Terminal Concessions by the Numbers

By Alex Zaslov

A well-designed terminal concessions program can play a role in the public's perception of an airport facility and provides much-needed revenue for operations. However, not all airport concessions generate the same levels of revenue of a per-unit basis. This Measure of the Month discusses how airports must strike the balance between providing a public service with maximizing revenues and reducing financial risk.

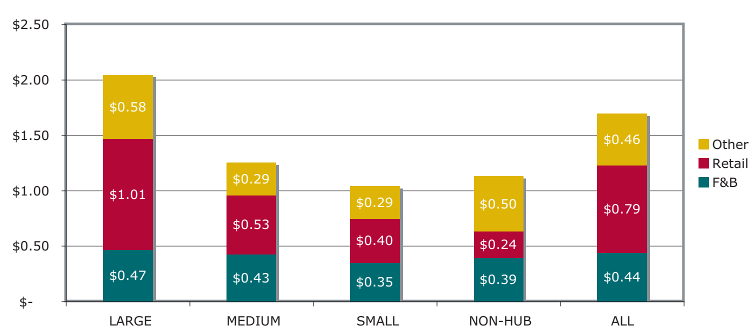
F & B space is less elastic

To understand the financial dynamics of terminal concessions, analysis was performed using the FAA Section 111 Financial Reporting Form 127 revenue data and the spatial data contained in the 2004 AAAE Rates and Charges Survey. As visible in Figure 1 (Fig. 1), large hubs (as defined by FAA) benefit considerably from connecting and transient passengers with greater dwell times through higher concession revenues per enplaned passenger (EPAX).

Large hubs and (to a lesser degree) medium hubs also benefit from economies of scale, being able to offer more choices to passengers.

The data showed a low correlation in the food and beverage (F&B) category to the number of EPAX. This suggests that F&B is much less elastic than other terminal concessions, particularly as airlines have reduced meal services. Passengers eat primarily because they are hungry, which indicates that there is less of a direct financial benefit to improving F&B offerings to passengers. This is where airport management makes the difficult decision at the margin: improve one of the most visible areas of the facility to gain a benefit in perception and image, or yield to the financial realities and invest more heavily in other types of concessions. Although most airports devote the majority of space and resources to F&B concessions—the U.S. average for all airports is 62.7 percent of terminal concessions space—revenue per EPAX does not vary as much for F&B as it does for retail and other concessions. Airport operators should consider the economic and service benefits and rationally allocate space to meet the overall strategic objectives of their organizations. Even within the F&B sector, airports need to carefully craft the mix of offerings: Lower-priced food options may be more suited for stand-up cafeterias, cafes, to-go windows or vending carts, while higher-priced options warrant sufficient seating space. Of course, providing alternatives for passengers is also important.

Fig. 1 RETAIL, FOOD & BEVERAGE, AND OTHER CONCESSIONS REVENUE PER ENPLANEMENT BY AIRPORT SIZE



Retail, other space

Retail and other concessions, including ATMs, Wi-Fi, and other services, can benefit the balance sheet more. There is sufficient evidence to suggest that increased retail space (and increased consumer choices) correlates to increased revenues per EPAX. However, having higher passenger volumes is not necessarily a guarantee for retail success or efficiency as measured in revenue per square foot.

At Pittsburgh International Airport connecting passengers generally have more dwell time, which stimulates a higher propensity to shop and higher sales per EPAX. As passenger volumes have decreased with US Airways' dramatic service cuts, concessionaires saw an increase in the revenue per EPAX. This was attributable to vendors' ability to serve passengers better due to shorter wait times and tenant employees' ability to concentrate on better meeting each customer's needs. However, it was not possible to maintain the previously high revenue per square foot levels. This suggests how a more modular approach could better mitigate financial risk for airport operators and their tenants. Less permanent and more variable concessions space options allow tenants to scale back operations to complement fluctuations in enplanements and connecting traffic levels.

Space mostly allocated to F & B

Fig. 2 illustrates how two-thirds of most airport terminal concessions space is devoted to F&B.

