AXN Virtual Conference: Shaping Tomorrow's Airport Experience

The two-day (March2-3) AXN Passenger Experience Conference featured panels of airport directors/CEOs, major concessions companies, technology service providers discussing the challenges and the future for airport concessionaires and the airport industry.

AIRPORT DIRECTOR OUTLOOK

Panel:
Chelle Cameron, CEO, Philadelphia International Airport
Justin Erbacci, CEO, Los Angeles World Airports
Lance Lyttle, Managing Director, Seattle-Tacoma International Airport
Bryan Ryks, Executive Director and CEO, Minneapolis-St. Paul Metropolitan Airports Commission

The panel of airport directors and CEOs opened the AXN Passenger Experience Conference and discussed their efforts to manage through the pandemic and provide MAG and rent relief to airport concessionaires. Lance Lyttle, Managing Director, Seattle-Tacoma International Airport, Brian Ryks, Executive Director and CEO, Minneapolis-St. Paul Metropolitan Airport Commission, Justin Erbacci, LAWA CEO, and Chelle Cameron, CEO, Philadelphia International Airport all discussed the importance of airports assisting concessionaires and that the CARES Act and additional federal relief are very helpful to their ability to provide relief.

Justin Erbacci for Los Angeles World Airports said they responded quickly to the pandemic and put in initial MAG relief before there were any federal relief funds. He also provided assistance with refurbishment requirements and extended terms to allow more time to figure out what to do in the future. The current relief runs through the end of June, he said, and LAWA will need to do more to help concessionaires. "Federal money is a huge help and we couldn't do it all without it." All of the airport CEOs said they could not provide the level of relief to concessions without the CARES Act and most recent grants, and said they must have more federal assistance so they can continue to help concessionaires.

Lance Lyttle (Sea-Tac) said that without federal support Sea-Tac could not have provided the second phase of concessions relief, which was targeted to retail operators. Sea-Tac carried over about $45 million out of the total approximately $192 million they received, so they have some cushion to continue to provide relief until additional federal support is provided. He emphasized that while it is important for airports to help their concessions and airlines who are all suffering, it's just like the flight attendants tell you pre-flight "airports have to put their own oxygen mask on first" before they can assist their partners.

They all urged Congress to provide additional relief that is now being considered. All the panelists said it's important to eliminate MAG during this pandemic and that even when air traffic returns MAGs should probably be a thing of the past. "Without concessions, your passengers are walking through empty terminals," he said. "If we ever get back to 2019 levels, then we will need to revisit the arrangement with concessions. I see no reason not to just charge percentage rents for now." He said concessions agreements need to be restructured and SeaTac will look at MAGs again; he might consider no MAG for the first year after recovery, and possibly start some type of MAG in the second year. Cameron (PHL) said it's more appropriate to just charge percentage rents. The other panelists echoed that sentiment.

Brian Ryks (MSP) said the Metropolitan Airports Commission (MAC) provided an initial three months of relief, then another three months and then additional longer term relief, totaling $27 million in MAG and related relief in 2020, and a total of $120 million. MSP spent $88M in CARES Act grants in 2020 and carried over $33M. He noted that airlines pushed back on giving relief to concessionaires, but he has tried to persuade them that "we're all in it together." He is somewhat encouraged by seeing that 28,000 passengers are flying through MSP this week, the highest level since the pandemic started. About 55% of the 135 concessions are open.

He noted that MSP completely revamped their concessions program over the past four years and built flexibility into the concessions agreements, which has helped them adapt. Expanding locations for alcohol sales in the terminal and allowing concessions to flow outside their leasehold into public space for social distancing are some of the steps they've taken to help. Going forward, Brian argued for taking an incremental approach so we can "see how passenger behavior changes and how that influences concessions." LAWA and others said they are deploying more kiosks, 'pop-ups' and carts to respond to passenger needs.

They also touched on 'touchless' or 'frictionless' technology for digital ordering, payment and customer interaction, and how they are assessing and implementing these systems. While the move toward 'touchless technology' was happening before the pandemic, the crisis has accelerated the need to promote passenger safety and confidence. Cameron said "the goal is to give travelers more control over their journey. But we also need to serve those who are less comfortable with technology." Ryks agreed that it's about how much control the passenger wants. "Passengers need to know they'll have a consistently safe travel experience no matter which airport they are using, whether connecting or nonstop." LAWA plans to include retail and duty-free in digital ordering and delivery.

