



# Concession Development Program Update

SAN DIEGO INTERNATIONAL AIRPORT  
Concession Development Program

November 04, 2010

**Bhavesh A. Patel**  
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Real Estate Management



SAN DIEGO INTERNATIONAL AIRPORT  
Concession Development Program

October 28, 2010

## *CDP Update Agenda*

- Concession Development Program (CDP) Overview
  - Goals
  - Objectives
  - Design Strategy
  - Business Strategy
  - CDP Overview
  - Passenger Demographics
  - Airports are Different
  - CDP Efforts & Program Status
  - Request for Proposals (RFP) Overview
  - Program Schedule



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- The San Diego County Regional Airport Authority is enabling and implementing a comprehensive CDP
  - Transition the existing program from a Master Concessionaire to a Hybrid Management Approach
    - Direct Leasing and Multiple Primes
  - Request for Proposal (RFP) Competitive Process
    - Provides opportunity for all
      - Single operator(s), large operator(s) or Joint Venture(s)



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## *Goals*

### Create a “World-Class” Concession Development Program

- Exceed Passengers Expectations
- Maximize Concession Opportunities
- Commit to a Cost Effective Design
- Create a Competitive Environment
- Provide an Efficient Operating Environment
- Capture the Spirit of the San Diego Region



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## *Objectives*

- Maximize Guest Satisfaction
- Ensure a Diversity of Concepts
- Encourage Healthy Competition
- Create Opportunities for ACDBE Businesses
- Represent the Best Regional, National, and International Concepts/Brands
- Optimize Non-Aviation Revenues



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## *Design Strategy*

- Create a “Sense of Place”
  - Enhance the Guest Experience
  - Subtle, Convenient, Inviting, and Stress Free
  - Cohesive town center/gathering place elements
  - Create a Memorable Passenger Experience
  - Enjoy the travel experience – Don't rush through it
- Unique & Original Design that represents San Diego and the Region
- Flexibility for changes in passenger mix and reconcepting
- Flexible Tenant Design Criteria
  - Encourage spectacular store fronts, stores, and restaurants
  - Encourage expression of their individual identities



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# *Business Strategy*

- Reallocate the Concession Program
  - Pre-Security vs. Post-Security
  - Food Service and Retail
- Considers passenger demographics and hierarchy of spending
- Fair, Reasonable, and Competitive Pricing Policy
- Leasing and business plan that maximizes concepts/brands
- Provide appropriate density and mass of locations
- Program management flexibility
- Operating Performance Standards
- Integrate Advertising, Art, and Branding Rights



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# *CDP Overview: Key Terms and Dates*

## **Key Terms**

- Gross Sales
  - Gross Receipts of Concessionaires
  - Proceeds from any sales transaction
- Revenues
  - Percentage of Sales paid to Authority

## **Key Dates**

- November 30, 2012
  - Master Concessionaire Lease Expires
- Mid-2013 (ESTIMATED)
  - Terminal 2 East Expansion Complete
  - Terminal 2 West Expansion Complete
- December 2012 to Mid-2013 (ESTIMATED)
  - Start Infrastructure Upgrades and shell space development of Existing Locations
  - Start Phased Implementation of Tenant Improvement of Existing Locations





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## *CDP Overview: Sizing and Demand*

- Passenger traffic flow patterns – Enplanement levels by terminal zones
  - Maximize high numbers of exposures to concession areas
- Numbers and locations of security checkpoints
  - Potentially increase program size by keeping enplaning traffic together as it moves to airside
- Terminal and concourse configuration
  - Create a strong concession cluster just beyond security increases supportability of demand
- Pre-security (landside) vs. post-security (airside) mix
  - Landside concession space creates opportunities for non-traveling airport visitors to patronize concessions
- Square footage mix between food service and retail



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## *CDP Overview: Sizing and Demand*

- Level of service expectations
- Availability of support spaces (office, storage, etc.)
- Delivery and distribution of products
- Productivity of concession units
  - Sales per square foot level should range between \$800 to \$1,200
- Square footage allocation per 1,000 enplaned passengers
  - Current concession program is severely space constrained at 6.7 square feet per 1,000 enplaned passenger
  - CDP is being sized at 10 square feet per 1,000 enplaned passenger



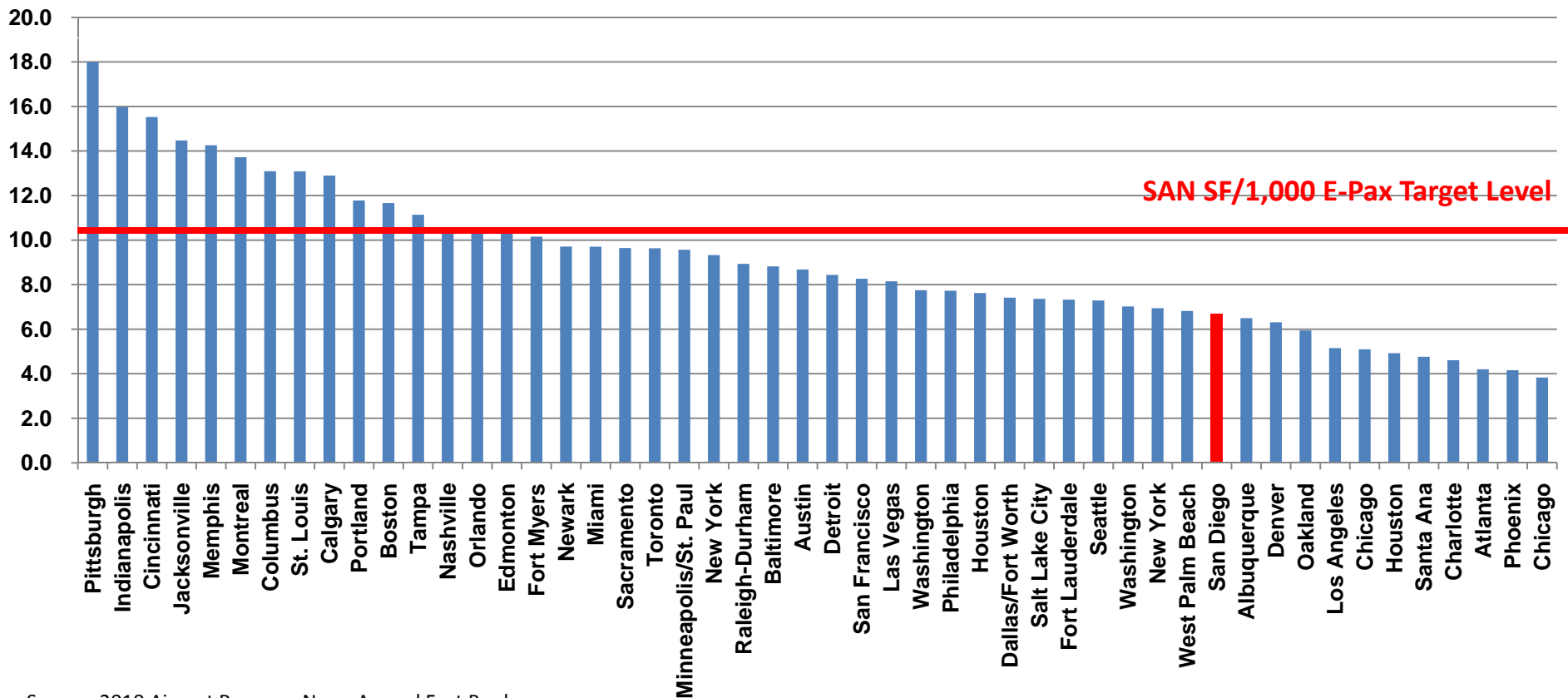
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# CDP Overview: Sizing and Demand

Square Feet per 1,000 Enplaned Passenger



Source: 2010 Airport Revenue News Annual Fact Book



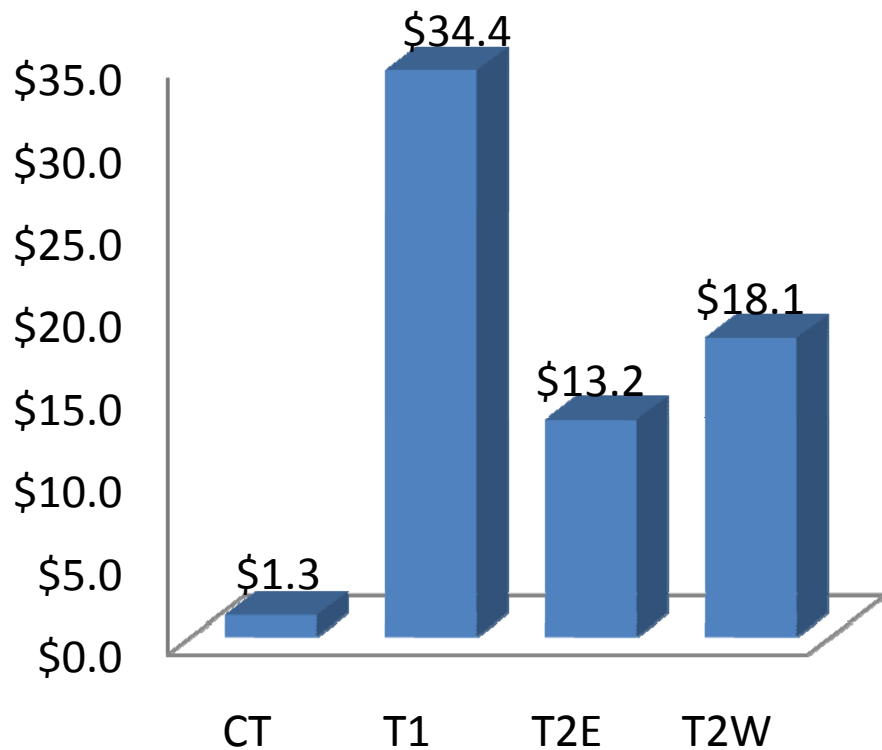
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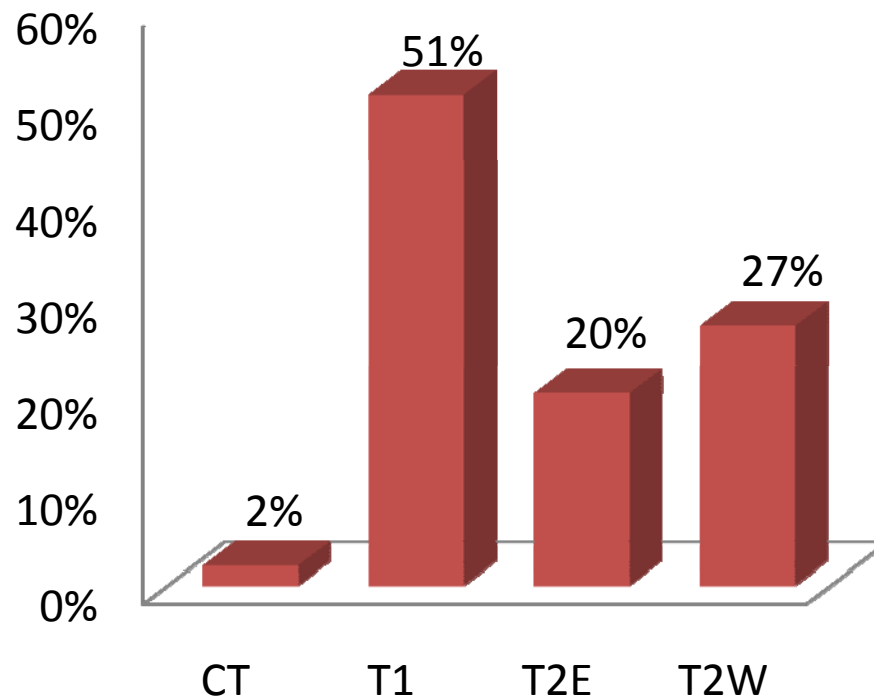
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# *CDP Overview: 2009 Actual Concession Statistics*

