ARRA Forum
Pivot Toward Recovery – A Conversation with Nick Crews

With Guest:
Nick Crews, Managing Partner and President/CEO, Crews Enterprises

Hosted By:
Andy Weddig, Executive Director, Airport Restaurant & Retail Association

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Andy: [00:00:00] Welcome to the ARRA Forum. I'm Andy Weddig, Executive Director of the Airport Restaurant and Retail Association.

Andy: [00:00:07] Earlier this summer, ACI-NA sponsored its annual Business of Airports conference. One of the many insightful panels was "pivoting best practices and concessions." The significant impacts of the Covid-19 pandemic and solid recovery that has followed together forced airport operators and airport concessionaires to pivot their strategies and operations to adapt to a rapidly changing landscape. This panel provided insights into their own experiences and best practices for advancing the airport concession industry through our post-pandemic recovery.

Andy: [00:00:45] Our guest today is one of the panelists, ARRA board member Nick Crews. Nick is Managing Partner and President/CEO of Crews Enterprises, a Los Angeles based concessionaire which operates 48 locations in four large hub airports. Welcome, Nick. Thank you for joining us.

Nick: [00:01:02] Thank you for this opportunity to speak with you today.

Andy: [00:01:04] I have to say, Nick, that you have quite an impressive resume. You are clearly one of our industry's young leaders. Second generation, at that, participant in the industry. Growing up in the companies your father founded, so you were learning from one of the best. Then in 2019, leading the acquisition of the family business, showing that there is a path to graduate from the ACDBE program and continue to grow and prosper. All seems perfect. All was going well. But for that little thing ... a pandemic-induced crash in our industry. As you put it during the conference presentation, "the world ended and so made it a little bit challenging."

Nick: [00:01:45] Absolutely.

Andy: [00:01:46] Today, I want to focus on your presentation at Business of Airports. In particular, your experience coming out of the pandemic and some best practices to help get through our ongoing recovery. So, let's just take a look at three key points of your presentation, financial and operational pressures you now face, and close with some lessons learned.

Andy: [00:02:08] So one of the pressures you noted was inflationary pressures. Tell us a little bit about what you're seeing. Where do you see it? What's its magnitude?

Nick: [00:02:18] In our portfolio, we operate both food and beverage and retail locations. The magnitude is ranged based off of the operations. It's anywhere from 10 to 20%. I think on average it's about 10%. In our food and beverage locations, our non-alcoholic [beverages] (or NA Bev, we've seen 9.7% increase in cost compared to 2019. Our food costs are also up on average 7% across the board. But depending on if there are shortages -- I think everyone in grocery stores saw the shortages of eggs and so egg prices went up significantly. So, you can see one item go up as high as 20%, and then it kind of blends out on average. So average food is up about 7%. Our beer costs are even up: our beer costs are up 5.5%. On the retail side where we operate newsstands and travel essential locations, we're seeing retail food -- your candy, gum, mints -- those are even up 5.5%. And so that creates challenges, obviously, because we are one of the only groups within the airport where our pricing is capped, depending on the airport. So, these costs go up our prices can only go up so much to actually counteract this cost impact. So, it's been a challenge. But we're trying to work through it and, you know, I think some of the areas which we'll talk about later is, how do you flex your menus to be able to account for these cost increase? How do you potentially add combos so that you're pushing those higher margin items that you can still keep that profitability? But overall, compared to 2019, inflationary pressures are continuing, and I truly don't see them relaxing.

Andy: [00:03:59] So, if you’re in the food business, cost of goods is somewhere in the neighborhood of 30%, maybe a little less, maybe a little more, depending on the concept. And you’ve been seeing, you said, 10 to 20% increases on average.

Nick: [00:04:15] 10% on average across the board. But certain items could be up as high as 20%.

Andy: [00:04:20] So that’s 3 to 4 percentage points on the bottom, which we also noted you can’t recover because of the price restrictions, pricing caps.

