	10.9%	11.0%	11.0%	11.0%	11.0%	11.1%	11.1%	11.1%	11.1%	11.1%
Alcohol	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Blended Rate	13.0%	13.1%	13.1%	13.1%	13.1%	13.2%	13.2%	13.2%	13.2%	13.3%

Rates & Term – The Squeeze

Not-quite quotes from my conversations:

HMS: *Its not so much the rates but for us, we really need scale. With so many airport RFPs going out, and with both construction costs and labor costs on the rise, we are only really looking for opportunities to take an entire program.*

SSP: *The only way it really works in California anymore is to look at much longer term, we are looking at 18+ years in some cases.*

High Flying Foods: *There's no way those rates would work. Need to mirror SFO's rates. Look, we just built a coffee shop in Oakland at \$2,200 psf, you have to take California construction costs into account.*

Concessionaire Business Model - Example

Concept	Esquire Grill
Square Feet	4,338
2019 Revenue	\$7,467,613



Concessionaire Business Model

	Metrics	Annual	Monthly	Full Service	Step Value	Step Rent
Starting Revenue		\$7,467,614	\$622,301			
Alcohol % of Sales	52%			Step 1	\$750,000	10.00%
Square Feet	4,338			Step 2	\$1,500,000	11.00%
Development Cost psf	\$1,000			Step 3	>\$1,500,000	12.00%
				Alcohol	18.00%	
Total Acquisition Cost	\$4,338,000					
Gross Multiple	1.7					
Food Cost of Goods Sold	25%	\$896,114	\$74,676			
Alcohol Cost of Goods Sold	18%	\$698,969	\$58,247			
Labor & Benefits	32%	\$2,389,636	\$199,136			
Other Operating Expenses	9%	\$672,085	\$56,007			
Non-Operating Expenses	10%	\$746,761	\$62,230			
Other Occupancy Expenses	2%	\$149,352	\$12,446			

Concessionaire Business Model – Airport Revenue

Term Year	1	2	3	4	5
EPAX	6,500,000	6,695,000	6,895,850	7,102,726	7,315,807
Gross Annual Revenue	\$7,467,614	\$7,691,642	\$7,922,392	\$8,160,063	\$8,404,865
Food Revenue	\$3,584,455	\$3,691,988	\$3,802,748	\$3,916,830	\$4,034,335
Alcohol Revenue	\$3,883,159	\$3,999,654	\$4,119,644	\$4,243,233	\$4,370,530
Step 1 Revenue	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Step 2 Revenue	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Step 3 Revenue	\$2,084,455	\$2,191,988	\$2,302,748	\$2,416,830	\$2,534,335
Alcohol Revenue	\$3,883,159	\$3,999,654	\$4,119,644	\$4,243,233	\$4,370,530
Airport Food Earned	\$407,635	\$420,539	\$433,830	\$447,520	\$461,620
Airport Alcohol Earned	\$698,969	\$719,938	\$741,536	\$763,782	\$786,695
Airport Total Earned	\$1,106,603	\$1,140,476	\$1,175,366	\$1,211,302	\$1,248,316
Food Rate	11.37%	11.39%	11.41%	11.43%	11.44%
Blended Rate	14.82%	14.83%	14.84%	14.84%	14.85%

