

Relocating, Reallocating and Rethinking Concession Space

By Sasha N. Page and Ivan Rivera

Airports are beginning to understand the physical implications of security-driven terminal changes, including 100-percent baggage screening. One of the emerging maxims in this new order is, "Build more concession space beyond security." With longer delays, passengers are assumed to want and need to get to departure gates as soon as possible and airports can earn more by expanding concessions there. This Measure of the Month ponders this premise.

It's 50/50

Using the AAE 2001-2002 Rates and Charges Survey, we first examined the share of space allocated to a critical terminal concession: food and beverage (F&B). F&B provides an essential service first and foremost to hungry departing or connecting passengers. F&B's importance has increased as many airlines have reduced on-board food service. Many airport directors believe that after restroom cleanliness, passengers judge an airport's customer service level on the availability of attractive, well-priced and well-located F&B facilities.

Figure 1 (Fig. 1) indicates that FAA-defined medium hubs [1,652,674 to 6,610,695 enplaned passengers (EPAX)] and small hubs [330,534 to 1,652,674

EPAX) have 55 percent and 66 percent, respectively, of their F&B concession space before security. Large hubs (over 6,610,695 EPAX) have less than 44 percent of F&B before security. So, if passengers were buying fewer burgers before security, that would suggest that a good deal of concession space would need to be relocated post-Transportation Security Administration (TSA) regulations. Exactly how much space? As Fig. 2 shows, the average large, medium and small hub had 32,525, 11,874 and 6,300 square feet, respectively, of F&B space before security. That represents a significant amount of space, especially for large hubs. And for all airports, terminal designers will say that, operationally, concourse real estate has not become more plentiful as they design for next-generation super-jumbo jets, better gate utilization for standard aircraft and the TSA's copious requirements for pre- and post-security space. We would be hard-pressed to imagine that most airports could increase their F&B space — for that matter, any concessions space — by more than 50 percent post-security.

As Fig. 3 indicates, retail concessions — specialty shops and newsstands — also favor pre-security locations for medium and small hubs, 58 percent and 55 percent

respectively. With only 40 percent of such space pre-security, this allocation in large hubs is reversed. Fig. 3 underscores that all concession space uses, including "other" space (consisting of conference centers, rental car desks, etc.) have a similar pattern: relocating concessions post-security would at least double current post-security concession space for the average airport, although not as much so for large hubs.

This problem is more acute at small hubs that have the highest amount of space pre-security on average. In addition, as Fig. 4 shows, these airports earn about 50 percent less per square foot of concession space. They rarely benefit from duty-free shopping or share in lucrative transfer passenger revenues, yet their needs for concession dollars to cover terminal improvements are no less critical.

Reasons Against Relocating

While relocating concession space post-security is unlikely to be feasible in many terminals, we are not even sure that it is necessary or wise. Here is why:

- **Better, not bigger, spaces:** As some airport researchers have found, if passengers have 25 minutes instead of 15 minutes for F&B consumption — generally the case since 9/11 — many will gravitate to sit-