Nick: [00:04:31] And to compound that further, traffic is still down. Although airports are recovering, sales still aren’t quite at 2019 levels. So, when your sales are lower, but you still have those higher costs coming in, it does really impact the bottom line.

Andy: [00:04:48] So that’s interesting because that is, of course, one of the things that our airport partners will point to is that the traffic is back, so we must be doing well. But you’re saying the sales aren’t back?

Nick: [00:05:03] Well ... you know. You’ve seen one airport; you’ve seen one airport. Our favorite line, right? So, every airport is different. Every terminal is different. Every airline is different. Some terminals, we are up over 2019, depending on the airline. Others, we’re not. With a specific carrier -- I won’t say their name -- we’re still seeing 23% traffic declines from 2019, which is a huge impact to our top line sales and our overall profitability and carrying costs.

Andy: [00:05:29] You have a substantial part of your business in Los Angeles, which of course has a substantial international component that hasn't returned completely yet.

Nick: [00:05:40] We don't have a lot of international terminal exposure at LAX, but that still has impacted a lot of our concession partners and competitors.

Andy: [00:05:51] And you may not have direct international exposure, but LAX is also a connecting hub. So, people might arrive at Tom Bradley Terminal, but they're leaving from a different terminal where you are. So, it's the connecting piece perhaps that you're not seeing.

Nick: [00:06:09] This is very true. And also, just to talk about cost impacts, there are other challenges that are occurring in airports. So, I talked about the NA Bev. In certain markets, airports are requiring no more plastic bottles. So, then you're having to go to aluminum and glass. Those costs are already higher than your previous cost for a plastic bottle. So, imagine those increases on top of the inflationary pressures. It's kind of compounding. And when you're a mid-sized company -- which we consider ourselves in this industry -- our buying power is not as strong. And you can't spread these costs -- maybe in one market where you're having these additional challenges -- across other markets where there aren't those same challenges as far as cost impacts. So, it truly is a challenge. You got to continuously flex your business and work with your team to try to adjust. And your airport partners.

Andy: [00:06:57] And your airport partners. Because street pricing policies – based on the street that has plastic bottles.

Nick: [00:07:05] Exactly. Or just a broader range. You can have plastic, you can have the aluminum, you can have glass. When you have that, you have the variable pricing. But obviously, they're going to probably merchandise more of their higher margin items in the front where we don't have that same flexibility.

Andy: [00:07:20] That's an interesting one.

Andy: [00:07:22] So you mentioned working with the crew and changing some menus perhaps, but what other kind of pivot strategies did you develop to survive the pandemic and now come out of it?

Nick: [00:07:33] Some of our pivots occurred not just to adjust for the inflationary pressures, but also for the labor pressures. Talked about this in the presentation -- it's operational models. Our leases say that we have to be open 30 minutes before the first flight and remain open 'til 30 minutes after the last flight, or 30 minutes prior to the last flight departing. So how do you still meet your lease requirements when there aren't as many passengers going out in that morning period? Not have all these carrying costs in your location with your team members there [in a] fully staffed casual dining location. So, we started to work with our airport partners to maybe just have a large, robust grab and go section open. That means bringing in only one team member in the morning. Limiting the menu so we're not having our full breadth of menu. We're having, you know, your grab and go burrito, breakfast croissant, pastries, coffee ready to go. And we're able to then meet our lease requirements but not have all this labor and pushing higher margin items for that morning period when there's less traffic. And then as traffic builds, start to open the full restaurant. So that was one big thing.

Nick: [00:08:42] Also, like I said earlier, the combos are big because that drives your average check up. But even re-engineering our menus: so, some of those higher margin items, pushing them so that they'd be more visible at the top part of the menu. People are potentially ordering those because people order with their eyes, adding those images there. Adding table toppers with high margin beverages in a full-service restaurant to try and drive those items where we're going to be able to get that better margin. It doesn't always work, but you got to consistently tweak and try different things to improve your profitability and drive sales.

Andy: [00:09:19] So you did a nice segue there into our next topic, which is labor pressures. What are you seeing there? There's obviously two components to that. One is the availability of labor … of associates, crew members. There's also the cost of those wages and then how that trickles through to the rest of the team.