Concessionaire Business Model

Term Year	1	2	3	4	5	6	7	8
Gross Sales	\$7,467,614	\$7,691,642	\$7,922,392	\$8,160,063	\$8,404,865	\$8,657,011	\$8,916,722	\$9,184,223
Food Cost of Goods Sold	\$896,114	\$922,997	\$950,687	\$979,208	\$1,008,584	\$1,038,841	\$1,070,007	\$1,102,107
Alcohol Cost of Goods Sold	\$970,790	\$999,914	\$1,029,911	\$1,060,808	\$1,092,632	\$1,125,411	\$1,159,174	\$1,193,949
Total Gross Profit	\$5,600,710	\$5,768,732	\$5,941,794	\$6,120,048	\$6,303,649	\$6,492,758	\$6,687,541	\$6,888,167
Labor & Benefits	\$2,389,636	\$2,461,326	\$2,535,165	\$2,611,220	\$2,689,557	\$2,770,244	\$2,853,351	\$2,938,951
Other Operating Expenses	\$672,085	\$692,248	\$713,015	\$734,406	\$756,438	\$779,131	\$802,505	\$826,580
Total Operating Expenses	\$3,061,722	\$3,153,573	\$3,248,181	\$3,345,626	\$3,445,995	\$3,549,375	\$3,655,856	\$3,765,532
Non-Operating Expenses	\$746,761	\$769,164	\$792,239	\$816,006	\$840,487	\$865,701	\$891,672	\$918,422
Other Occupancy Expenses	\$149,352	\$153,833	\$158,448	\$163,201	\$168,097	\$173,140	\$178,334	\$183,684
Airport Rent	\$1,106,603	\$1,140,476	\$1,175,366	\$1,211,302	\$1,248,316	\$1,286,440	\$1,325,708	\$1,366,155
Total Non-Operating Expenses	\$2,002,717	\$2,063,473	\$2,126,053	\$2,190,509	\$2,256,899	\$2,325,281	\$2,395,715	\$2,468,261
Total Operating & Non-op Expenses	\$5,064,439	\$5,217,047	\$5,374,233	\$5,536,135	\$5,702,894	\$5,874,656	\$6,051,571	\$6,233,793
Operating Profit	\$536,272	\$551,685	\$567,561	\$583,912	\$600,755	\$618,102	\$635,970	\$654,375

Concessionaire Business Model – Gross Multiple

Gross multiple of invested capital (MOIC) expresses as a multiple how much a company has gained relative to how much they paid for that gain. For Example, if a company reports a MOIC of 1.8X, the gain is 1.8 times the original invested capital.

Primes often use 2X as a project baseline

Gross Multiple

Primes often use 2X as a project baseline

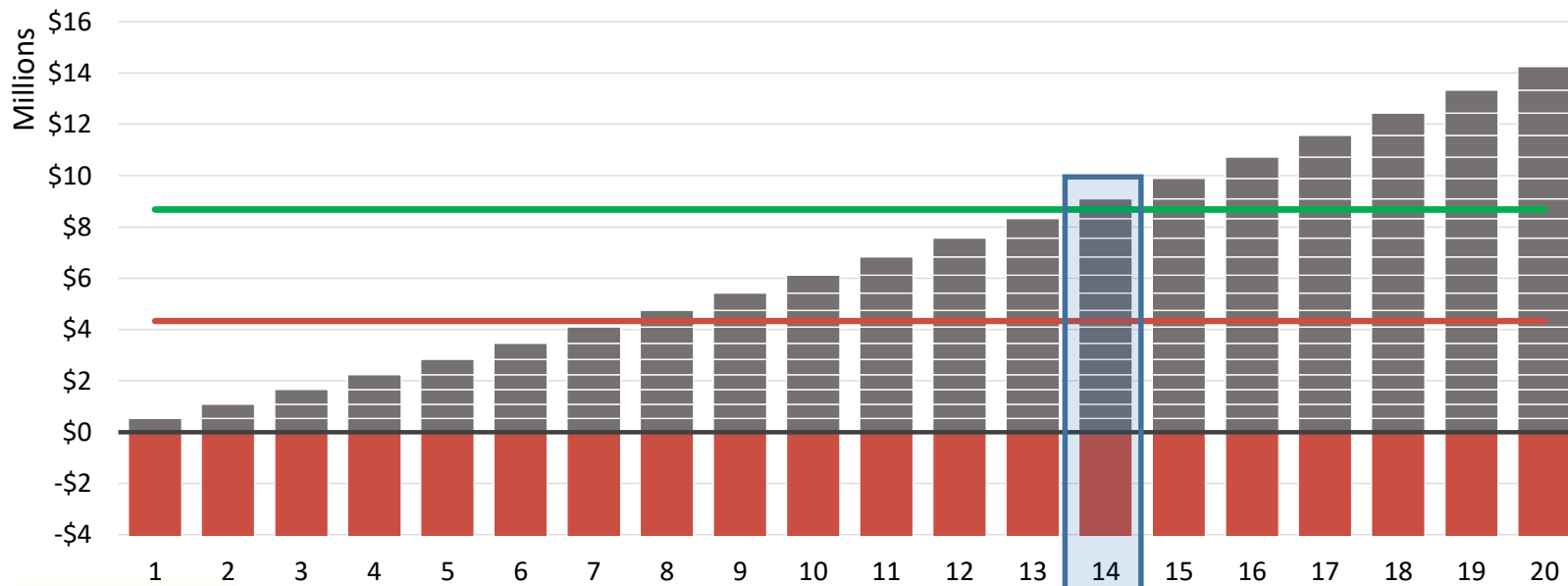
	Metrics	Annual
Starting Revenue		\$7,467,614
Alcohol % of Sales	52%	
Square Feet	4,338	
Development Cost psf	\$1,000	
Total Acquisition Cost	\$4,338,000	
Gross Multiple	1.7	