**Gross Sales**



**Market Share**





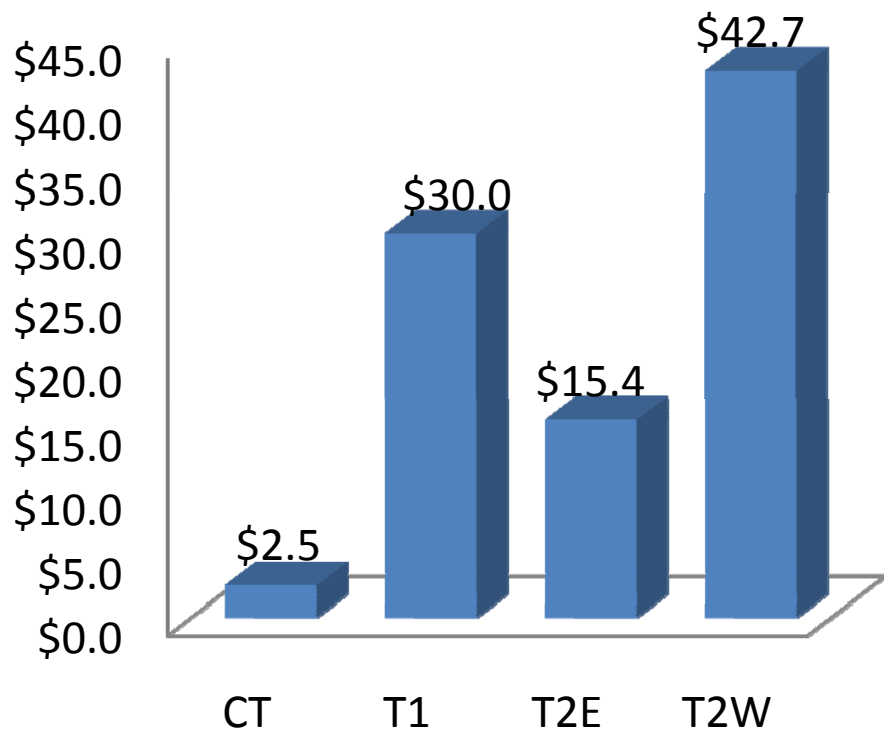
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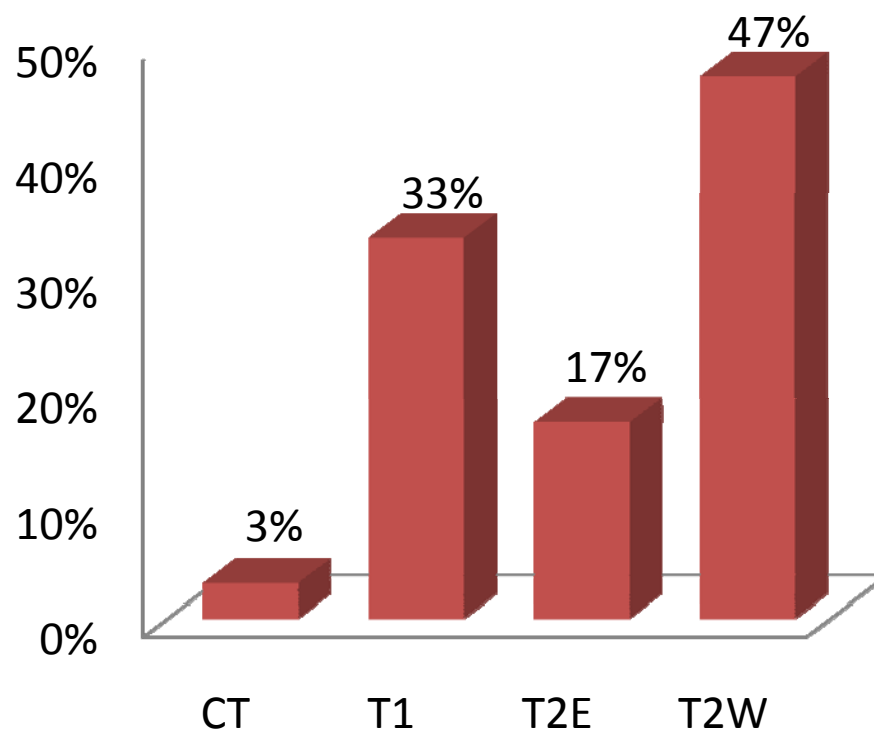
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# *CDP Overview: 2013 Projected Concession Statistics*

**Gross Sales**



**Market Share**



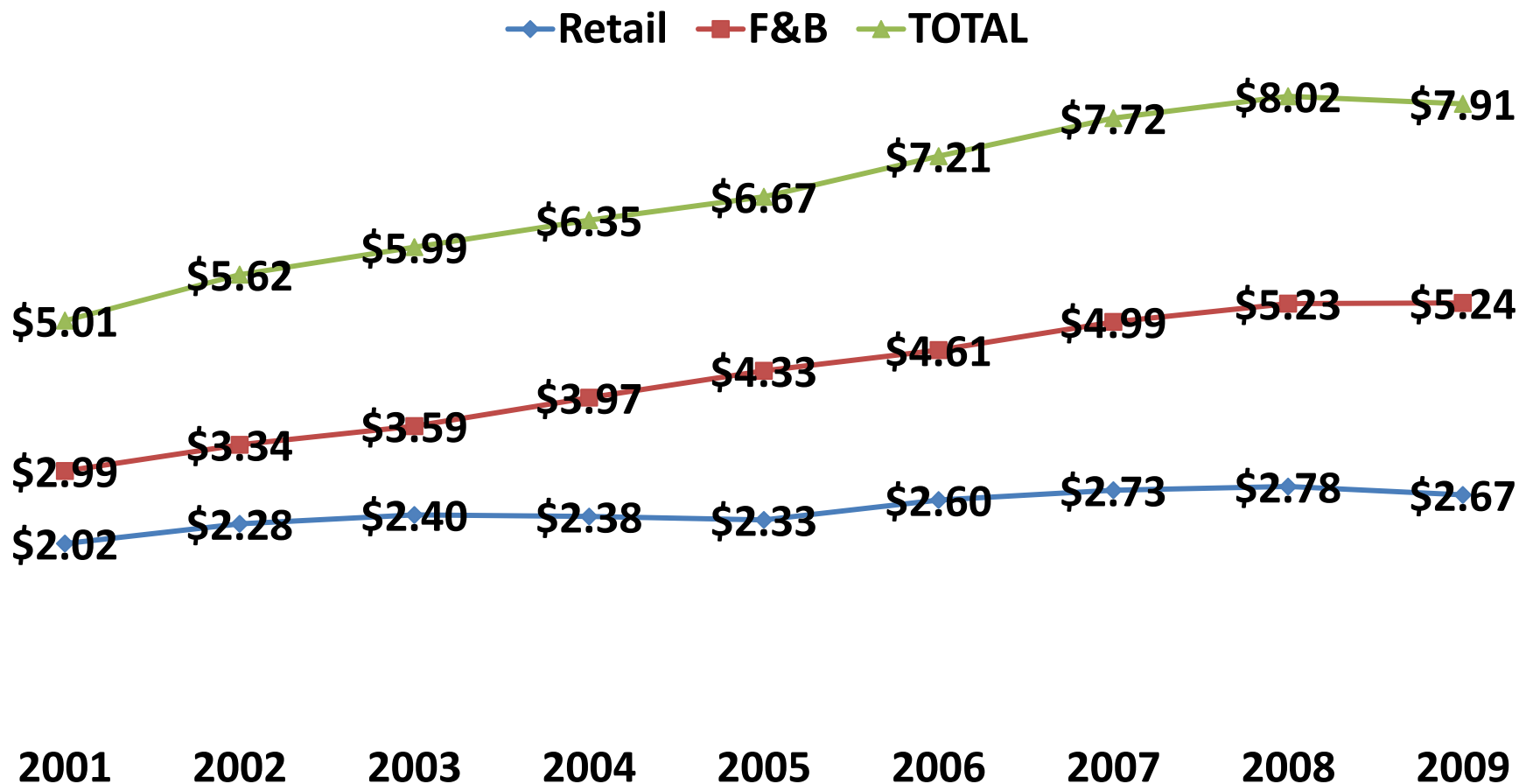


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## *CDP Overview: Historical Sales per Enplaned Passenger*



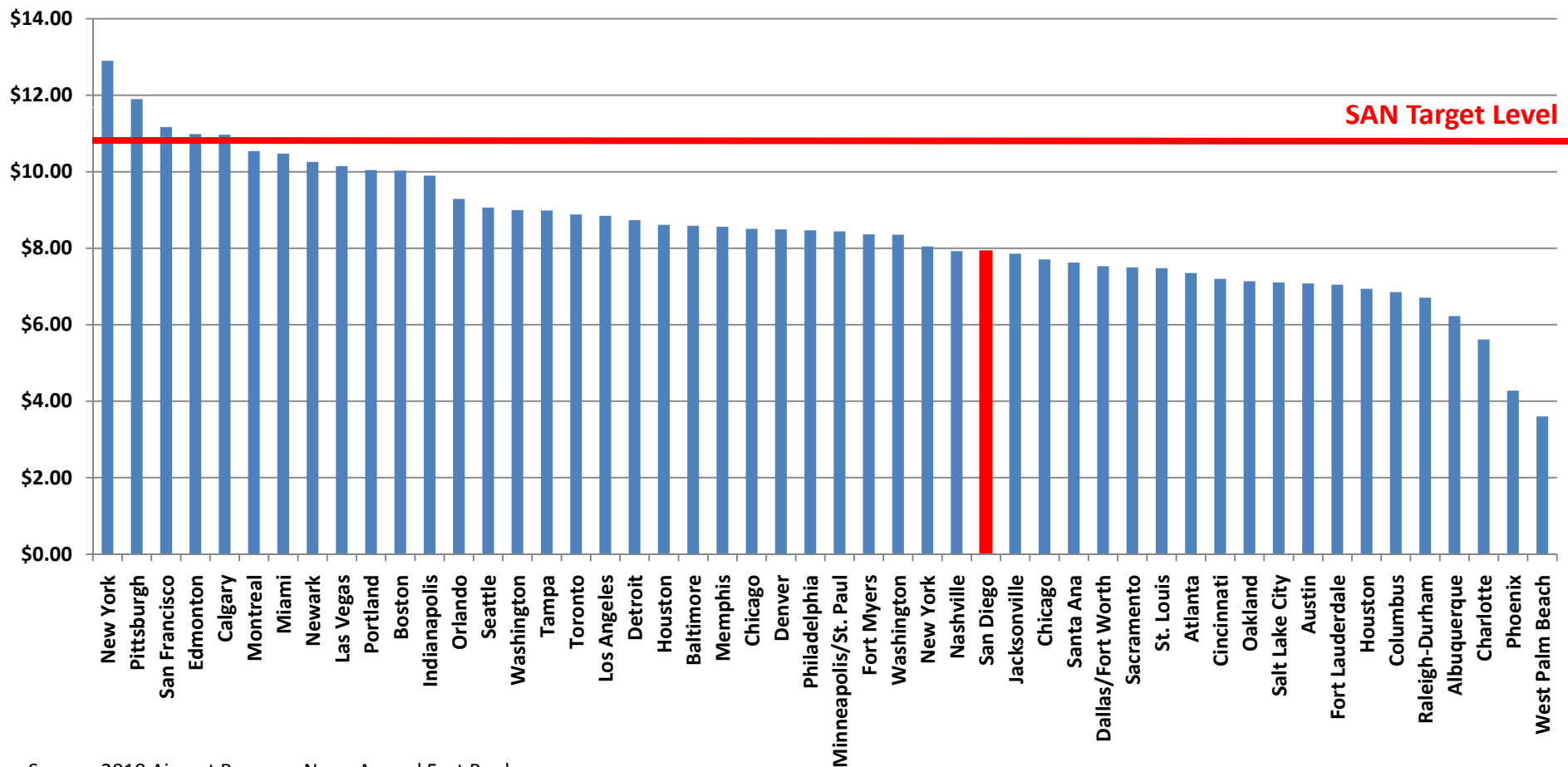


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# *CDP Overview: Industry Sales per Enplaned Passenger*



