



Concessions Principles & Practices

Aviation Concessions Business

December 13, 2011



2004 - 2005 Redevelopment

- All 84 units constructed or reconstructed since 2004.
- Transition from master concessionaire to hybrid
 - 64% of units operated by prime concessionaires
 - 13% by ACDBE subtenants of primes
 - 18% by direct lessees
 - 5% by ACDBE direct lessees
- Dramatic results of change
 - Sales up 75.5%; revenues to Port up 82% since 2003
 - Employment up by more than 100% (732 to 1508)
 - Enplanements up 10%
- Industry-wide recognition for excellence
 - ACI: Griesbach Award for Overall Excellence
 - ARN: Best Concessions Program

Current Operators

- Three Food & Beverage Prime Concessionaires:
 - HMSHost
 - Seattle Restaurant Associates (operated by HMSHost)
 - Concessions International

- One News/Gift & Retail Prime Concessionaire:
 - Hudson News Group

- Duty Free (short-term agreement; RFP to be released in 2012):
 - HG Retail LLC

- ACDBE Subtenant Concessionaires:
 - Six firms, eleven units

- Direct Lease Operators (including ACDBEs)
 - 19 operators/locations

Locally Owned and Operated

- Butter London
- Dilettante Chocolates & Mocha Bar
- Diva Espresso
- ExOfficio
- Fireworks
- Ivar's Seafood Bar
- Massage Bar
- Pallino Pastaria
- Tully's Coffee
- Quizno's Subs
- Waji's

Benefit of New Concessions Strategy Development

1970 – 2004 Master
Concession
Agreement

2004 – 2005
Redevelopment

- Local Flavor
- Street Pricing
- Competition
- Direct Leases
- Small Businesses

Outcomes of
Development

- Higher Sales
- Higher Revenues
- More Jobs
- Better Customer Service
- National Recognition

Prospective Changes/Challenges

- Up to 10 new units to be leased over next 3 years
 - Leasing agent / consultant on board in January, 2012
- 90% of leases expire in 2015-2017
- Dramatically different perspectives of various stakeholders on key issues