Fig. 1 PERCENTAGE OF FOOD AND BEVERAGE SPACE ALLOCATED BEFORE AND AFTER SECURITY

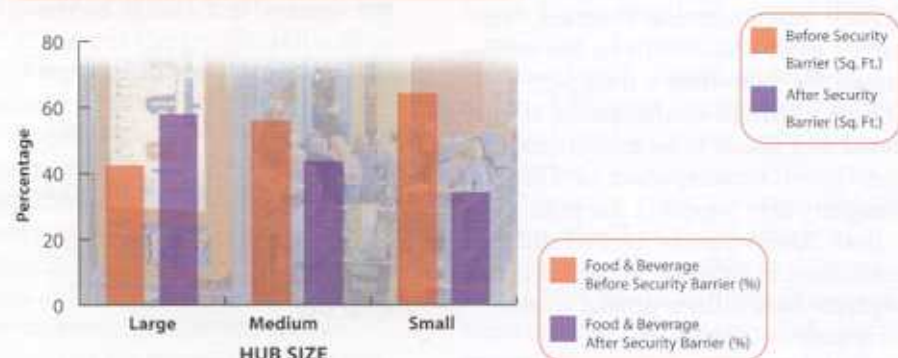


Fig. 2 FOOD AND BEVERAGE CONCESSION AREA BEFORE AND AFTER SECURITY

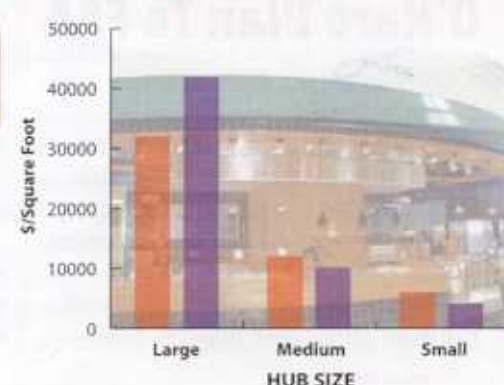


Fig. 3 PERCENTAGE OF TOTAL AREA ALLOCATED BY FOOD & BEVERAGE, RETAIL AND OTHER CONCESSIONS

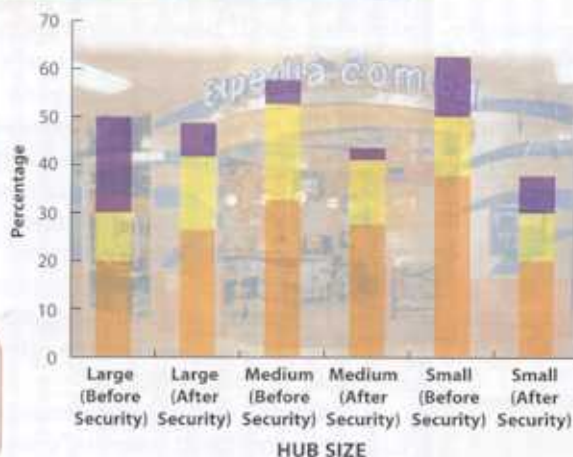
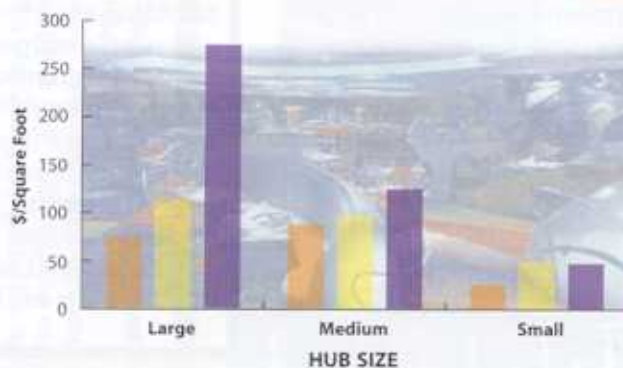


Fig. 4 CONCESSION REVENUE PER SQUARE FOOT



Food & Beverage Revenue per Sq. Ft.
Retail Revenue per Sq. Ft.
Other Revenue per Sq. Ft.

down restaurants. The impact for airports can be tremendous as a \$4 pizza purchase turns into a \$12 two- or three-course meal, thereby significantly increasing per-square-foot net airport revenues. By increasing the value added, airports can make the optimal use of post-security space.

• **Location:** The maxim "location, location, location" also applies to airport concession space. If relocated shops cannot be placed in well-situated, highly visible locations (and not on second floors or away from passengers' line of vision), they are less likely to serve customers — and generate adequate revenues. Extra space only helps if it can be fully productive.

• **Enplanement-based MAGs:** At least from a revenue perspective, airports can increase their concession yields with minimum annual guarantee (MAG) provisions in concession contracts that are enplanement-based. This removes a financial noose around concessionaires post-September 11 and allows airports to share, to a greater extent, in the upside (and downside) of concession businesses.

• **Shorter processing times:** While we are not back to pre-September 11 dwell times, evidence suggests that screening times have decreased as TSA gains experience. With faster processing, we expect passengers will feel increasingly comfortable eating and shopping pre-security again.

• **Meeters/greeters:** Most importantly, airports should not ignore meeters and greeters and employees. While only responsible for 10-20 percent of concession revenues, these customers can be important airport advocates and stakeholders. With the relaxation of the 300-foot parking rule, airports may also win

back this business as they recognize that stretching out in the terminal with a cup of coffee is more attractive than sitting in a cramped car.

• **Conference centers:** Last but not least, airports serve as transportation and communication hubs. More and more, local and out-of-town businesspeople conduct meetings in airport lounges, restaurants and conference centers. With the increased difficulty of accessing post-security airport lounges for meeters, pre-security space may become a premium. While most airports do not need to build business centers the size of Atlanta's 24,000-square-foot facility, more modest spaces like the 968-square-foot Granite Club at Manchester Airport in New Hampshire — meet most user needs.

The Bottom Line

It's probably infeasible and undesirable to shift much pre-security concession space past the men and women in white shirts. Instead, airports will need to rethink the management of their current space. In theory, some could end up with a net gain of concession space as space is added and post-security and pre-security space is maintained. Yet with heightened security requirements overall — including the huge footprint that explosives detection systems require and the negative impact of passenger lines in front of shops — concession space may be lost, degraded for retail purposes and/or reconfigured.

For large hubs with lots of space and high passenger volumes, moving things around may cause less inconvenience for concessionaires. Yet smaller airports need to think about alternative concession approaches, including carts and kiosks —

squeezing them into odd spaces but potentially highly accessible areas. They also need to enhance their research on passengers — demographics, travel patterns and spending behavior — on an almost daily basis, in line with the aviation industry's jet-speed change. Finally, airports need to rethink their relationships with concessionaires by working together to achieve a common commercial vision, by sharing research and signing agreements that encourage concessionaires to invest and innovate. Airports should look into concession agreements that do not overly penalize failure (such as with enplanement-linked MAGs) and ensure that every concessionaire remains focused on its business plan.

Despite the recession, many concessionaires report that high-priced goods and sit-down meals are being purchased if they meet passenger quality expectations. Beauty spas and wireless cafes are today's innovations; tomorrow's should be under negotiation already. Indeed, some of the national master concessionaires are developing unique retail shops that reflect the character of their community. Such developments should spur passenger curiosity and hopefully greater sales per square foot, even if you have to eat standing up.

How does this experience compare to circumstances at your airport? If you would like to share your ideas and information, please e-mail spage@imggroup.com or irivera@imggroup.com.

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