Airport
Restaurant
& Retail
Association

ARRA Urges Airports to Waive Some Pricing Policies

The Airport Restaurant & Retail Association (ARRA) urges airports to relax concessions pricing policies in this period of high inflation in order to avoid a second financial crisis for airport restaurateurs and retailers. ARRA recommends airports:

- Waive contract restrictions on the frequency of price changes
- Waive contract approval requirements of price changes
- Adopt adaptive pricing that permits individual concessionaires to respond as necessary to cost pressures and market conditions

These modifications to contractual pricing rules will give concessionaires a measure of financial health – financial health that is threatened by the combination of cost inflation and restrictive pricing.

It's no secret that airport food & beverage and retail concessionaires suffered greatly in the pandemic. Fortunately, there has been a degree of recovery, but only in the past few weeks have some ARRA members enjoyed a few days of sales exceeding the same day in 2019. Yet there is still a lot to overcome from the past two years. In short, airport concessions — as well as much of the aviation ecosystem — are not recovered. Concessionaires face labor shortages, increasing labor costs, passenger volumes and sales still generally below 2019 levels, and increased debt obligations. Airport restaurateurs and retailers are now operating at breakeven cash flows at best. There is little slack for additional financial challenges. However, the rapidly increasing rate of inflation is just the additional financial challenge that threatens the industry's recovery. Once again, concessionaires face a financial crisis directly related to COVID.

Inflation is the most talked about current economic news. The headline Consumer Price Index (CPI) inflation rate reported for March by the U.S. Bureau of Labor Statistics was 8.5% over the past 12 months. This is the highest rate of inflation in 40+ years. Many factors contribute to price increases as the country recovers from the economic impacts of the COVID pandemic: labor shortages, commodities shortages, shipping shortages, truck shortages … the list goes on. Just one factor that seeps into all economic activity is energy: the energy cost index increased 11% in just one month; gasoline alone accounted for more than half of total inflation in March.

Everybody – consumers and businesses – must deal with inflation. Just as consumers see rising prices in their daily shopping, restaurants and stores face similar pressures. However, the magnitude of cost inflation for restaurateurs and retailers has been extraordinary, even exceeding consumer price inflation. Since March 2021, the Producer Price Index for food & alcohol wholesaling increased 10.2%; the index for merchant wholesalers of non-durable goods, 10.7%. Each of these is representative of the increases in costs of goods airport concessionaires (and all food service and retail businesses) are experiencing. Moreover, it is expected to continue: the U.S. Department of Agriculture forecasts key categories of food products to reach double-digit price increases through the remainder of 2022. And we haven't even mentioned labor!

With cost of goods as a percentage of sales ranging from 25% to 45% or more, cost inflation of this magnitude seriously squeezes concessionaire profit margins: anywhere from 250 to 500 basis points of profitability – a significant financial blow to a recovering business. Moreover, it is not always possible to simply increase prices to offset increasing costs. In the case of airport concessionaires, many airport concessions contracts include pricing restrictions of some sort. Pricing policies that tie prices to comparative street businesses are common. Also common – and actually more important during this time of rapid inflation – are contract restrictions on the frequency of price increases (irrespective of what is happening on the street), as well as airport-approval requirements. If "market basket" pricing is restricted to once or twice a year, then any cost increases between permitted price changes shrinks profits and is lost forever to the concessionaire – a loss that many cannot absorb during this stage of financial recovery from the pandemic.

There is an easy solution: allow individual concessionaires to independently manage their own prices in a manner that best fits their revenue and cost conditions. During this period of high cost inflation – which compounds the financial challenges concessionaires already face as fallout from the pandemic – ARRA urges airports to waive price change restrictions on concessionaires. Concessionaires want to make sales so consumers will provide a natural check on pricing. More adaptable pricing will allow concessionaires to mitigate the financial impact of inflation as they work their way out of the financial impacts of the pandemic. Adaptive pricing is a natural remedy to a critical problem. ARRA encourages airports to adopt adaptive pricing to support their concession partners during these economically challenging times.

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