Cameron discussed PHL's 'At Your Gate' delivery service and said last week they rolled out a touchless delivery robot for testing. Ryks also said that 'grab-and-go' and 'at your gate' service is popular and having positive results, as well as pre-booked parking reservations. Sea-Tac introduced pre-book parking last year with good results. Lyttle said they will conduct a pilot program with TSA on virtual queuing for travelers to help reduce long lines they have experienced over holidays and summer travel periods. Rather than standing in long lines, passengers would be notified of a specific time to arrive at the security checkpoint.

Cameron noted that because there is more leisure traffic than business, concessions are a little different. She said we have to 'rebalance' concessions in the long run. About 50% of the concessions are open at PHL. They were very deliberate about closings and reopening, and focused

on ACDBEs to make sure they can recover. Justin Erbacci noted that a lot of restaurants at LAX are still closed due to health department and government restrictions.
The other speakers also commented on the importance of looking out for their ACDBE partners and special efforts they have made even before but especially during the pandemic. They agreed that airports should consider how they can help ACDBEs with their financing needs. Lance noted that "if ACDBEs go out of business, they won't come back."

The panelists also discussed the future of biometrics and said it is critical to have standardization and a single global system for passenger convenience, confidence, security and privacy. They noted the idea of a 'health passport' that has been proposed for travelers is controversial and has many challenges and detractors.

They also discussed what they have done to create 'guest experience/customer service councils' and committees, to engage all stakeholders—airlines, TSA, concessions, airport employees and others—to assess and improve the customer experience and traveler demands. Better communication and education with travelers is also important at this time with so much disruption and uncertainty in the travel environment.

CONCESSIONAIRE ROUNDTABLE: FOOD & BEVERAGE

Panelists:
Carlos Bernal, CEO, Areas USA
Steve Johnson, President & CEO, HMSHost
Jamie Obletz, President, Travel, Delaware North
Michael Svagdis, CEO, SSP America

The CEOs all thanked their airport partners for helping concessionaires and providing MAG and rent relief. Steve Johnson, HMSHost, said "Without MAG relief we wouldn't be here." Without airports continuing to provide relief, he said he is not sure how many companies and ACDBEs will make it. While appreciative that Congress is providing relief, he said the recent federal relief--$800 million for airports and $200 million for concessions relief—was not enough: "We need more like $3 billion."

Areas' Carlos Bernal said federal relief is very helpful, but we also need to look long term at how we're going to plan and survive. He noted that the business model was broken before the pandemic, the pandemic just amplifies the challenges for the industry. "MAG shouldn't be there. We have to bear the burden and the risk. We should share the risk and the upside."
Jamie Obletz agreed: "The whole rent question has to be addressed. We needed to reexamine it before, and we need to now." He noted that after 9/11, a lot of MAGS were changed to fluctuate, or float based on enplanements. Johnson said MAGS have become very cumbersome. He advised having 'catastrophic enplanement' clauses, so for example, if enplanements dropped more than 20%, then MAG also dropped or converted to percentage rent. "If passengers drop, we can't control it. Our metrics won't work. If people don't show up, we can't afford to pay MAGS."

Svadig noted that while MAGs went up, it was compounded by other factors that have added to the cost burden on concessionaires—capital costs, then union issues, then pouring rights, and other added costs. The $15 minimum wage and labor demands all add incremental challenges.
Obletz said "We will have to better align our interests—airports and concessions. It's easy to say 'get rid of MAGs,' but what do we replace it with?" He expects to see more profit-sharing arrangements and tiered rent structures.

A 'variable rents' model would be his ideal model, Bernal said. "It's going to be very challenging to manage in the short term, and future is very cloudy."
Noting that every airport is different, Svadig said MAG is one part of it, but lease term extensions are also very important. And it will be based on the real estate at each airport, which is very different. There will be a number of factors for future agreements, and it will also depend on the real estate and values at each airport.

Johnson said true 'profit-sharing' agreements share the risk and the upside, and the parties also share the pain on the downside. The airports that have been most helpful have not only dropped MAG, but have cut percentage rents down to 5%. "Every day we operate, we're losing money. Nobody contemplated we'd lose money for a whole year." Obletz added that "the majority of the airports have 'done the right thing' by acknowledging our constraints and absolving us of our MAGs, and pausing or extending contract terms."

In response to a question from the moderator, Carol Ward, AXN, on whether the companies are prepared to respond to new RFPs since airports are still building and will have new concessions space to fill, Svadig said that after losing money for nearly one year, it will be difficult to commit to more. "It's a big decision to agree to a new deal with so much uncertainty." He said the decision for SSP will depend on how the RFP is structured and the lease terms and conditions: "We will be super cautious."