Operating Multiple

How many years of term to make a 2X Operating Multiple?

Operating Profit \$536,272 \$551,685 \$567,561 \$583,912

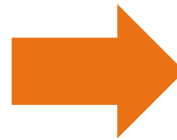
Operating Profit / Operating Multiple



Operating Multiple

Impact of 2% Reduction In Rates

Full Service	Step Value	Step Rent
Step 1	\$750,000	10.00%
Step 2	\$1,500,000	11.00%
Step 3	>\$1,500,000	12.00%
Alcohol	18.00%	

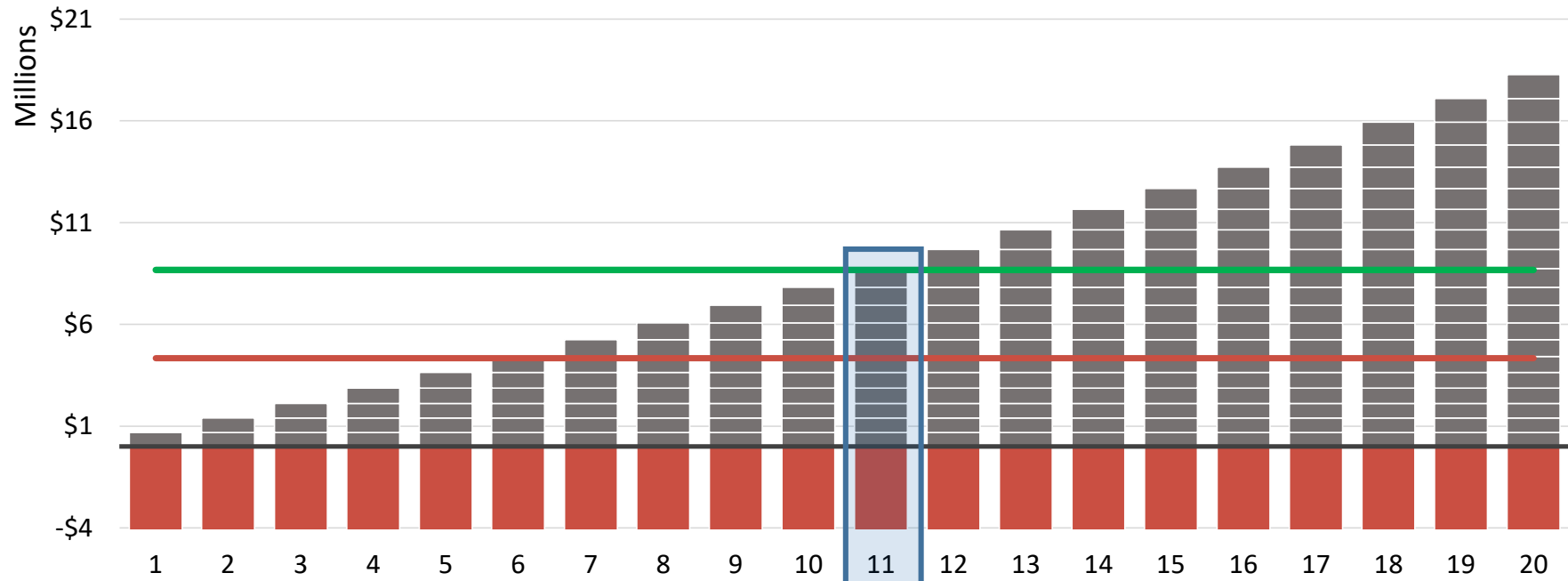


Full Service	Step Value	Step Rent
Step 1	\$750,000	8.00%
Step 2	\$1,500,000	9.00%
Step 3	>\$1,500,000	10.00%
Alcohol	16.00%	

