

The Lure of Concession Revenues: How Do U.S. Airports Really Compare?

Gone are the days of the local newsstand, dingy pizza counter and smoke-filled bar as the only places to seek refuge in an airport. Fast food franchises, upscale chain restaurants and specialty stores line the concourses, beckoning travelers caught in delays or waiting for plane connections. Glitzy duty-free shops are strategically located in larger airports, appealing to international travelers. Yet this growth in retail outlets serves a purpose beyond providing a better product to customers. Efforts to upgrade concession alternatives are also designed to generate new sources of revenue for airports.

But what is the real impact of these initiatives? How do concession results at airports in the U.S. compare with those at European airports, often cited as the leaders in concession revenue innovation? The latest data from the *AAAE Rates and Charges Survey* and similar data from European airports suggest that U.S. airports may have more in common with their counterparts across the ocean than first considered. In this Measure of the Month article, Infrastructure Management Group, Inc. (IMG) uses the results of the 2000 survey and internal data on European airports to consider the impact of concession revenues on an airport's total financial picture.

Although the rates and charges survey database includes figures from 305 U.S. and 11 Canadian airports, references to these data are, for simplicity and brevity, referred to as U.S. expenditures or revenues. (Electronic or hard copies of the two-volume rates and charges survey can be purchased by going to the AAEE website at www.airportnet.com, or by contacting kelisa.kehne-cliff@airportnet.org).

Food, Beverage and Retail Revenue

To examine the impact of concession revenues on airport financial performance, IMG analyzed key measures for U.S. airports: Food and beverage revenues per enplaned passenger (EPAX), and retail revenues per EPAX. The combined concession revenue as a percentage of total revenue was also considered. Averages were calculated for large (over 6.57 million EPAX) and medium (1.64 to 6.57 million EPAX) airports, which represent airports with the highest levels of retail activity. Data for European airports were included as well.

A direct comparison of retail and food revenues isolates the effects of duty-free revenue, which is a driving force behind concession revenues in the European market. Within the U.S., passengers spend roughly the same amount per capita on food and beverage in large hub (LH) and medium hub (MH) airports (see Figure 1). However, passengers at large European airports spend nearly double the average amount as U.S. passengers on food and beverage purchases.

Retail (non-duty free) purchases are also higher at European airports, with European passengers spending an average of \$0.77 per EPAX, compared to an average of \$0.40 per EPAX in large-hub U.S. airports