Source: 2010 Airport Revenue News Annual Fact Book



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# *CDP Overview: Concept Categories*

## **Food Service**

- Seafood
- Healthy/Natural
- Mexican
- Italian
- Asian
- Burger
- Café/Bar
- Deli/Bakery/Desserts
- Snacks/Candy
- Specialty Coffee/Tea
- Wine Bar

## **Retail**

- Books
- Convenience Store
- Day Spa and Manicure
- Electronics/Gadgets
- Fashion Watches/Sunglasses
- Fashion/Fine Jewelry
- News
- Sportswear/Golf Shop
- US Fashion/Designer Apparel





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# CDP Overview: Concept Categories





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# CDP Overview: Concept Categories





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## CDP Overview: Concept Categories

The collage features a wide variety of brand logos and images, including:

- bluwire** (stay connected)
- Brookstone**
- lonely planet**
- Virgin** (red script logo)
- INDULGE** (brown banner)
- LACOSTE** (green crocodile logo)
- FOSSIL** (yellow and blue oval)
- Kiehl's** (SINCE 1851)
- U.S. News & World Report**
- 7 ELEVEN**
- PANDORA**
- AUTHORS BOOKSTORE**
- DESTINATION** (yellow text)
- Salvatore Ferragamo**
- LeSportsac**
- Brookstone** (orange square)
- GHIRARDELLI CHOCOLATE** (blue and gold banner)
- Southern Living** (yellow text)
- LATHER** (orange square)
- NewsConnection**
- TYLER FLORENCE** (black and white portrait)
- See's CANDIES**
- Harley-Davidson** (orange and black shield)
- CNN 24/7**
- market** (red and white circle)
- destination green!** (green leaf logo)
- RELAY** (red and white logo)
- tru colors** (rainbow sunburst logo)
- Ermenegildo Zegna**
- tech showcase** (blue and white logo)
- USA TODAY** (blue and white logo)
- travelzone** (blue and yellow logo)
- eco grounds** (green and brown logo)
- GREAT COFFEE** (brown logo)
- SIMPLY BOOKS** (green and white logo)
- BLIUX TERNER** (black and white logo)
- LUSH** (green and white logo)
- PINK SLIP** (pink logo)
- Juicy Couture** (pink logo)
- BVLGA** (black and white logo)
- GUESS** (black and white logo)
- Erwin Pearl** (black and white logo)
- butter LONDON** (black and white logo)
- SUNGLASS ICON** (black and white logo)
- THE NASCAR SHOP** (red and blue logo)
- PINK SLIP Lingerie Store** (pink logo)
- SEAN JOHN** (black and white logo)
- THE WALL STREET JOURNAL. NEWS** (black and white logo)
- FOX NEWS channel** (black and white logo)



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# CDP Overview: Concept Categories



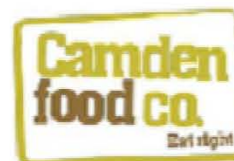


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# CDP Overview: Concept Categories





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# CDP Overview: Concept Categories





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# CDP Overview: Concept Categories

**DRINK**

**Goeys** NEW YORK PIZZA

**AeroNuova™**

**NYSB**  
NEW YORK SPORTS BAR™

**CRUST**

**JET ROCK**  
BAR AND GRILL

**worldbean™**

**PIQUILLO**

**PRIME**  
Tavern

**SHISO**

**O'NEALS**

**CIBO**  
BISTRO™  
AND WINE BAR

**CARMELLA'S**  
KITCHEN

**HARRY'S**  
BEST

**Custom Burgers**  
by Pat La Frieda

**Tagliare™**

**wibar™**

**MINNOW**

**LA VIE**

**slip Mahoney's**  
Irish pub

**Bisoux**

**PHILLY CHEESESTEAKS**  
papas frites

**PAPAYA KING**

**illy**

**DEEP.BLUE**  
small mouth bar

**AWAY CAFE**

**wibar™**

**DUNKIN' DONUTS™**

**Jamha Juice**

**Ike's**  
Coffee & Tea

**5IVE STEAK™**

**CIBO EXPRESS**  
GOURMET MARKET

**Bar Brace™**

**newyorksportsgrill.®**

**Lucy's ASIAN KITCHEN™**

**SKY**  
ASIAN BISTRO.®

**re:vive™**

**FRESH**  
Italian pasta

**Boar's Head**

**horizon bakery cafe.™**

**Revolución™**



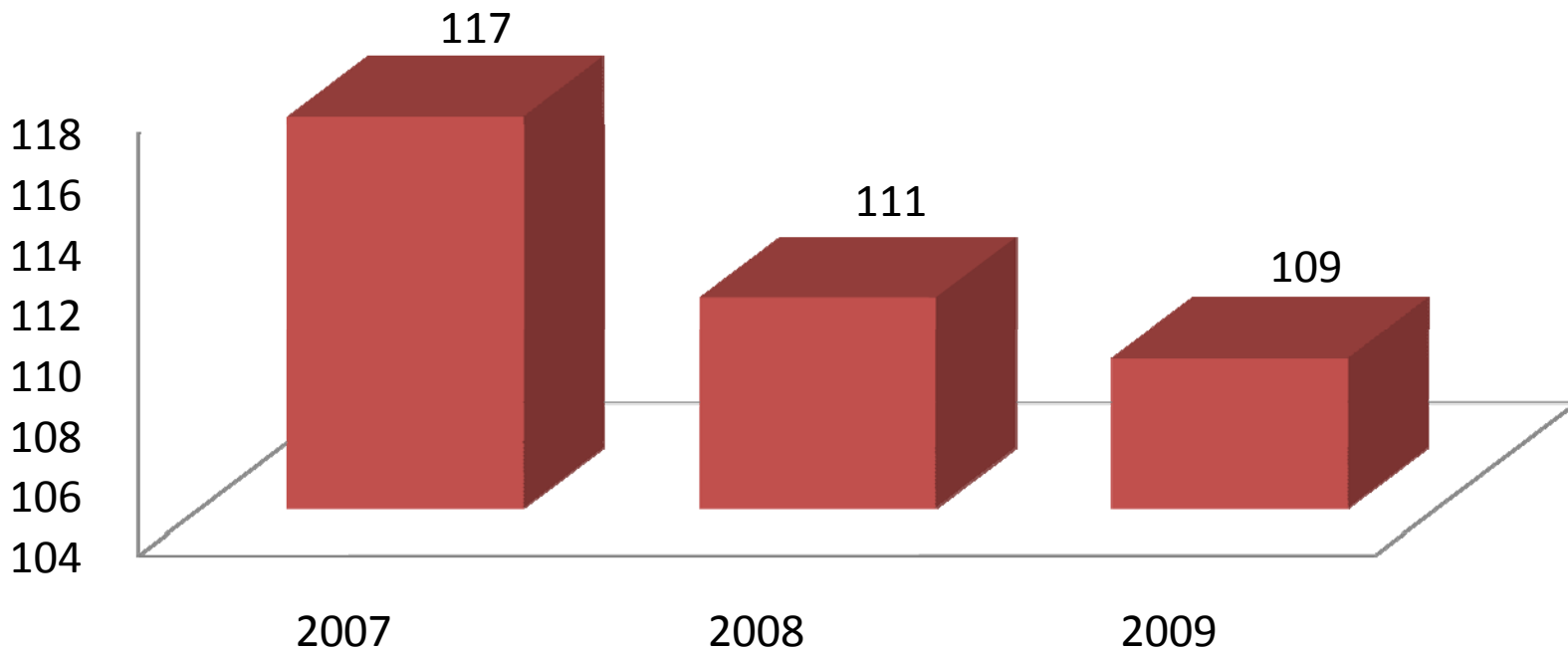
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# *Passenger Demographics*

## Dwell Time (In Minutes)



Source: 2009 Annual Passenger Satisfaction Survey, Phoenix Marketing International.