Operating Multiple

Impact of 2% Reduction In Rates

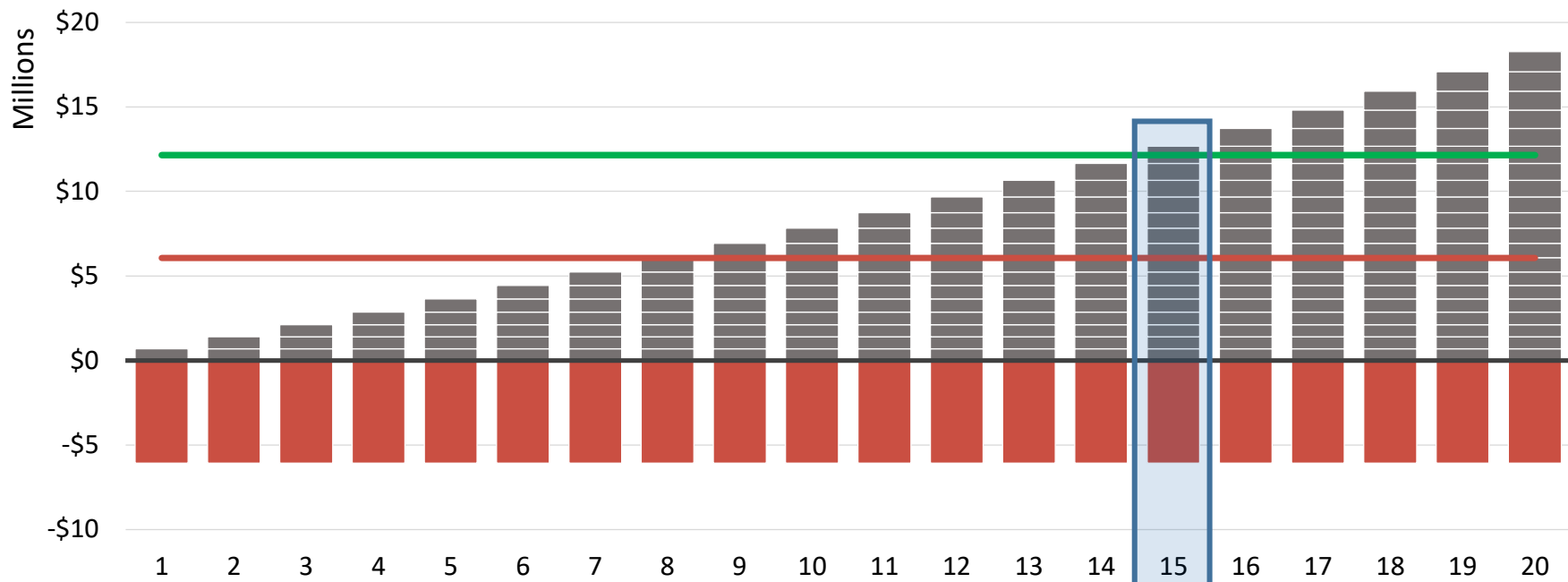
Operating Profit / Operating Multiple



Operating Multiple

Increase from \$1,000 PSF – to \$1,400

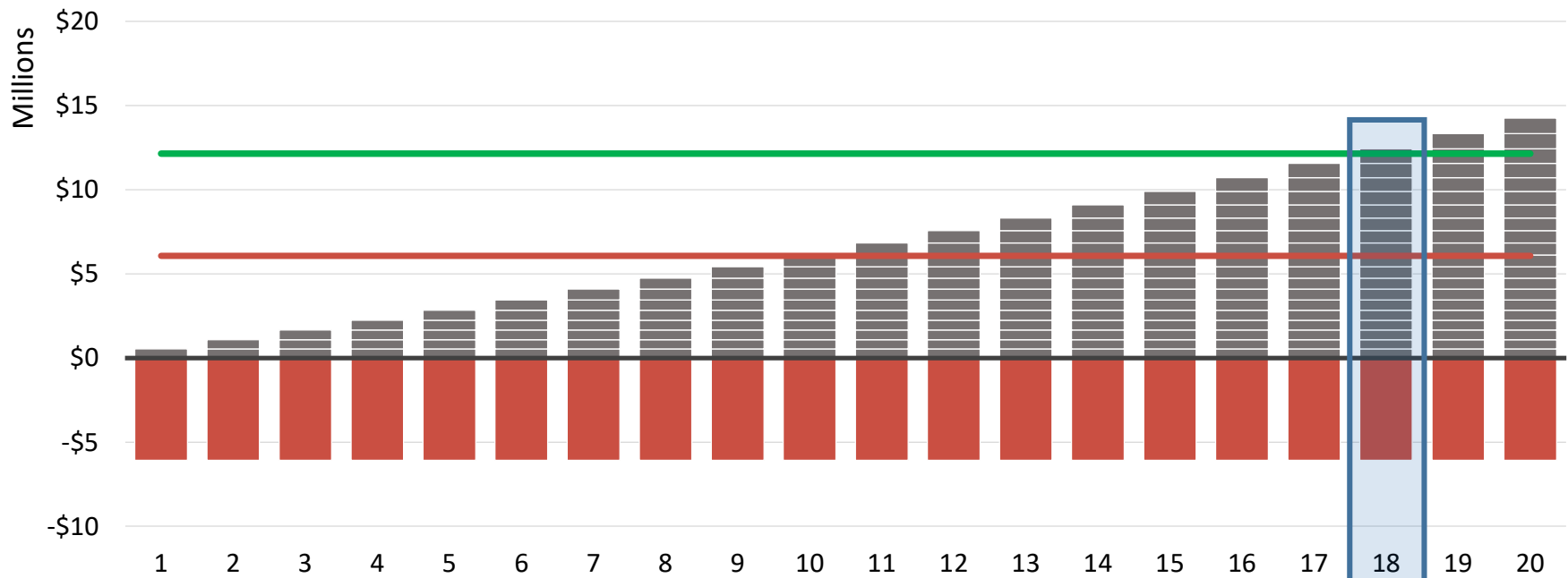
Operating Profit / Operating Multiple



Operating Multiple

Labor increases from 32% of gross to 34% of gross

Operating Profit / Operating Multiple



Rate / Term Questions

Questions:

1. Is your airport receiving pressure on rates or term?
2. If you are allowing extended term, how are you planning to keep your program fresh?
3. What methods has your airport used to ensure rates are realistic, yet protect airport revenue opportunities?
4. Beyond concessions, what is your airport doing to understand tenant view of potential business?