Nick: [00:09:41] Absolutely. There's, just on shortages, I think during the pandemic in hospitality in general, I think we've all seen people leave the industry. So, airports -- specifically hospitality -- it creates more challenges because it's not easy to come to the airport to work. It adds an additional hour on the front end of your day to park off site and come in and then also hour on the back end to be transported out the airport to get to your car or back home. So that also made it a challenge for us.

Nick: [00:10:15] During the pandemic, I think the gig economy and Amazon and other delivery companies started raising their wages because they were having such a drive in demand in their business. And that started pushing the wages up, started driving people out of the airport market and out of hospitality. So, one, we're having the shortages and not being able to get people to come back into the airports and work in the hospitality business. And then two, we're having to compete with the street side wages that are going up where historically airports, I believe, have always had wages that were slightly higher than the street. So that was able to attract people to that tougher environment, to come into that high-paced environment. Right? And so now we're having to compete with the street. It's driving our wages up. On average, depending on the market and depending on the position, we're seeing anywhere from 15 to 30% increases in wages. And we absolutely think everyone within our industry wants to pay a meaningful wage to our team members. But when you're seeing the inflationary pressures, when you are having the labor pressures of having shortages of team members and paying [these] higher wages, it's continuing to contract our bottom line.

Nick: [00:11:26] And that's just the hourly associates. If you're increasing your hourly team members' wages 15 to 30%, you cannot have a management staff and supervisor team that are making similar wages -- even though they're salaried -- to our hourly team members. So, then that drives the management and supervisory team wages up as well. So, it's having a true impact.

Andy: [00:11:50] Has the situation improved at all? Is labor more available? How far below where you would like to be are you in terms of hourly workers?

Nick: [00:12:03] It has improved. It still varies by position, right? So, I think the hardest positions that we have, to attract and retain are cooks and replenishers -- essentially stock team members for our retail stores. Those same people that would work in the retail stores as replenisher will go work at Amazon and make a similar wage. And have a little bit more flexibility, driving their trucks on the street side. Cooks as well -- you know, high-paced environments, it's hot in the kitchens. So those are challenging positions. We're still, I'd say, across the board in all of our markets, still probably 15% behind where we'd like to be as far as staffing. But then there's that constant turnover for people just kind of testing hospitality -- a younger demographic -- and then, I think, realizing that they don't want to be in this business.

Andy: [00:12:55] So how about capital? That was the third one that you mentioned during your presentation -- capital pressures. So, you are doing a lot of construction right now. What are you seeing in availability of materials? Obviously, there's shortages in the trades. There's a lot of competition from infrastructure projects, not just airports.

Nick: [00:13:17] Yeah. So, a lot of capital pressures. I would say -- just to give historical context -- I've been fortunate to be going on 15 plus years in this business and built out a significant number of restaurants, retail stores through my career. And just to give some context, my home city, Los Angeles, built out my first restaurant here in 2011 -- again, this varies depending on if it's full service or QSR, that's going to flex the numbers a little bit -- but 2011, we were building out $1,100 a square foot. 2014, we started building out at 1,500 to $1,700 a square foot. And now in 2023, we're building out QSR locations -- which obviously are slightly higher per square foot because of the density of the location -- we're building at 2,200 to $2,500 a square foot. So, you can see that trajectory of where the cost per square foot has gone. I can't say that our sales are increasing at that same pace. Obviously, they didn't during the pandemic. And even from the 2011 to 2023 period, I don't think they've increased at that same pace.