Fig. 1 AVERAGE FOOD & RETAIL REVENUES PER EPAX

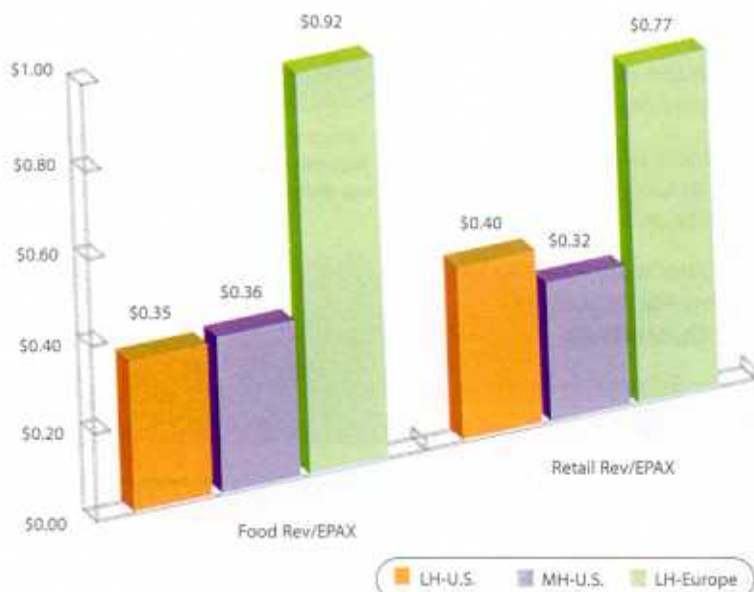


Fig. 2 BREAKDOWN OF TOTAL CONCESSION REVENUES

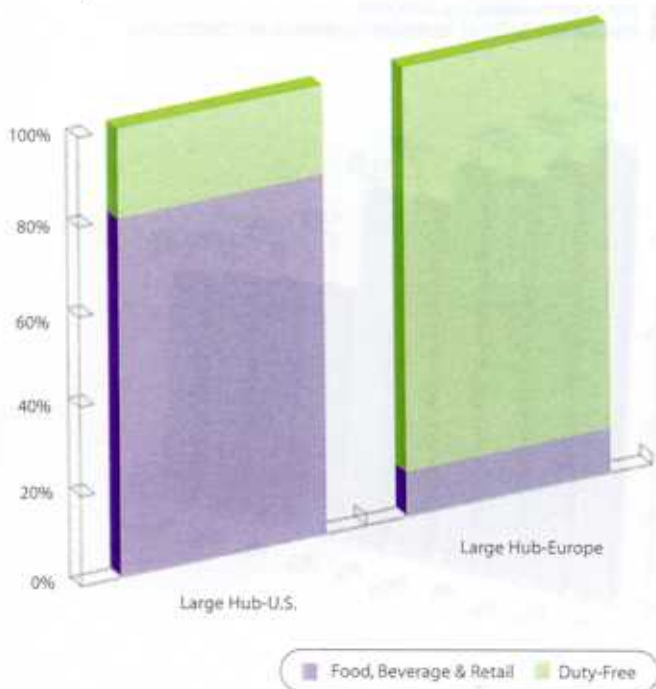
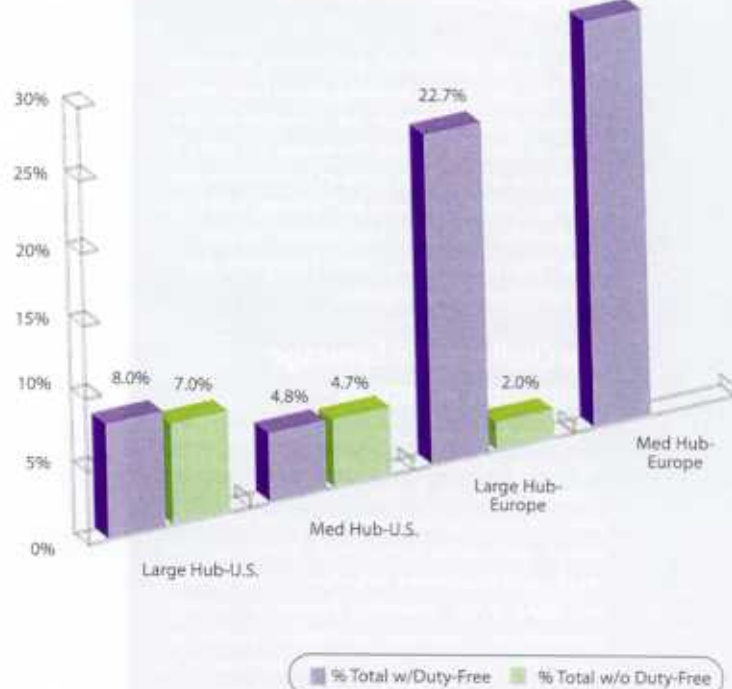


Fig. 3 CONCESSION REVENUES AS PERCENTAGE OF TOTAL REVENUE



\$0.32 per EPAX at medium hub U.S. airports.

European airports leverage food and beverage and retail sales on a per EPAX basis due to the greater number of international flights. International flights generally produce longer waiting times after check-in or during flight connections, increasing time available to shop in retail outlets. The physical structure of European airports is also conducive to increased expenditures by in-transit passengers with retail concessions prominently situated past pre-flight security, adjacent to gates.

The Role of Duty Free Revenue

Regulations under the European Union (EU) eliminated duty-free purchases for travelers between EU countries, effective June 1999. Even with this change, the absence of local taxes in the purchase price still offers an inducement for duty-free purchases at many airports. Accordingly, duty-free revenues still comprise a significant part of concession revenues for European airports at an average of 90 percent of total concession revenues (see Figure 2).

U.S. airports do not rely as much on duty-free revenues as airports in Europe. On average, larger U.S. hub airports derive about 20 percent of total concession revenues from duty

free sales. (Medium hub U.S. airports only derive about 1.5 percent). Airports with high volumes of international passengers generate an even higher portion of concession revenues from duty-free sales (Miami at 35 percent, Houston at 27 percent and Orlando at 21 percent). Duty-free revenues may not play the role in the U.S. that they do in Europe, but they should not be discounted within the American market.

Concession Revenues: What's the True Impact?

How do concession revenues contribute to the overall financial picture of an airport? At first glance it would appear that European airports rely to a much greater extent on concession revenues as a percentage of total revenues. European airports derive 22.7 percent (large-hub) to 27.9 percent (medium-hub) of total revenues from concessions. Concession revenues comprise a smaller portion of total revenues for U.S. airports, about 4.8 percent to 8 percent, as indicated above in Figure 3.

The fact is that duty-free sales obscure the picture. U.S. airports actually perform better than European airports when duty-free sales are excluded. Excluding duty free, larger European airports only generate 2 percent of

total revenues from food and beverage sales (compared to 4.7 percent to 7 percent for U.S. airports). From our perspective, this implies that travelers at U.S. airports have far more variety in the choice of eating establishments. The combination of fast food and table service restaurants makes a significant contribution to the level of passenger comfort during the wait time for a flight, as well as offering an alternative to the level and quality of airline food service in flight.