Concessions Space Planning

**Table 1
Concession Space Requirements**

Retail Category	Developed SUF	Unison's Recommended Space Requirement		
		2015	2020	2025
Food & Beverage	5.8	30,514	36,746	42,598
Retail	3.2	17,070	20,556	23,831
<i>Revenue Generating Space</i>	9.0	47,584	57,302	66,429
Storage/ Support Space		14,275	17,191	19,929
TOTAL SF REQUIREMENT		61,859	74,493	86,358
Projected EPs		5,261,000	6,335,489	7,344,568

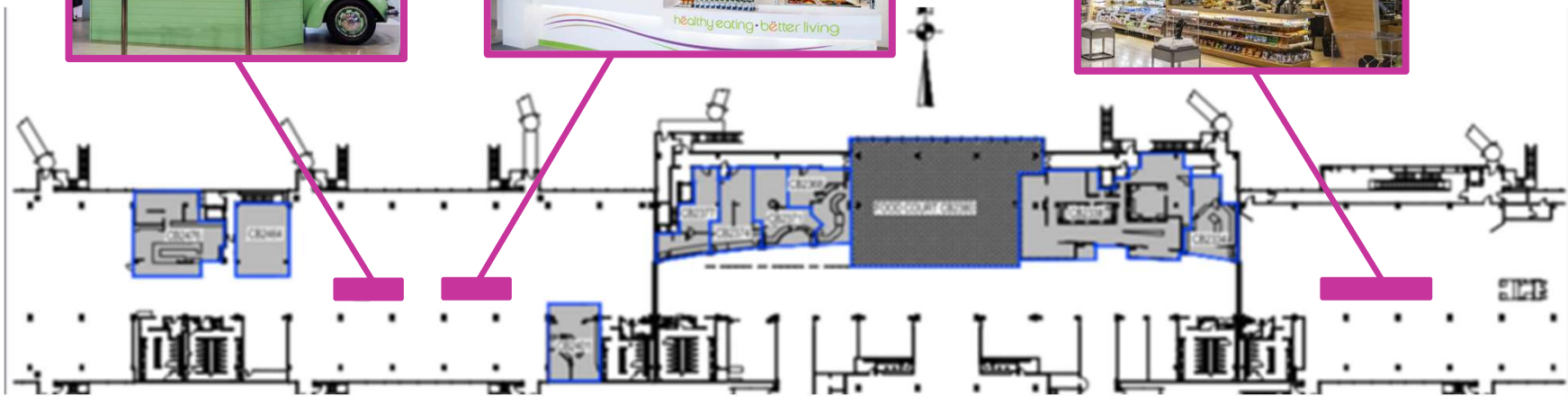
Notes:

Concessions Space Planning

TB Sq. Ft. per PAX Developed Space - Current & Required - Total Airport Baseline Forecast	excl closed space			2025 incl. all space - F&B agrmts to run mid-2024 through					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Enplanements	4,193,213	4,237,290	4,281,366	4,325,442	4,369,519	4,413,595	4,457,672	4,501,748	4,545,825
F&B Sq. Ft. per 1,000 PAX	3.6	3.6	3.5	4.6	4.6	4.5	4.5	4.4	4.4
Retail Sq. Ft. per 1,000 PAX	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9
Tot. Sq. Ft. Per 1,000 PAX	5.6	5.6	5.5	6.6	6.6	6.5	6.4	6.4	6.3
Total Rev. Prod. Sq. Ft. Avail.	23,650	23,650	23,650	28,702	28,702	28,702	28,702	28,702	28,702
Support Space Current	11,498	11,498	11,498	11,498	11,498	11,498	11,498	11,498	11,498
Support Space Current %	49%	49%	49%	40%	40%	40%	40%	40%	40%
Required F&B Sq. Ft. per 1,000 PAX	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Required Retail Sq. Ft. per 1,000 PAX	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Required Tot. Sq. Ft. Per 1,000 PAX	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Required F&B Sq. Ft.	24,321	24,576	24,832	25,088	25,343	25,599	25,854	26,110	26,366
Required Retail Sq. Ft.	13,418	13,559	13,700	13,841	13,982	14,124	14,265	14,406	14,547
Required Tot. Rev. Gen. Sq. Ft.	37,739	38,136	38,532	38,929	39,326	39,722	40,119	40,516	40,912
Total Required Sq. Ft.	49,061	49,576	50,092	50,608	51,123	51,639	52,155	52,670	53,186
F&B Surplus (Deficit)	(9,206)	(9,462)	(9,717)	(5,071)	(5,326)	(5,582)	(5,838)	(6,093)	(6,349)
Retail Surplus (Deficit)	(4,883)	(5,024)	(5,165)	(5,156)	(5,297)	(5,438)	(5,579)	(5,720)	(5,861)
F&B and Retail Surplus (Deficit)	(14,089)	(14,486)	(14,882)	(10,227)	(10,623)	(11,020)	(11,417)	(11,814)	(12,210)