Bernal agreed it would be very challenging to bid on something without built-in flexibility. "If new space requires new concessions to be open on day one, that will be very difficult to do. We would need phasing of projects and openings, or a lot may not bid or if they do, it will become an issue in a year that will have to be dealt with."

All agreed it would be best to pause on RFPs for the time being. Johnson said he would prefer that there are no RPFs for a couple of years, unless there is a new terminal coming out of the ground. "We've all taken out a lot more debt to survive this pandemic," noting that responding to RFPs is very expensive: a 10-package store RFP can cost upwards of $250,000. Obletz agreed with the need for a moratorium on RFPs. Most have been related to new construction, he said, and "too many are still pushing and requiring high MAG and high fixed costs." He added "It's in both the airport's and concession's interests not to jump into a bad deal."

Regarding ACDBEs, the panelists noted that the pandemic circumstances are a major threat to the ACDBE program, and like the bigger companies, they're in survival mode. Michael Svagdis noted that many ACDBEs have loans and have to make payments; many put up their houses and personal assets for collateral. Bernal added: "We provide loans to help them pursue airport opportunities. Now we're not getting paid on those loans." Johnson concurred that ACDBEs simply don't have the money, so the larger companies are picking up the tab. He said not enough is being said about that and "we need to raise it as an issue." He would love to see the airports step up and provide financing for ACDBEs, commenting that they can afford it, they have the credit and they control the asset. "We and the airports need to come together to figure this out," Johnson said, "so we're not putting them in harm's way. It's a partnership issue we need to solve with the airports."

The panelists also agreed that as to reopenings, if concessions all open up at once with only 70% of the traffic they won't be able to make it. It will be a financial disaster they said. Obletz added: "We've all closed stores…we need to match supply and demand in each terminal. Now we have too much supply, not enough demand to open some space, and if you do, you'll cannabilize your other space." He said airports need to work with their concessionaires on what to do with the excess supply, how to repurpose space and turn back some space. "The supply-demand imbalance is going to be here for several years."

All agreed that they can't reopen everything nor keep operations open all day. Johnson summed it up by saying that there are a limited number of hours when you can be profitable. "On the 'street' steak houses don't open in the morning and breakfast places don't stay open all day. You can't stay open all day—there's a limited number of hours that you can be profitable." He added that some spaces shouldn't be reopened, particularly in pre-security and baggage claim areas.
They also cited labor as one of the biggest challenges to recovery, and the difficulty of bringing employees back into the airport environment and hiring new staff. The minimum wage issue was also cited, and could force more kiosks and automated services.

Johnson noted that HMSHost has about 9,000 associates now compared to approximately 32,000 pre-COVID, and is finding it difficult to hire 1,000 employees at present. He recited a number of adverse factors: badging, training, the environment of the airport with employee parking, shuttles, security check points and other constraints unique to the airport terminal. "It's not so much a pay issue, people are just not excited to go to work in an airport," he said. "Once we approve a restaurant opening—it takes about 5 weeks with everything that has to be done."

Svadig said employees are also worried about working in tight spaces and being exposed to COVID. His biggest concern is badging, which can add 4-5 weeks to the hiring process. "I am shocked how many former employees don't want to come back, and in fact found other jobs in other industries. All that retraining for new employees is a huge challenge for HR and operational teams. It can easily take 4-6 weeks to start up and train for a national brand."

Bernal noted that most are already paying $15 per hour, so if that becomes the new minimum, it will bring pressure to go even higher. He added that concessionaires cannot easily increase prices to compensate, given the current circumstance and airports control over pricing.
The most popular trends they said are 'Grab-and-Go', Quick Serve Restaurant (QSR) concepts, marketplace concepts with multiple food and beverage options, and expanding liquor sales throughout terminals. These were becoming the trend before the pandemic and are most popular

and here to stay. People don't want to linger around restaurants and bars, they want more 'grab-and-go'. Better directional signage to tell travelers what concessions are open and where they are located, and assistance from airport marketing and PR staff, would also be very helpful, they agreed. Bernal added: "The more the airports can collaborate with us the more we can make it a winning situation."

CONCESSIONAIRE ROUNDTABLE: RETAIL

Major retail concessions leaders followed with similar experiences, observations and recommendations.