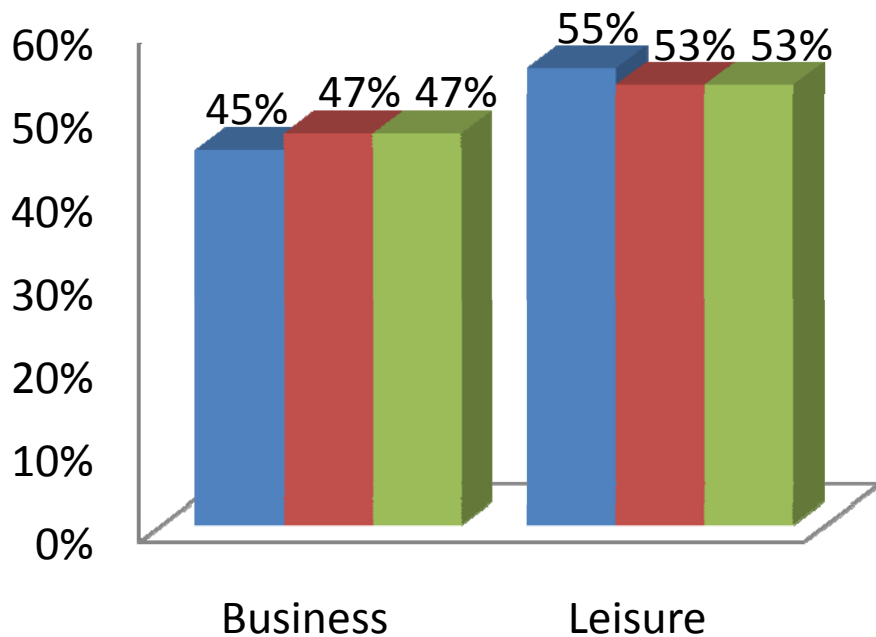




# Passenger Demographics

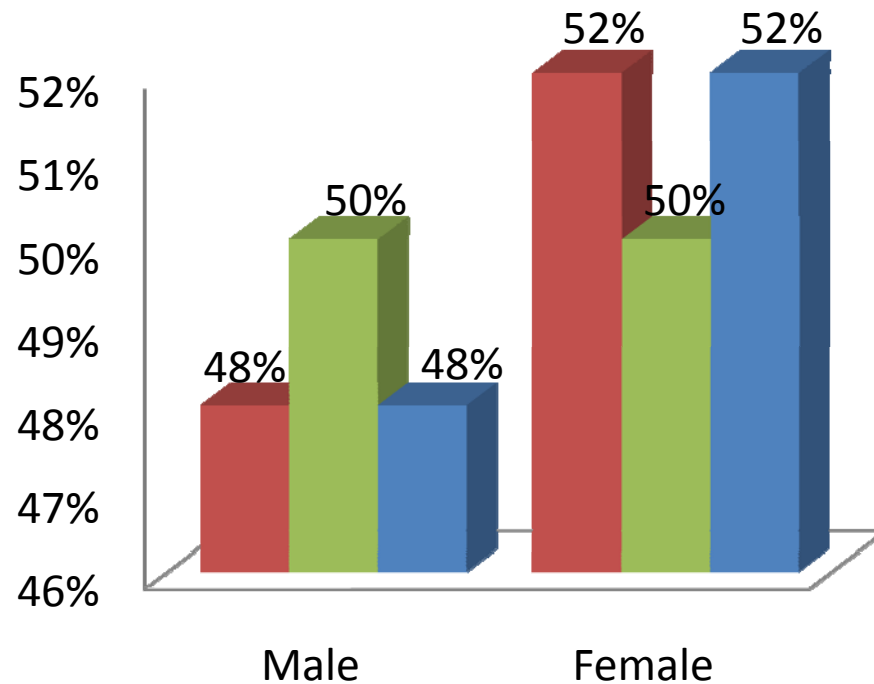
Primary Purpose of Trip

■ 2007 ■ 2008 ■ 2009



Gender

■ 2007 ■ 2008 ■ 2009



Source: 2009 Annual Passenger Satisfaction Survey, Phoenix Marketing International.



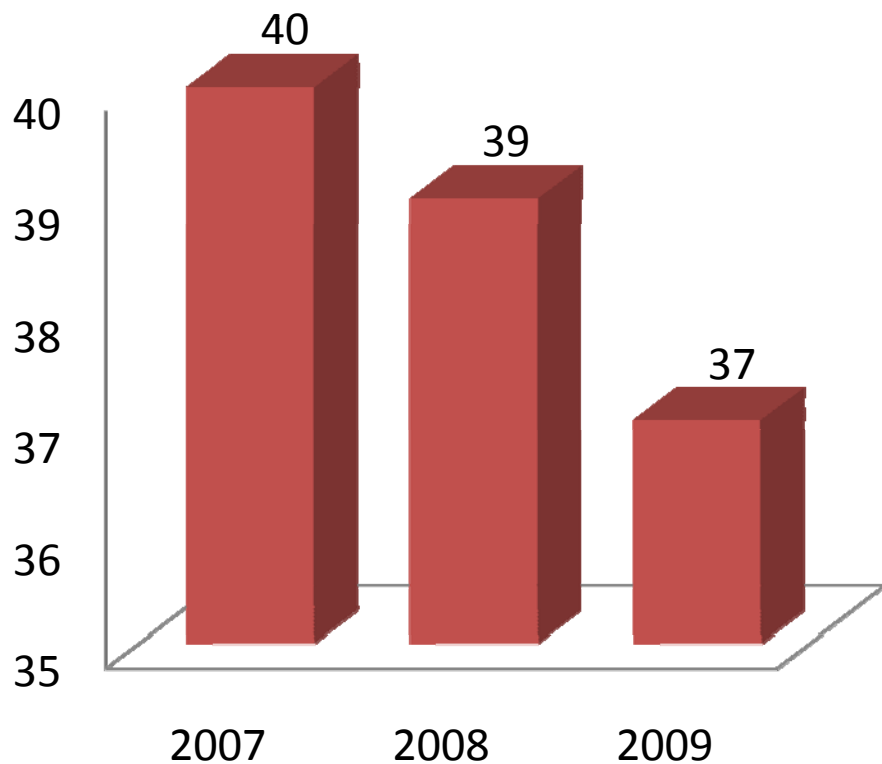
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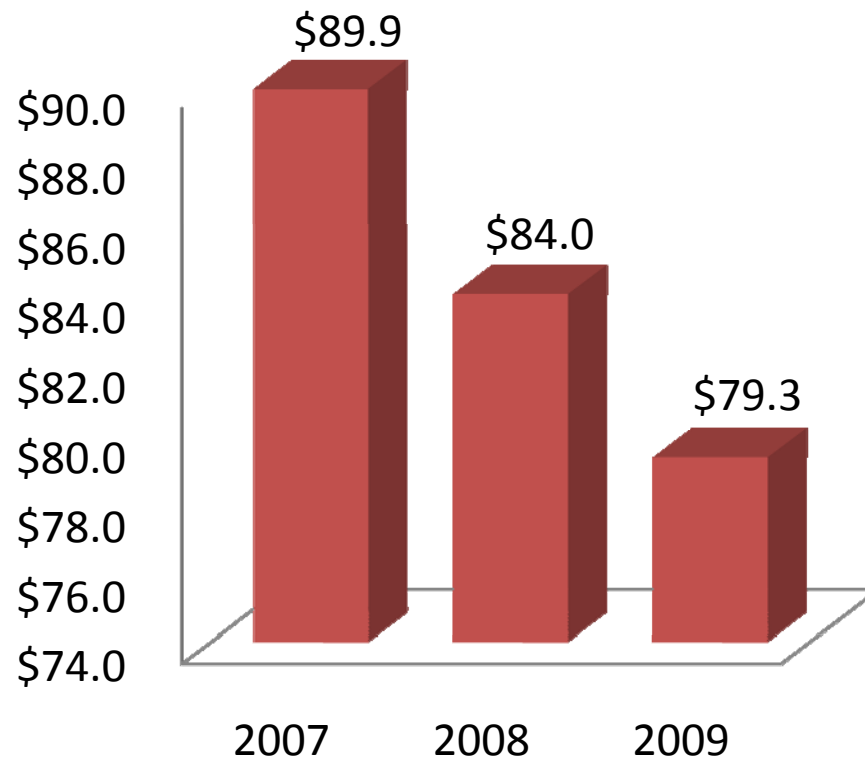
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# Passenger Demographics

**Mean Age**



**Mean Household Income**



Source: 2009 Annual Passenger Satisfaction Survey, Phoenix Marketing International.



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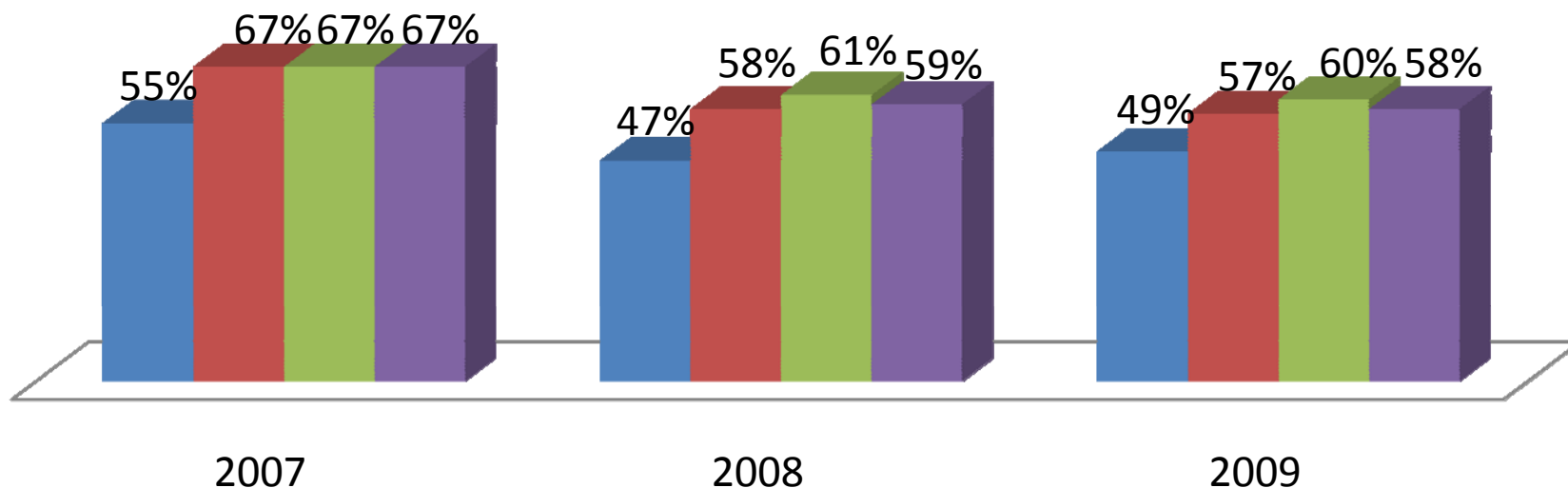
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# Passenger Demographics

## Passengers Who Purchased Food Service

■ CT ■ T1 ■ T2 ■ Total



**42% Did Not Make A Purchase in 2009**

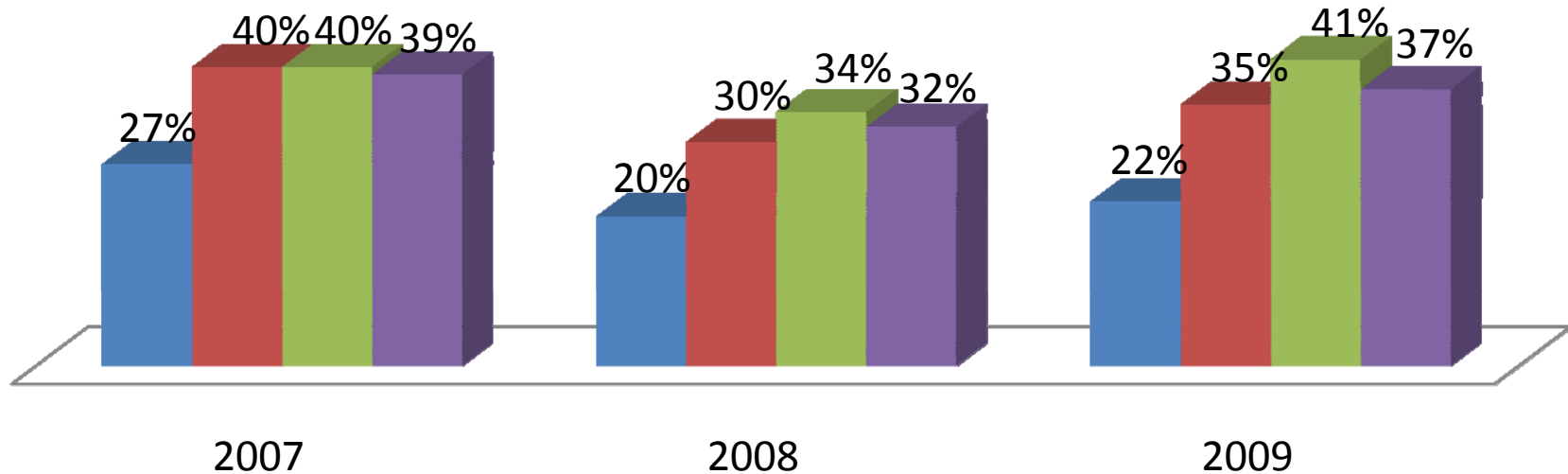
Source: 2009 Annual Passenger Satisfaction Survey, Phoenix Marketing International.