Connection with Century Agenda

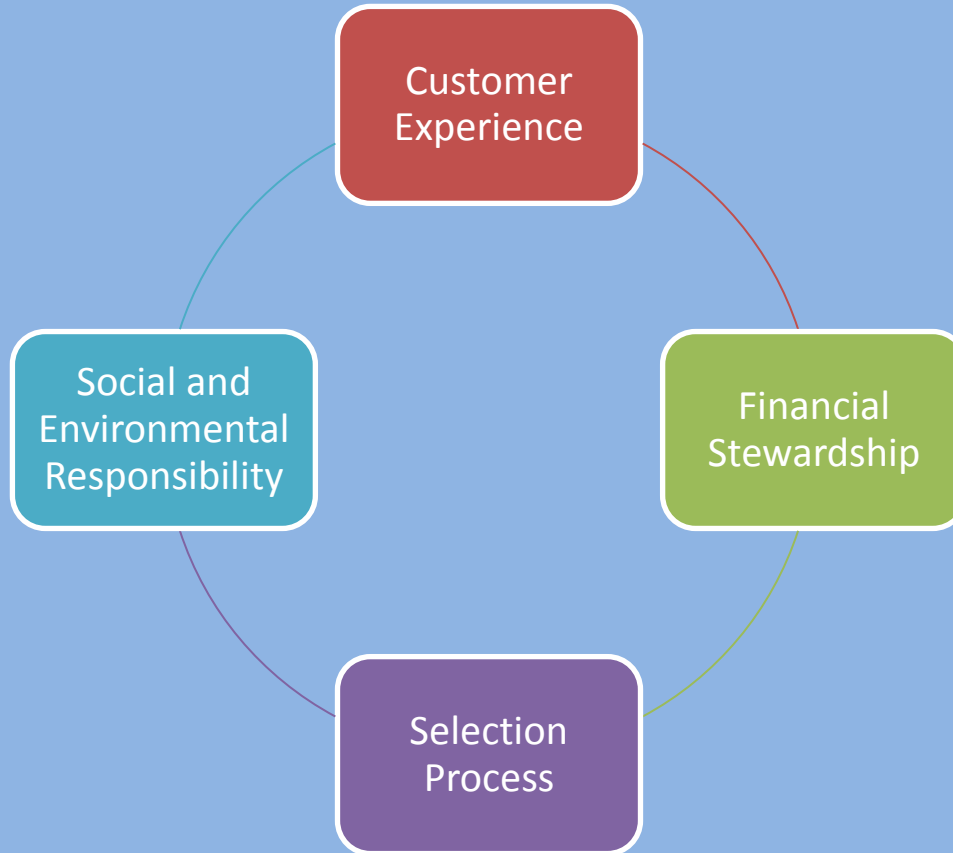
Preliminary Goals

- 100,000 New Jobs
- Increase Small Business Opportunities
- Clean, Energy-Efficient Facility

Concessions Stakeholder Process

- Airlines
- Current Independent Operators
- Labor Representatives
- Prime Concessionaires (large concessions companies)
- Prospective Local Operators
- Small/Disadvantaged Business Enterprises
- Traveling Public

Principles & Practices for Discussion



Process Components

- Staff workshops to develop draft principles and practices
- Research of concessions industry best practices
- Six meetings with individual stakeholder groups
- Business and leisure traveler focus groups
- Compilation and integration of the input from the initial meetings
- Two meetings with all stakeholder groups
- Summary of prevalent and divergent views on the issues

Areas of Agreement

- There should be a mix of offerings at Sea-Tac Airport
- Important to encourage a strong sense of place
- “Green” practices and sustainability
- The selection process should be efficient and fair and limit barriers to entry
- The cost of doing business at the Airport is high and policies should reflect this reality

Areas of Disagreement

Issue 1: How should the Port balance the mix of multi-unit operators (“prime concessionaires”) and direct leases?

- Direct leasing has improved overall program performance
- All operators want opportunities structured for open competition
- Labor seeks two-three prime operators with 90% of employees
- Many local businesses believe local ownership should dominate

Issue 2: How should the Port maintain (or increase) participation by small and/or ACDBE businesses?

- Current goal 20% of gross sales – modest in comparison to some airports
- Prime subtenants prefer direct lease, better opportunities/locations
- Direct lease ACDBEs generate 29% of total ACDBE sales

Areas of Disagreement

Issue 3: How can the Port reduce high costs of investment, and other barriers?

- 2004-05 development costs were quite high – above other airports
- Operators cite inefficient, lengthy Port approvals process as primary reason
- Request for Proposals process presents a barrier to small businesses

Issue 4: Should the Port continue to require ‘street pricing’?

- Some operators advocate higher than street pricing to offset high development and/or operating costs
- Local Seattle operators “must” price the same as their street-side locations
- Labor advocates for premium pricing (up to ‘street plus 15%’) if devoted to better worker wages/benefits
- Street pricing important to customers
- Ongoing industry dispute over impact on sales and revenue

Areas of Disagreement

Issue 5: Should the Port place requirements on the labor practices of concessionaires?

- Labor representatives advocate Port Commission adoption of a resolution for worker retention and labor harmony
- Small number of airports have such policies; varied application and impacts
- Significant legal risk, including prospect of concessionaire litigation
- Prevalent view of stakeholders is that the Port should not place mandates regarding hiring and firing practices
- Continuity of employment for concessions workers has never been an issue at Sea-Tac

Worker Retention Issue

- Legal Analysis / Risk
 - Previous Litigation / Federal Injunction
 - Prospects of Litigation
 - Successorship Doctrine
- Negative Impacts on Concessions Recruitment
- Stakeholder Views
- 2004-05 Transition
- Employment Mobility / Security
- Other Airports' Experience

Recommendation Summary

These recommendations are intended be consistent with future Century Agenda goals promoting job creation and business opportunity

1. Manage program via a hybrid structure with a 50/50 mix of multi-unit contracts (six or more units) with small packages (three units or less)
2. Meet or exceed current 20% gross sales goal for ACDBE through direct leases, and seek additional small business participation
3. Revise the tenant build-out review process to reduce capital costs. Port should provide all infrastructure to the lease line
4. Study the overall cost picture for concessionaires prior to finalizing street pricing policy for 2015-17 RFPs and recruitment
5. Encourage new employers to hire current workers but do not adopt worker retention or labor harmony requirement