Fig. 2 ALLOCATION OF CONCESSION SPACE BY AIRPORT SIZE

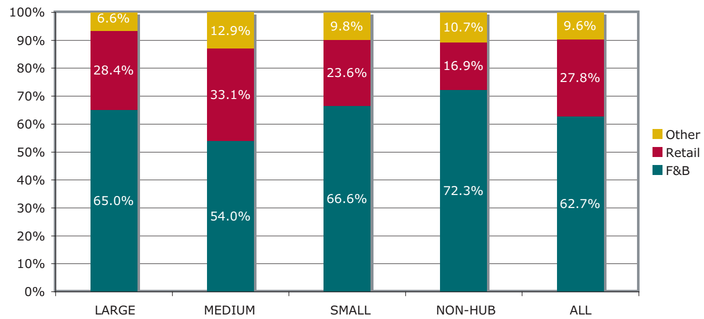
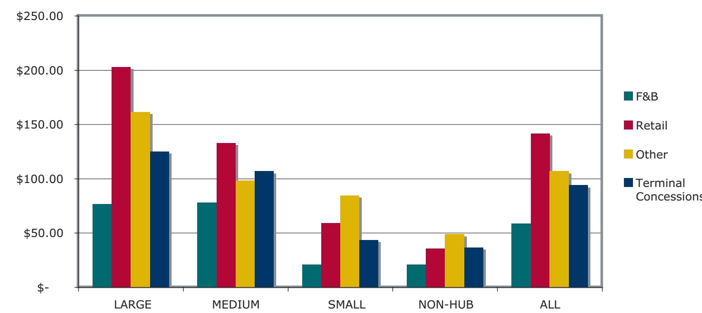


Fig. 3 FOOD AND BEVERAGE, RETAIL, OTHER AND TOTAL CONCESSION REVENUE PER SQUARE FOOT BY AIRPORT SIZE



This suggests that most airport operators weigh customer service levels in a similar manner with less regard for revenues and more attention to standard design norms and practices. On average medium- and large-hub airports terminal concessions contribute 26.4 and 14.1 percent of non-aeronautical revenue, respectively; at small- and non-hub facilities that contribution is below 10 percent. Although F&B provides just 26.0 percent of total concessions revenue (for all airports), it comprises 62.7 percent of the concessions space.

Terminal concessions space, like most other airport assets, is relatively fixed. That means that increased passenger volumes will drive total revenue and efficiency more than any other factor. However, innovative approaches to maximizing limited existing space can improve performance and reduce the risk of overcapacity during reduced traffic periods. Modular kiosks provide more of a just-in-time approach; mitigating risk and increasing flexibility to add or move concessionaires as needed. Carts and kiosks are easier to establish and locate in crowded terminals since they occupy less space. Similarly, introducing concessions that do not require much terminal space can also yield valuable returns.

In the “other” concessions category, airports have begun offering concierge, valet and other personal services. Add-on dry cleaning services, auto maintenance and other similar concessions offered through the parking operator, do not require additional concessions space development or investment but may produce additional revenues. Wi-Fi service is offered at some airports for a fee while others, believing it can be an inexpensive differentiator that could sway passenger and stakeholder perceptions, don’t charge.

One intriguing feature of the AAAE Rates and Charges Survey is that data on concession space is reported by pre-security and post-security checkpoint. However, there was no correlation between airports’ spatial allocations of concessions space and their ratio of origin and destination (O&D) passengers to total passenger volumes. Since TSA has only recently occupied airport terminals, this suggests that existing spatial constraints continue to drive the distribution of concessions space.

Retail, other: higher returns

Fig. 3 shows the returns per square foot of concessions space, underscoring the higher revenue-generating opportunities in the “retail” and “other” categories, further demonstrating that there are more limited opportunities for increasing revenue with food and beverage concessions.

Future flexibility

Flexibility and efficiency will be the mantra of the future in planning and developing all airport facilities, and concessions space will reflect these realities. Airports will also need to define the amount of financial risk they are willing to incur in concessions development, as well as in other areas of airport management and negotiate contracts and agreements that reflect their risk preference/tolerance. Minimum annual guarantees (MAG) are the most common risk transference mechanism used in concessions contracts. As airports continue to seek flexibility and control of their facilities in a fast changing environment, it is likely that more dynamic and varied approaches to concessions contracting will emerge. One such risk-sharing alternative would be to create minimum standards for revenue per EPAX while allowing tenants to reduce space to retain a constant ratio of annual EPAX per square foot. Incentives for tenants to increase revenue per square foot or per EPAX should also be considered to motivate improvements in concessions efficiency.

As the aviation industry, traffic patterns and customer needs change, airport operators must adapt concessions and their facilities. Many airports are shifting from transportation nodes to critical business hubs, with increased demand and opportunities for existing and new concessions that bring new planning and financial opportunities—and challenges. Airports must define their strategic objectives for their facilities first and implement concessions programs that match their visions for the facilities. These concerns will often supercede the revenue implications of various concessions planning alternatives. However, airport managers must be keenly aware of these relationships to better manage concessions and understand the critical service and financial trade-offs.

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

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