# Passenger Demographics

## Passengers Who Purchased Retail

■ CT ■ T1 ■ T2 ■ Total



**63% Did Not Make A Purchase in 2009**



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## *Airports are Different*

- Passengers are here to travel rather than shop or eat
- The Airport is open 365 days per year
- Concessions must operate at least 16 hours per day, without exception
- Deliveries have to be scheduled, screened, and employees must be badged
- Passenger traffic varies throughout the day, the year, and terminal areas



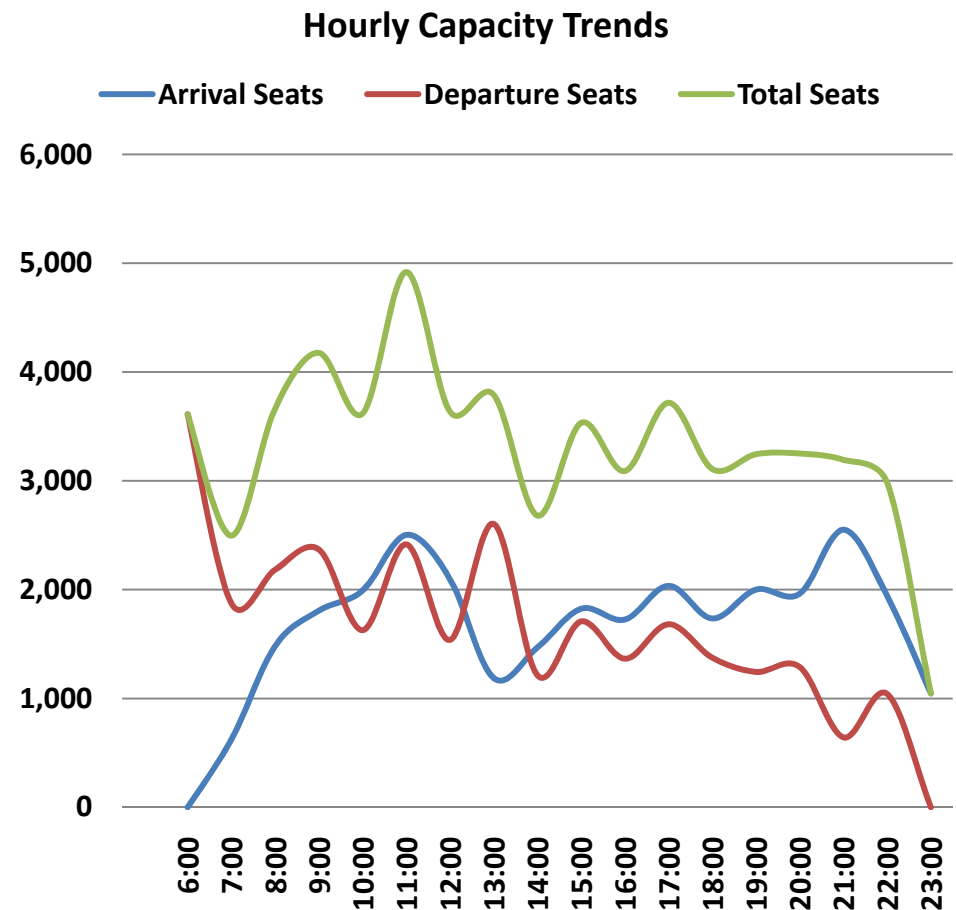
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# *Airports are Different: Peaking*

- Terminals have periods of intense activity followed by periods of relative calm
- Concessionaires must be equipped to handle demand during the peaks
  - Achieve a large percentage of sales during peaks
  - Staffing Levels
  - Inventory





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## *Airports are Different*

- Extended hours of operations to accommodate flight delays and flight cancellations
- The airport is not only affected by local weather but also by weather in other parts of the country
- Existing and future security requirements
  - May impact operating costs
- Comply with required service and operational performance standards
- Comply with specifications outlined in Tenant Design Criteria Manuals



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## *Airports are Different*

- Building concession units in an airport environment requires high capital investment
  - Average Build Out Costs per Square Foot
    - Food Service: \$600 +
    - Retail: \$400 +
- Sales per Square Foot in an Airport can be 2 to 3 times higher than most super regional shopping centers





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# *Airports are Different*

- Operating and Maintenance Expenses in an Airport Environment can be typically 20% to 30% higher than comparable non-airport locations
  - Higher Build-Out Costs
  - Security Requirements
  - Employee Badging and Parking
  - Marketing Fee
  - Receiving and Distribution
  - Storage Space and Office Rental
  - Longer Operating hours
  - Utilities & Common Maintenance Fees
  - Janitorial, Trash, and Grease Maintenance
  - Insurance Requirements
  - Business Licenses and Taxes





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# *Airports are Different*

## Rent

- Rent to the Airport is the greater of:
  - Minimum Annual Guarantee (MAG)
  - Percentage Rent of Gross Sales
- Annual Adjustment





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# *Airports are Different*

## Security Requirements

- All employees working in a secure area must be badged
  - 10 year background check
  - FBI fingerprint check
  - 4 to 8 weeks to conduct background check and issue badge
  - Replacing a sick, terminated employee may require extra staffing and time



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## *CDP Efforts*

- ✓ Strategic Plan
- ✓ Existing Conditions Review
- ✓ Concept Alternatives and Market Analysis
- ✓ Trends Analysis and Review
- ✓ Demand Analysis and Review
- ✓ Benchmarking
- ✓ CDP Financial Analysis
- ✓ Business Model Alternatives

- ✓ Green Build/TDP Visioning
- ✓ T2E Expansion Program

### **In Progress**

- Masterplan
- Documents Development
- Centralized Receiving and Distribution Facility
- Outreach Efforts
- Marketing Efforts



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## *Documents Development*

- New Lease Agreement
- New Standards and Practices
- New Schedule of Charges
- New Tenant Improvement Process Handbook
- New Tenant Design Criteria Manual
- New Request for Proposal (RFP) Documents



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# Marketing and Public Relations Efforts

- Sunset Cove Brand
- Trade Show Booth and Graphics
- Collateral Materials
  - Sunset Cove Bag
  - Concession Opportunities Brochure
  - CDP Business Opportunities Webpage
- Directional Signage
- Media Press Releases





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# Marketing and Public Relations Efforts

- CDP Promotional Advertising
  - ACI-NA, AAAE Centerlines Magazine, and ARN Magazine

**SAN DIEGO INTERNATIONAL AIRPORT**  
**New Concession Opportunities**  
Request for Proposals to be released Q1 2011

For Information: [SAN.ORG/CDP](http://SAN.ORG/CDP)

**COME GROW WITH US**

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**WE'RE  
REINVENTING  
SHOPPING AND DINING  
AT THE AIRPORT.  
BIG IDEAS  
WELCOME.**

*We're seeking to create inviting and memorable experiences that reflect a San Diego that has come of age – as a dynamic, enterprising and trendsetting cultural hot spot.*

**SAN DIEGO INTERNATIONAL AIRPORT IS DOUBLING ITS CONCESSION SPACE, AND REDEVELOPING 100% OF ITS EXISTING FOOD & BEVERAGE AND RETAIL SERVICES.**



*If you're a local, regional, national or international retailer or restaurateur with an original concept that helps to define the San Diego experience, we want to hear from you.*

**Go to [san.org/cdp](http://san.org/cdp) to register your business today.**

RFPs for the Concession Development Program (CDP), will be released 1Q 2011. We encourage small, local, minority and women-owned businesses, to participate. For additional information, contact Bhavesh A. Patel, Manager, Concession Development Program. 619-400-2593. [bpatel@san.org](mailto:bpatel@san.org)

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# *Outreach Efforts: Concession 101*

<b>Date</b>	<b>Event</b>	<b>Estimated # of Attendees</b>
7/16/2009	Airport Advisory Committee	40+
11/16/2009	Existing Concessionaires' Quarterly Meeting	30
11/18/2009	San Ysidro Chamber of Commerce	35-40
2/10/2010	Airport Volunteer Ambassadors	100
2/24/2010	Existing Concessionaires' Quarterly Meeting	30
3/25/2010	National City, California	4
4/13/2010	Asian Business Association	30
4/22/2010	El Cajon, California	34
6/7/2010	Existing Concessionaires' Quarterly Meeting	30
6/15/2010	Board Room, Commuter Terminal	55
7/28/2010	Regional Bank Representatives	9





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# *Outreach Efforts: Business and Community Groups*

Date	Event	Estimated # of Attendees
11/19/2009	San Diego County Hispanic Chamber of Commerce Monthly Meeting	40
11/21/2009	United Veterans Council Monthly Meeting	30
12/3/2009	San Diego North Economic Development Council Holiday Luncheon & Awards Presentation	200
1/26/2010	Asian Business Association's Monthly Rice Club	35
2/18/2010	Women Construction Owners & Executives Quarterly Meeting	35
2/18/2010	Asian Business Association Lunar New Year Celebration	300



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# Outreach Efforts: Business and Community Groups

Date	Event	Estimated # of Attendees
3/12/2010	SCORE Women's Networking Breakfast and Exhibition	200
5/7/2010	Assembly member Marty Block's Outreach Event: <i>Grow Your Small Business – Financing and Contracts</i>	60
5/25/2010	San Diego Women's Construction Coalition	30
June	National Latina Business Women Association	75
10/21/2010	Central San Diego Black Chamber of Commerce "Economic Summit"	30



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# *Outreach Efforts: Alternate Approaches*

Date	Event	Estimated # of Attendees
5/24/2010	Greater San Diego Business Association (GSDBA)	Preferred e-mail vs. outreach event
5/24/ 2010	California Restaurant Association – San Diego	Preferred write-up in electronic newsletter
May 2010	Catfish Club	Declined

# *Outreach Efforts: Direct Contacts*

As of	Type	Status
10/25/2010	CDP Interest List	300+



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# *Outreach Efforts: National Events*

Date	Event	Estimated # of Attendees
3/13-17/2010	Airport Revenue News (ARN) Conference & Exhibition	620
5/14-20/2010	Association of Airport Executives (AAAE) Conference & Exhibition	1,700
5/22-25/2010	International Convention of Shopping Centers (ICSC) RECON Global Retail Real Estate Convention	35,000
6/18-23/2010	Airport Minority Advisory Council (AMAC) Diversity Conference	700
09/25-30/2010	Airport Council International – North America Conference	
11/08-11/2010	Airport Council International – Concessions Conference	



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## *RFP Overview: Why the Competitive Process?*

- Under Board Policy, 49 CFR Part 23, and various grant assurances, the Authority is required to:
  - Grant leases of real property on a competitive basis [Authority Policy §6.01(1)(b)]
  - Award concession contracts to the entity that in the opinion of the Authority:
    - (1) proposes development or utilization that fulfills the Authority's land use and development criteria for the property
    - (2) demonstrates an economically feasible program that will produce a market value rental return to the Authority over the term of the lease
    - (3) possesses the financial capacity and managerial ability to develop and maintain the property at its highest best use over the term of the lease [Authority Policy §6.01(1)(b)]