Concessions Space Planning

Concourse B was built with undersized concessions spaces. We are exploring F&B kiosk concepts to help expand passenger service offerings. Potential need for remote kitchen.



Space Use Questions

- Has your airport involved a specific customer/concessions centric approach to terminal development?
- If your airport concessions are under-sized, what methods do you utilize to maintain customer service levels?

Concessionaire Relationships

Topics:

- Rhythm and formality of communication
- Tenant group meetings vs 1:1
- Inspections vs. relationships
- When things devolve, how and when to utilize performance standards

HMSHost Business Check-In
Air-Conf-Sierra-Rm-4302 (Capac) ↻

Vino Volo Business Check-In
Air-Conf-Sierra-Rm-4302 (Capac) ↻

SSP Business Check-In
Air-Conf-Sierra-Rm-4302 (Capac) ↻

Freshii Business Check-In
Air-Conf-Sierra-Rm-4302 (Capac) ↻

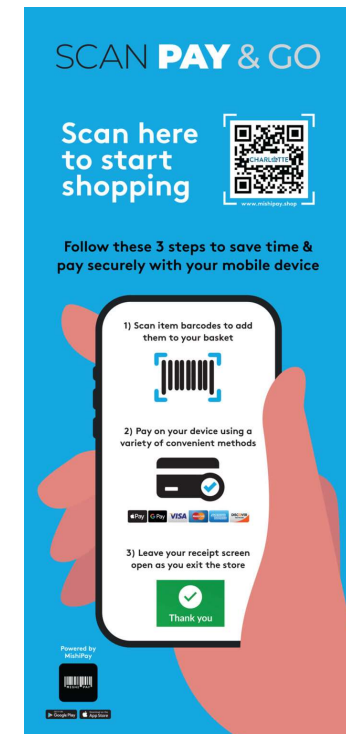
Staffing

Topics:

- Below the line surcharge, all store pooled tips, street plus 15%+ or flat street
- Job Fairs
- Airport supporting tenant staff for example child care or transportation cost support?
- Living wage / impacts of rising wages

Tech

- Automated ordering kiosks
- App based ordering / paying
- Self checkout
- Airport integrated app
- Not quite a quote: “we see lots of scans, but far fewer checkouts, hard to tell if there is friction at payment, or product loss”



Automation / Technological Advances

Topics:

- Food vending (Farmers Fridge)
- Turbo Chef-ization of the kitchen
- Robots – (SFO coffee maker)

Airport Concessions Team Structure

Staff allocated based on focus area:

- Facilities focused staff
- Contract / RFP focused staff
- Business development

Staff allocated by contract:

- Each staff manages full lifecycle of a contract

Small Business / ACDBE Integration

Topics

- JV vs. Brand Licensing
- RFPs that enable SB / ACDBE
- Successful outreach methods for SB & ACDBE
- Capital sources for SB & ACDBE
- Extra staff needs for SB & ACDBE

SMF Goal of
30% Small
Business
Concessions
Participation

Concessions RFPs

Topics

- Lessons learned from recent RFPs
- Volume of responses higher / lower post COVID?
- Any adjusted terms & conditions post COVID?



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Concessions

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THANK YOU