Select U.S. airports demonstrate strong results in leveraging concession revenues to boost their financial situation (see Figure 4). Of airports participating in the *rates and charges survey*, Charlotte-Douglas International, Washington Reagan National, Miami International and Hartsfield Atlanta International led the way in generating over 12 percent of total revenues from concessions. Each of these airports offers recently renovated retail areas.

A high percentage of total revenue from concessions may not necessarily imply strong performance in concessions. These airports could have limited revenue from other traditional sources, such as parking or cargo. Other airports may have successfully exploited other sources of revenue to a greater extent, such that concession revenue is a lower share of the

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total. A comparison of concession revenues per EPAX for top performing airports provides additional clarification on concession revenues in absolute terms. As noted in Figure 5, Miami has a very high level of concession revenue per EPAX, followed by Orlando and Fort Lauderdale. In total, six airports appear in both "top performing" lists, reflecting fairly robust concession programs.

The Challenge to Leverage Concession Revenues

Analysis of data unlocks some of the myths regarding concession revenues. U.S. airports actually perform better than European airports in terms of the percentage of total revenues generated from food, beverage and retail sales (excluding duty-free revenue). On a per EPAX basis, however, European airports generate more revenue than their U.S. counterparts. This variance reflects the difference in passenger mix, with European airports processing greater numbers (and/or a greater share) of international passengers. Still, the data suggest that U.S. airports – both large and medium – can take additional steps to broaden the base of concessions to increase revenue from this source on a per EPAX basis.

Duty free is a key force behind the strong contribution that total concession revenues provide to European airports (an average of 28 percent of total revenue at larger airports). Larger U.S. hub airports derive an average of about 20 percent of concession revenues from duty-free sales. These larger airports, especially those with a significant international passenger base, may consider expanded duty-free sales as a way to leverage further benefits from concession revenues.

What is the status of your airport's concession program? Are your concession revenues an acceptable percentage of your total revenues? If you would like to share your ideas and information, please e-mail Andrews Stross at astross@imginfrastructure.com or Sasha Page at spage@imginfrastructure.com.

Infrastructure Management Group, Inc. is a financial and management advisory firm to airports and other infrastructure entities, based in Bethesda, Maryland.

Fig. 4 TOP 10 PERFORMING U.S. AIRPORTS: PERCENTAGE OF TOTAL REVENUES GENERATED BY CONCESSIONS

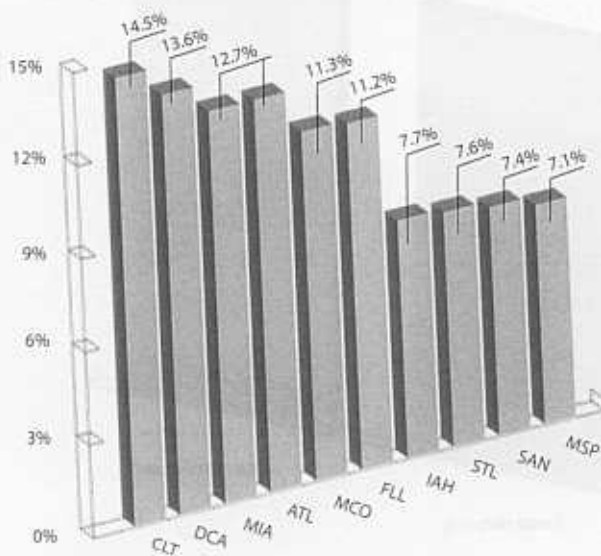
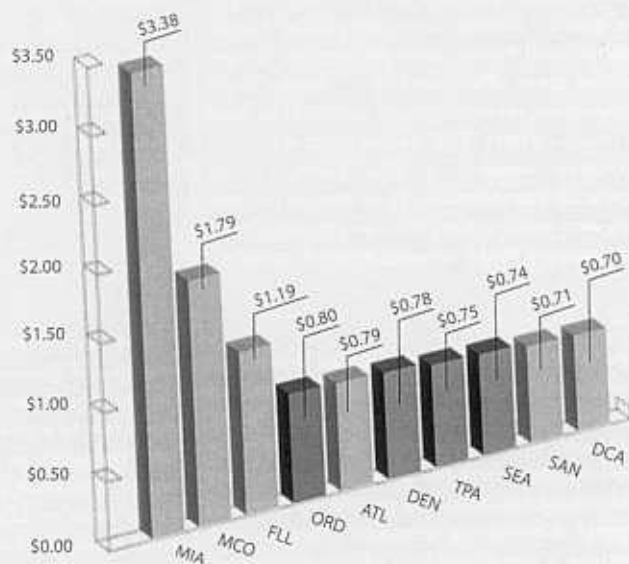


Fig. 5 TOP 10 PERFORMING U.S. AIRPORTS: CONCESSION REVENUES PER ENPLANED PASSENGER



■ "top performers in both % of total rev and per EPAX"