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## *RFP Overview: Why the Competitive Process?*

- Under Board Policy, 49 CFR Part 23, and various grant assurances, the Authority is required to:
  - Take all necessary and reasonable steps to ensure non-discrimination in the award and administration of contracts [49 CFR Part 23.9]
  - Not use quotas or set-asides for ACDBE participation [49 CFR Part 23.61], but follow the Authority's adopted and FAA-approved ACDBE Program [49 CFR Part 23.21]
  - Not enter into long-term exclusive concession agreements (unless approved by the FAA) [49 CFR Part 23.75]
  - Not use any local geographic preference [49 CFR Part 23.79]



## *RFP Overview: Determining The Successful Proposers*

- Using the criteria published in the RFP
  - All proposals will be evaluated and ranked by the evaluation panel
  - The highest ranking proposals will advance in the solicitation process
  - Interviews will be conducted (if necessary)
- 7 Member Selection Panel
  - Industry Experts
  - Industry Airport Peers
  - SDCRAA Vice Presidents
  - SDCRAA Directors



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## *RFP Overview: Limitation on Award*

- Proposers may submit proposals for multiple food service and retail packages
  - A Proposer is defined as the legal entity as well as each of its individual members
- SDCRAA will limit the number of awards to a single Proposer





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## *RFP Overview: Proposed Requirements*

- Proposers must have required minimum prior experience
  - Marketing, development, operating, and management of proposed concession concept operations at airports, other transportation facilities, shopping centers, or metropolitan or suburban areas
- Proposers must be qualified and licensed to conduct business in the State of California
- Authority may disqualify Proposers who have judgments against them regarding landlord/tenant issues or who have been debarred



## *RFP Overview: Proposed Requirements*

- Financial Capability
  - Demonstrate capacity to construct and experience to operate the described business at the defined airport location(s)
  - Possess adequate net worth to successfully perform the terms and conditions of the lease
  - Airport Authority may review Proposer's financial performance in other projects
  - Airport Authority reserves the right to request a credit report and additional financial information from each Proposer



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## *RFP Overview: Proposed Requirements*

- Statement of Ability to Comply
  - Proposers will be required to enter into a Lease that will set forth the standard terms and conditions of the Airport Authority, including those required by the applicable local, state, and federal laws
- Newly Formed Entity(ies) for this Opportunity must demonstrate that they satisfy the minimum qualification requirements
  - Each of the principals who own an aggregate of 51% or more must satisfy the Minimum Qualification Requirements
  - If the entity is owned 50/50, then each owner must satisfy the Minimum Qualification Requirement
  - Entities proposing as joint ventures must include a copy of an executed joint venture or partnership agreement



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## *RFP Overview: Proposed Requirements*

- Minimum Capital Investment Requirements
  - Food Service
    - \$350 – \$450 per square foot for the initial build out
  - Retail
    - \$300 – \$400 per square foot for the initial build out
  - Mid-term refurbishment will be required



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## *RFP Overview: Proposed Requirements*

- Insurance
  - Commercial General Liability of \$2M
  - Liquor Liability of \$2M
  - Commercial Automobile Liability (bodily injury & property damage)
    - \$2M Owned, Non-Owned, and Hired Automobiles
    - \$10M Secured Airfield Side
  - Worker's Compensation of \$1M
  - Commercial Property and Business Income Insurance of 100%
  - Business Interruption
- Deposits
  - Performance guarantee required throughout term of lease
  - Subject to annual increase



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## *RFP Overview: Proposed Requirements*

- Annual Concession Marketing/Promotional Charge
  - One half of one percent of Gross Sales
  - To begin in year 2 of operation
- Shared Tenant Services
  - Telecommunications Services
  - Tenant Reimbursables such as common area maintenance or general maintenance



## *RFP Overview: Proposed Requirements*

- Airport Certified Disadvantage Business Enterprise (ACDBE) Target
  - Food Service and Retail Program
  - Individual targets per packages are being evaluated
- ACDBE firms do not have to certified at the time of Proposal submittal
  - Must submit a completed certification application **before** the Proposal due date
  - Must be certified by the date of the Concession Lease execution



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## *RFP Overview: Proposed Requirements*

- Term of Concession Leases
  - 5 to 10 years Food Service
  - 5 to 7 years Retail
  - Leases will be staggered beginning on or about December 1, 2012
- Pricing Policy
  - Street Pricing plus Ten Percent (10%)
  - Price comparisons exclusions:
    - Resort Hotels or Communities
    - Sports and Entertainment Venues
    - Other Transportation Terminals
    - Amusement Parks and Hotels





## *RFP Overview: Proposed Requirements*

- Rent Terms for each package will be defined in the RFP
  - Minimum Annual Guarantee (MAG)
    - Adjusted annually
      - Based on Consumer Price Index (CPI)
      - or
      - Percentage of Prior Year's Actual Rent Paid
    - Percentage Rent of Gross Sales by Category of Merchandise
- Support Space rent will be based on rate per square feet



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## *RFP Overview: Rules on Ex Parte Communications*

- Restrictions on Communications and Actions
  - (1) Proposers and their agents are prohibited from contacting Board Members, Authority employees (except Procurement Staff as defined in the RFP), or members of the interview panel concerning the RFP [Term of the RFP]
  - (2) Following issuance of the RFP, no oral or written communications regarding any substantive issue in the RFP shall be permitted between any interested person and any Board member, Board member's personal advisor, or the President/CEO until the Board makes a final decision on the RFP and any applicable concession contracts. [Authority Code §2.12(d)]



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## *RFP Overview: Rules on Ex Parte Communications*

- Restrictions on Communications and Actions
  - (3) No Board member shall be an employee, attorney, agent, broker, officer, director, trustee or consultant for anyone that the Board member knows or should know is doing business or seeking to do business with the Authority or that the Board member knows or should know has or is seeking a grant or benefit from or is entering into a contract with the Authority. [Authority Code §2.09(a)]
  - (4) Board members are prohibited from attempting to use their official position to influence an Authority decision when they know or have reason to know that they have a financial interest. [Authority Code §2.08(c)]



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## *RFP Overview: Proposed Evaluation Criteria*

- Concept/Brand Development and Merchandise/Menus
  - Merchandise mix is consistent with concept and provides a wide variety of merchandise and price points
  - Incorporating storage into the design of the spaces and fixtures
  - Overall appeal of proposed concept to passengers
  - Conformance with concept sought in RFP
  - Ability to optimize sales, revenue, and customer satisfaction



## *RFP Overview: Proposed Evaluation Criteria*

- Company Background, Experience, and Financial Capability
  - Relevant experience in the operation of the proposed concept
  - Business Plan, Financial Statements, and Metrics
    - Demonstrate an understanding of the proposed lease
    - Reasonableness and viability of proposed operation
    - Financial offer
    - The ability to fund continuing operations from the cash flow generated by the operation



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## *RFP Overview: Proposed Evaluation Criteria*

- Designs, Materials, and Capital Investment
  - Interior and exterior renderings and floor plans layouts
  - Description of the design and materials to be used
  - Amount of capital investment made by unit
  - Reflects Tenant Design Criteria Manual Guidelines
  - Design supports the proposed brand/concept and a strong merchandising strategy is incorporated into design



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## *RFP Overview: Proposed Evaluation Criteria*

- Proposed Management, Staffing, and Training
  - Description of key individuals and their specific roles and responsibilities
  - Proposed organization chart and staffing
  - Employee standards and expectations
  - Description of customer service standards
  - Defined rules and regulations, training programs, and on-going orientation or on-the-job training
  - Customer service and monitoring of the concession to ensure high standards are maintained
  - Customer service assurance procedures and guarantees
  - Marketing and Promotions Plan
    - How your products and services will stay current to guest demand
    - How you will promote your business to achieve increasing sales goals



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## *RFP Overview: Proposed Evaluation Criteria*

- Operation and Maintenance Plan
  - Procedures for merchandise replenishment, warehousing/storage, and inventory control
  - Overall store standards including maintenance of concession facilities, cleanliness of the location, fixtures, and orderly display of merchandise
- Board Adopted Preferences





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## *Next Steps*

- Finalize Key Elements of Lease
- Finalize Unit Planning and Concept Development
- Finalize Unit Packaging and Leasing Plan
- Finalize Key Elements of RFP
- Release RFP
- Complete Solicitation Process



## SAN DIEGO INTERNATIONAL AIRPORT Concession Development Program

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# Tentative Program Schedule

ID	Task Name	2008				2009				2010				2011				2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Concession Development Program																								
2	Develop Concession Strategic Plan, Visioning Workshop/Existing Conditions and Program Validation, Masterplan, Management Approach, Overall Demand Planning, O & M Costs, Documents Development (Lease, Finalization of Lease Terms, Standards & Practices, Schedule of Charges, Tenant Improvement Handbook, Tenant Design Criteria Manual, RFP Related Documents, and Tenant Reimbursables), Concept Development and Tenant Mix, Unit Planning & Packaging, Leasing Plan																								
3	Finance Board Committee Meeting (Special Board Meeting, All Board Members in Attendance): CDP Overview, CDP Opportunity Awareness, and Management Approach Presentations																								
4	Finalize CDP Square Footage within All Terminal Buildings																								
5	Finalize SDCRAA Commitment - Infrastructure Upgrades of Existing Locations																								
6	Outreach Program and Small Business Development Workshops																								
7	Board Meeting: Presentation of Discussion of Management Approaches & CDP Overview																								
8	RFP Released																								
9	RFP Due Deadline																								
10	Proposals Evaluation/Selection Process																								
11	RFP Recommendations																								
12	Board Approval																								
13	Leases Execution																								
14	Tenant Design, Approval, and Permitting for all Locations																								
15	Tenant Improvement & Construction Administration																								
16	Master Concessionaire Lease Expires																								
17	Infrastructure Upgrades of Existing Locations																								
18	Conversion of Existing Locations																								
19	Concession Development Program 100% Implemented	◆																							