Nick: [00:14:31] Materials have become a little bit more available. I think beginning the pandemic, there was the supply chain crunch. But in order to get ahead of that, you have to place your orders significantly earlier in the process. I think previously we could get to 90% drawings and issue for construction, then start placing some of these equipment or longer lead time material orders. Now around 60% [drawings], we have to lock in a lot of the stuff and start placing orders just to make sure that we don't have any sourcing issues. We also making sure we're sourcing readily available items not from overseas [but] from local locations so that we don't have that same challenge. But if you think about it from a smaller company standpoint, mid-sized company standpoint, we are drawing down on capital for a project and you're having to draw down larger amounts in a sooner period, then you're starting to pay interest on that money that you're borrowing without having revenue coming in. So then, you have to build that into your pro forma and you're already starting at a loss. Some airports also require once you start construction, you're paying rent. That's a challenge.

Nick: [00:15:40] So this is just more cost going out and more cost to recoup, which then means over a 7- to-10-year contract, you're not potentially having your payback period until deep into the life of the contract. Where historically, when I first came in, the thought was if you had a ten-year contract, you pay off your Capex expense, between years three and five, and then you have a small mid-term reinvestment, and then you really start to see profits from your business. That is not necessarily occurring these days, especially with smaller businesses. [A] mid-sized company used to borrow at a rate plus Libor. Now the latest is the secured overnight financing rate or SOFR. The SOFR rate right now is 5.3%; compared to last year it was 2.28%; compared to the long-term average was 1.63%. So, if you have an interest rate -- call it 7 or 8% -- you're adding that on top of it, right? So, if you're at 8% for a mid-market company -- which is, pretty standard -- it was eight plus 2.28 last year. Now this year, you're at eight plus 5.3. That is a significant increase to your carrying cost and your interest cost. And you know, it's really just falling solely on the company.

Nick: [00:16:59] You got to really share this information. I really would like for my counterparts in the industry to open your P&Ls, share with your airport partners, because they won't know this information unless you really educate them and advise them on the challenges that we're having, and I think they'll likely be able to work with you. But it's a process.

Andy: [00:17:19] So, you've got another five points of interest roughly, and then you've got the whole interest on double the investment. And the length of lease terms has not doubled. And sales have not doubled, as you point out. And going along with that is the margin hasn't improved, [so] the money [isn't] there to pay these things. So, you're in a tough situation as a mid-sized company. And I imagine it's the same for every other mid-sized company and smaller company as well.

Nick: [00:17:52] Absolutely. But, you know, it's not all "doom and gloom." I do love this business. And I think we're going to figure it out. And as I said at the ACI [Business of Airports] Conference, the pandemic has created a lot more challenges in our business for companies, but it's created a partnership amongst all the participants that are in this industry. All the legs of the stool have had to come together and share information and work through this unprecedented situation. So, we got to keep that momentum going and not go back to our laurels of keeping the business model operating as it previously was. Everything has changed. It's time to reset and sharing this type of information because if we want to have airport concessionaires and operations that reflect the city, reflect the demographics of the people that are there, and the taste and flavor that's there, we have to have a robust, small- and medium-sized business operators and large operators in this industry. And the only way that we're going to do that is adjust this model overall or specifically for in-terminal concessions. And the only way that can occur is through consistent conversations of these challenges that we're having. Because I don't think that anyone in this industry wants to see a company fail or us to go back to the 1980s, 1990s airport concessions where it was very limited service and not these mini cities that reflect the larger city that they're in.

Andy: [00:19:21] That's well said. And I think we put a pin in it there. Because that is the story: the pressures are there, but people in the business love the business. And we just need to work together, build off of that experience, the partnerships that grew during the pandemic to keep this industry going in a way that we have all come to expect.

Nick: [00:19:50] Absolutely. There's only so many things that are in the company's control that you can manage. And there are a lot of things that are in the airport's control. And working together, I think we can figure this out.

Andy: [00:19:58] Nick, that was great. Very informative conversation with many insights for our audience. So, our guest today was Nick Crews, Managing Partner and President/CEO of Crews Enterprises. Thank you, Nick, for joining us on the ARRA Forum.

Andy: [00:20:14] And on behalf of ARRA, I thank all of you out there for watching, listening to, or reading the ARRA Forum today. Be sure to watch your email or follow us on LinkedIn for the next episode of ARRA Forum. I'm Andy Weddig. Thanks a lot and have a good day.