# SAN DIEGO INTERNATIONAL AIRPORT

Concession Development Program

## Thank You!





# San Diego County Regional Airport Authority

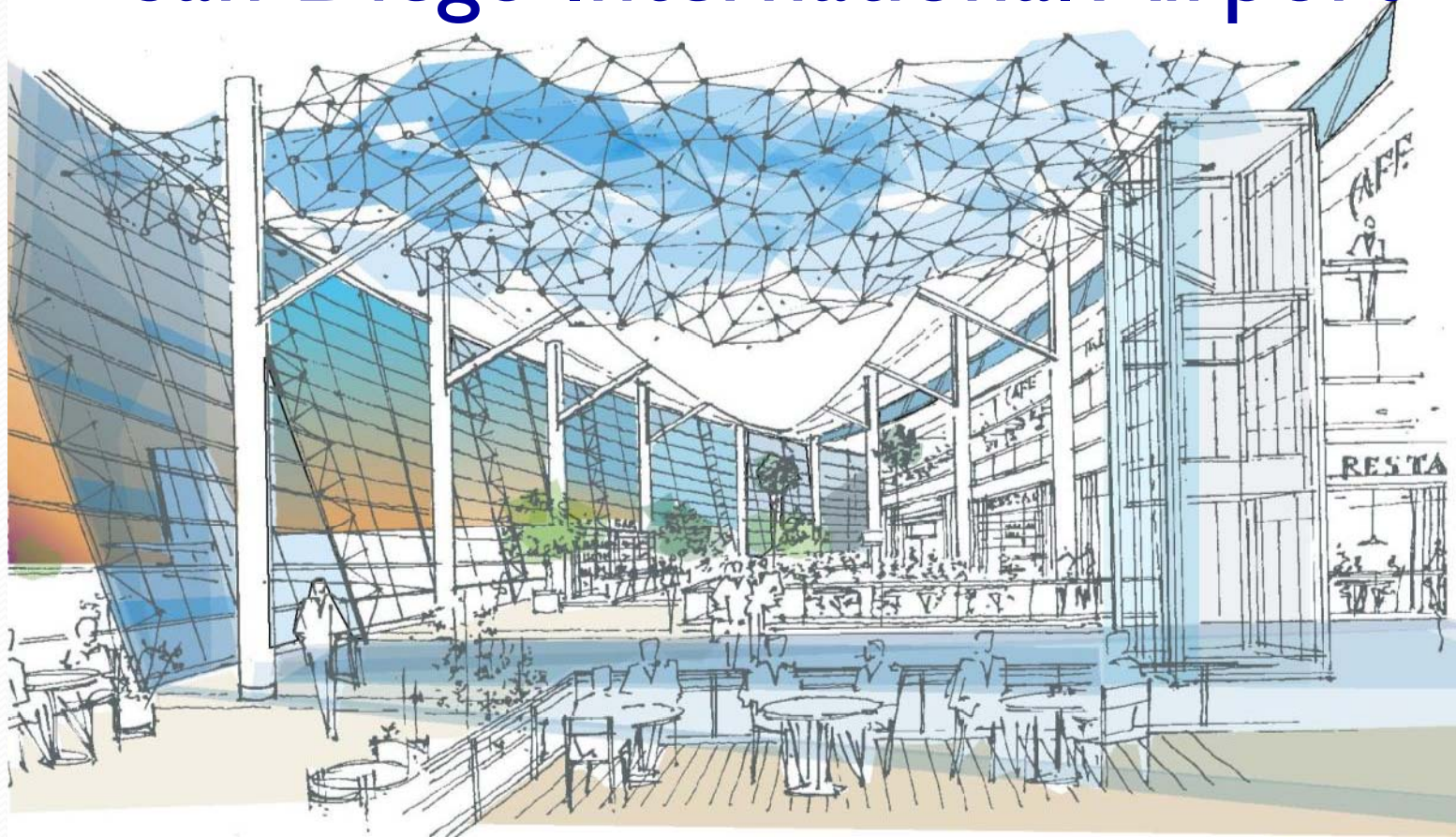
## *Concession Management Overview*



Presented by:  
AirProjects, Inc.



# We are working with you to create a “world class” concession program at San Diego International Airport

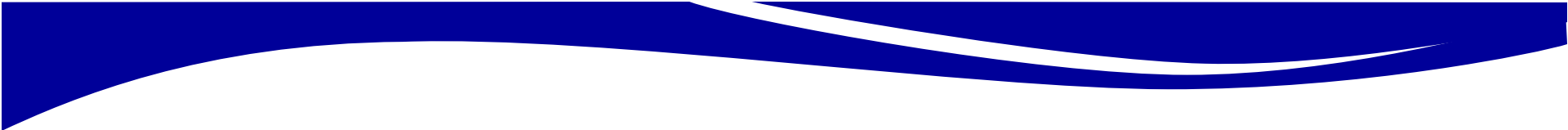


# Recap of 2009 Presentation

- Summary of management approach evaluation provided
- Hybrid approach of multiple primes and direct leasing recommended
- Board agreed with staff recommendation to pursue Hybrid approach
- **Today:** Update of management approach evaluation and confirmation of Hybrid approach



# Discussion of Concession Management Approaches



For purposes of this discussion, the term “Airport Concessions” includes the following:



# Food Service



# Specialty Retail



# Convenience Retail



# Passenger Services



# Concession Management Approaches

- Direct Leasing
- Master Concessionaire
- Multiple Primes
- Fee Manager
- Developer
- Hybrid

# Direct Leasing

- Airport operator directly leases all concession units, either individually or in small groups
- Airport staff directly oversees and manages all elements of the program

# Direct Leasing

## ADVANTAGES

Airport maintains total control, including all decisions related to brands, operations, and program theming

Maximum flexibility to attract different types of brands

Can lead to higher airport revenue for the airport operator since there is no intermediary

## DISADVANTAGES

Requires highest staffing level of all management approaches

Airport staff may not have direct access to appropriate individuals to attract brands

Need to re-lease through competitive processes can be cumbersome

# Master Concessionaire

- One company operates all of the food and/or all of the retail concessions in the program



# Master Concessionaire

## ADVANTAGES

Minimum airport staff/labor involved

Typically offer highest percentage rent structure

One lease to manage and one point of contact for everything

## DISADVANTAGES

One portfolio of brands available

Typically requires longer lease term due to the significant investment made by the operator

No competition among operators

Less ability to stay current with customer preferences

# Multiple Prime Operators

- Leases are entered into with multiple prime operators, granting each of them the right to operate several units of a designated type

# Multiple Prime Operators

## ADVANTAGES

Encourages greater competition among operators

Greater access to brands through multiple portfolios

Ability to better match capabilities with operators

## DISADVANTAGES

Limited number of brands available (even within multiple portfolios)

Larger airport staff required to manage multiple leases

May require longer lease terms due to larger capital investments

# Fee Manager

- Airport operator outsources concession program leasing and management functions to a third-party
- Airport operator is responsible for concession program development and capital investment
- Fee manager does not operate any concessions

# Fee Manager

## ADVANTAGES

Less airport staff required than with direct leasing

Flexibility for fee manager to lease without using competitive solicitations

Fee managers often have a network of contacts with established brands

## DISADVANTAGES

Fee Manager's payment comes out of the airport revenue

Airport operator must provide capital investment

Some control must be relinquished to fee manager

Airport staff still required for certain management functions

Concepts/brands used can be repetitive (lack of local emphasis)

Increasingly leasing multiple units to industry operators

# Cost for Fee Manager

- Based on a sample of six fee manager deals currently in operation at U.S. airports, fee managers are retaining the following percentage of the rental revenue for their services:

**11.5% to 22%**

**(\$1.6 million to \$3.1 million per lease year)**

# Private Developer

- Airport operator outsources concession program development, leasing, and management to a third-party
- Developer invests in capital improvements
- Developer configures space, leases, and manages the program
- Developer does not operate any concessions

# Developer

## ADVANTAGES

Least amount of airport staff required among all approaches

Flexibility for developer to lease without using competitive solicitations

Developers often have property management experience

Developer assumes most or all of capital investment

Developers often have a network of contacts with established brands

## DISADVANTAGES

Developer retains a significant share of the revenue to cover costs of management, investment, and profit

Longer-term lease to allow developer to recoup large capital investment

Some control must be relinquished to developer

Known to overbuild program to generate small incremental sales – to detriment of existing tenants

Concepts/brands used are becoming repetitive (lack of local emphasis)

Increasingly leasing multiple units to industry operators



# Cost for Developer

- Based on a sample of eight developer deals currently in operation at U.S. airports, developers are retaining the following percentage of the rental revenue for their services to cover their management fees, investment, and return on their investment:

**35% to 65%**

# Hybrid

- Combination of management approaches
- Must be flexible and work within the parameters of each approach

# Hybrid

## ADVANTAGES

Can use aspects of various management approaches

Haven't put all of your "eggs in one basket"

Retain control over program and concepts

Revenue flows directly to the Authority

Can create multiple tenant opportunities, including some for small and local businesses

## DISADVANTAGES

Cannot necessarily choose the best of all approaches. Must address pros and cons of the various approaches.

Must have a large enough program to be able to split it up in this manner

# Top 30 Airports by Sales per Enplanement

Management Approach	Average Sales per Enpl.
Hybrid (10 airports)	\$10.10
Direct Leasing (3)	\$9.65
Developer (4)	\$9.29
Fee Manager (3)	\$9.09
Multiple Primes (8)	\$8.98
Master Concessionaire (2)	\$8.80

*Source: Compiled by AirProjects, Inc. based on 2009 data from the ARN Fact Book and individual airport data (excludes duty free)*

**Baltimore-Washington International Airport  
Developer Management Approach**



## Seattle-Tacoma International Airport Hybrid Management Approach



# Minneapolis-St. Paul International Airport Multiple Primes Management Approach





**Indianapolis International Airport  
Direct Leasing Approach**





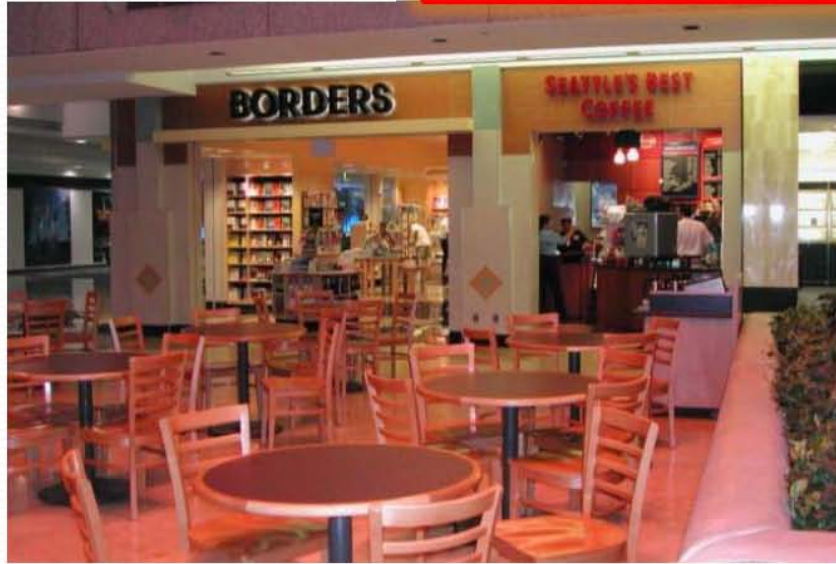


**John F. Kennedy International Airport  
Hybrid Management Approach – Terminal 5**



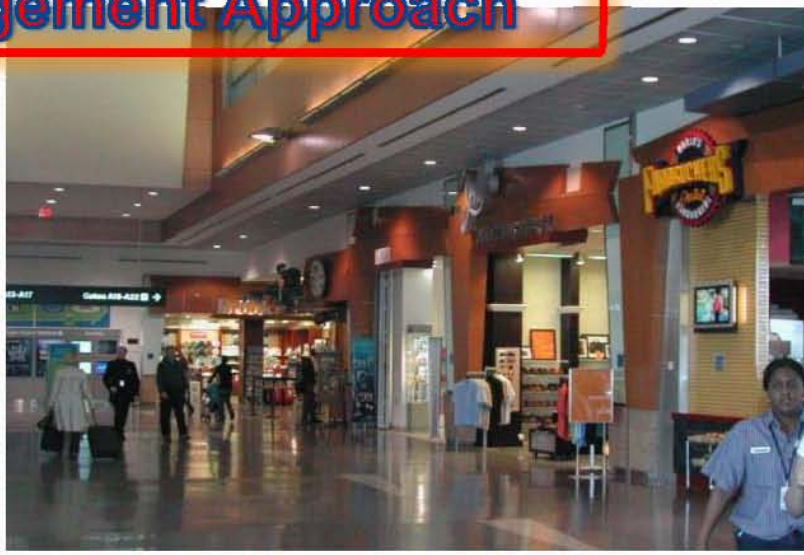


**Orlando International Airport  
Hybrid Management Approach**





**Boston-Logan International Airport  
Developer Management Approach**





**Newark Liberty International Airport  
Fee Manager Approach**

# Toronto Pearson International Airport Multiple Primes Management Approach



# George Bush Intercontinental Airport Fee Manager Approach – Terminal E



# Objectives

To create a “World-Class” Concession Program that will:

- Maximize Guest Satisfaction
- Optimize Non-Aviation Revenues
- Represent the Best of Local, Regional, National, and International Concepts/Brands
- Ensure a Diversity of Concepts
- Encourage Healthy Competition
- Create Opportunities for Local and DBE businesses

# Management Approach Rating Matrix

- Applied weights to each of the goals and objectives for the concession program
- Rated each management approach according to how well each contributed to the SDCRAA's realization of that particular goal or objective



# Management Approach Rating Matrix

Using the goals and objectives as the base, these are the criteria that were used and evaluated:

- Program Management Flexibility & Control to the Authority
- ACDBE Participation
- Optimum Variety of Best Concepts (Leasing and business plan that maximizes concepts not currently represented)
- Variety of Brands (Representation of Local, Regional, National, and International Brands)
- Ability to Stay Current (considers passenger profiles, hierarchy of spending, and flexibility for changes in passenger mix and reconcepting)
- Capital Investment Required by Airport Operator
- Encourage Healthy Competition
- Lease Term of Tenants
- Lower Staff Time Requirements for the Airport Operator
- Maximize Revenue to the Authority

# Rating Matrix

Results - ranked in order of most favorable to meet the goals and objectives of SDCRAA:

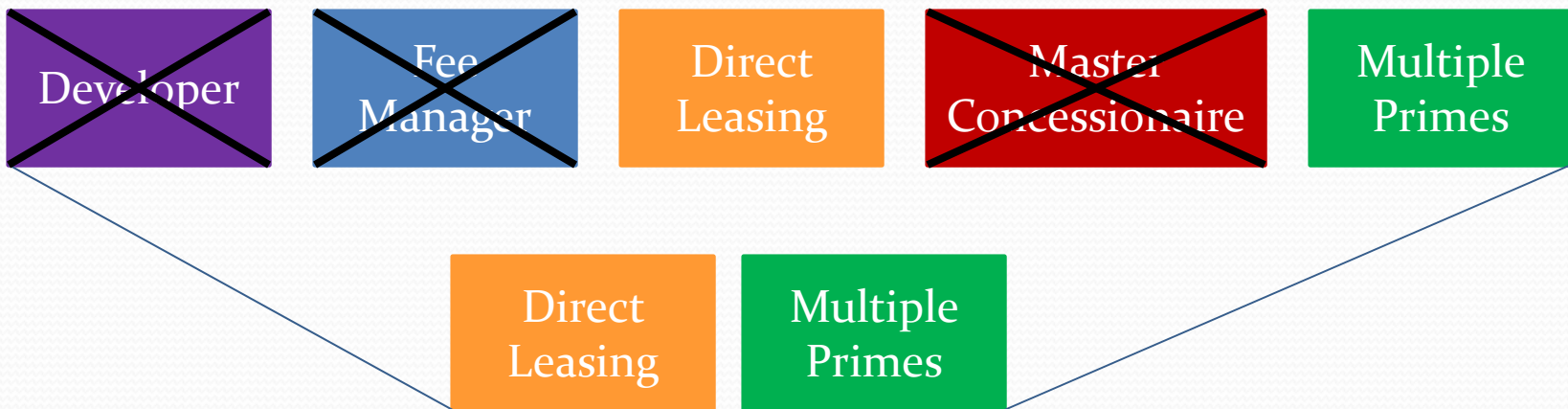
- 1) Multiple Prime
- 2) Direct Leasing
- 3) Fee Manager
- 4) Developer
- 5) Master Concessionaire

# CY 2020 Projections

<b>Management Approach</b>	<b>Net to SDCRAA</b>
Direct Leasing	\$13,322,000*
Multiple Primes	\$13,186,000*
Master Concessionaire	\$13,102,000*
Fee Manager	\$10,538,000*
Developer	\$10,102,000

\* Net to SDCRAA reflects SDCRAA debt service over a 10-year term.

# Shortlisting Process



- Delete Developer approach since the Authority does not require outside capital for concession development
- Delete Fee Manager approach, as it is more expensive than managing the program in-house and the Authority is willing to dedicate staff to concession management
- Delete Master Concessionaire approach as it rated poorly in several of the management criteria

# Refined Analysis

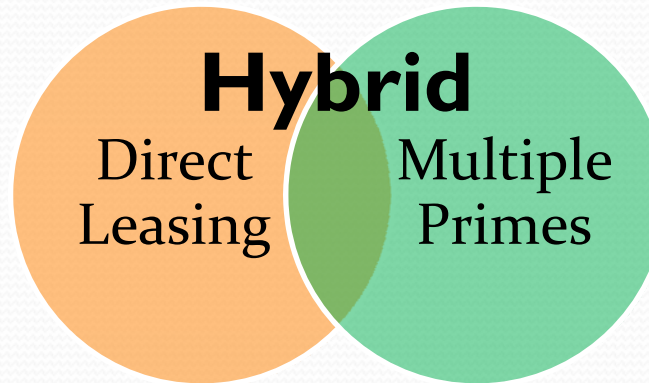
- **Side-by-Side Comparison of Shortlisted Approaches**

- Maximize Revenue to the Authority
- Airport Management Control
- ACDBE Participation
- Optimum Variety of Best Concepts
- Variety of Brands
- Ability to Stay Current
- Capital Investment Required by Authority
- Competition Among Concessionaires
- Lease Term of Tenants

- **Staff Involvement**





# Preferred Management Approach



- Flexibility
- Control
- Staff Time Requirement
- Revenue

# Implementation Needs

Activity	Status
Increase amount of tenant storage	
Initiate new community coordination	
Augment SDCRAA Staff	In-process
Expand internal SDCRAA support infrastructure	In-process
Enhance delivery/distribution facilities and systems	In-process

# Hybrid Approach: Packaging

- Groups of concession locations
- Various sizes to appeal to different sized operators
  - Varying capital requirements
  - Accommodates different portfolios
  - Allows scale economies to be realized in large packages
  - Encourages competition
- Equally accessible for small and/or regional businesses



# Hybrid Approach: Packaging

- Sample structure: Salt Lake City Retail RFP - 2010

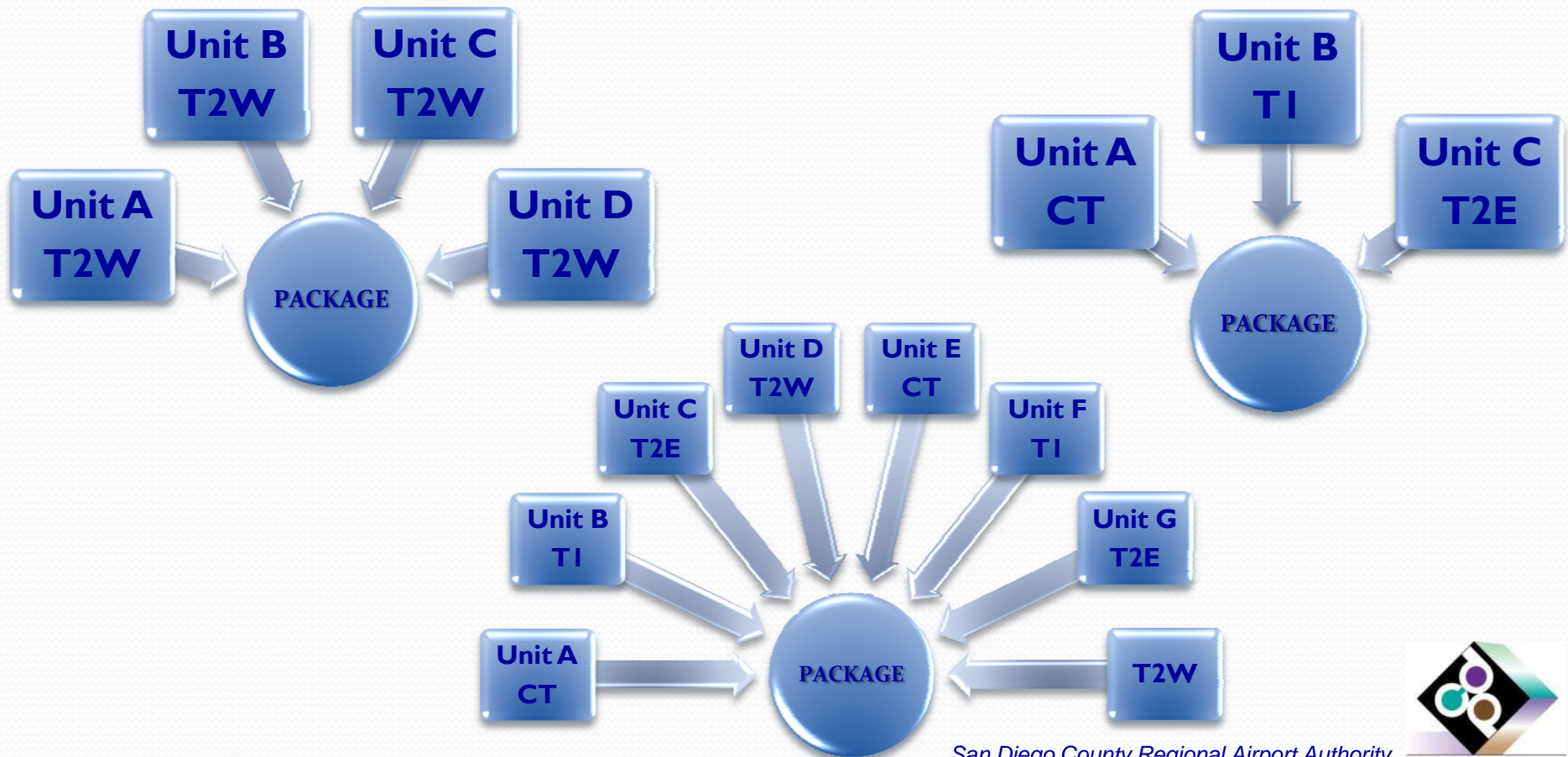
Package #	# of Locations	Size
1	15	14,099 sf
2	9	6,808 sf
3	4	2,327 sf
4	4	344 sf
5	1	341 sf
6	1	133 sf
7	1	278 sf
8	1	1,246 sf

# Hybrid Approach: Packaging

- What are the considerations for package sizing?
  - Population of potential providers
  - Program layout
  - Feasibility
  - Creating competition
- How will small businesses participate?
  - Solo (small packages)
  - Subtenant (larger packages)
  - Joint venture partners (variety of package sizes)

# Hybrid Approach: Packaging

The quantity and size of packages will vary for Food Service and Retail Concessions



Thank you.