Panel:
David Charles, President and COO, Marshall Retail Group
Raymond Kayal, Jr., President and CEO, NewsLink Management Group, LLC
Brian Quinn, Executive Vice President and Chief Operating Officer, Hudson
Gregg Paradies, President and CEO, Paradies Lagardere

Gregg Paradies opened the discussion by saying 2021 will be down about 40% for all retailers. He called it "a tale of two years," and said "I hope 2019 levels will return in 2024," he said, and "I believe optimistically it could be 2023, but pessimistically it maybe 2025." The biggest change he said is "much more leisure. We'll have to all do a better job of taking care of leisure passengers." He noted that the line between retail and F&B is blurring, and suggested the separation is antiquated. "I tell airports 'let's not worry about who's selling what, especially during a pandemic. The customer may only stop in one store—so let's let them buy what they want. Let us all compete to deliver what they want. It drives higher customer satisfaction and RPEs, and that's what we want."

Paradies also noted that with booming internet sales for specialty retail items, they may not be as popular anymore in an airport. But said they can still sell if packaged with other items the customer wants. The future of specialty retail is changing and brands are coming and going quickly. A common challenge cited by the panel is how to understand and respond to the consumer demands of younger travelers. Brian Quinn said Hudson is finding that some brands that previously refused to be intermixed with others in retail stores, are now more open to it, announcing that Sunglass Hut has agreed to go into 200 Hudson stores.

'Right-sizing' and 'right-concepting' the airport concessions program is the big challenge they all face in the months and years ahead, commented Raymond Kayal, NewsLink. And, Paradies added, doing it without having dark store fronts throughout the terminals. Ever the optimist he said: "In a couple years, we'll say 'wow, as hard as it was, it turned out much better. We need to all work together to take care of the customer."

The panelists expect that sales of technology items will continue doing very well, as they were before the pandemic, as well as local artisan and curated items, souvenirs, gifts and others. There will still be demand for local and national brands even though a lot of national brands are being purchased on-line. Even with more and more touchless transactions, they agree that it is even more important for sales associates to make have personal contact and a connection with customers. This helps build loyalty and improves service, and impulse buying. Kayal and Quinn agreed that one of the major benefits of technology is not to reduce staff, but to allow staff to be freed up to interact more with customers, to become 'story tellers' about the merchandise and brands. Paradies cautioned that you have to balance the application of technology: "How do you give young folks what they want at the same time you provide elderly travelers what they want?"

As to the future of MAGs, Kayal said "As an airport retailer, unlike street businesses, we have no ability to bring customers to us. If they don't come, there's nothing we can do. We've built our entire business around MAGs. And we've had to reinvest more and more money to stay afloat." He is optimistic that when customers come back, the sales will be there and percentage rents will be the driver.

Malls are a good indicator of what's happening in airport terminals, noted David Charles, Marshall Retail Group. Malls are having to reinvigorate themselves, and so do airport concessions. Both can learn lessons from the other.

Paradies emphasized that the key will be giving customers options and flexibility. One of the best models he's seen is the profit-sharing arrangement at the Charlotte International Airport. He described it as a '50-50', 'win-win.' It requires sharing profits and risks, he said, and openness and transparency regarding revenues, overhead expenses, and refurbishment decisions. Another risk sharing model is with MAG but based on passenger flow in a specific location or area of the concourse, rather than based on total passengers at the airport. Quinn added that term extensions are very important and probably the easiest thing airports can do. It's especially critical for ACDBEs who are tied to those terms, he added.

In addition to MAG abatement lease term extensions, they felt that airports can also help by blurring leased space lines, marketing flexibility, digital wayfinding, and flexibility on reopening. Kayal credited airports where NewLink operates for being innovative and open to ideas. Airports are doing a better job telling the story with concessions and airline partners about the health safety of airports.

The sentiment was that retail has recovered a little faster than dining, in part because restaurants have been closed down and there's been more 'grab and go.' Paradies believe it will be more hybrid in the future—"it won't just be F&B or retail, it'll be what drives revenues per enplanement (RPEs.)" Like the F&B panel, all agreed there should be a moratorium on RPFs for now, with some exceptions for new terminal expansions, and some refreshment investment that is necessary and helps boost sales.

Airport Restaurant & Retail Association

BEST PRACTICES IN TECHNOLOGY

Representatives of **Airport Dimensions, Servy (formerly Grab), JetBlue** and **Umbail Rodamco Westfield** discussed developments and trends in touchless, digital technology for customer ordering, grab-and-go, and gate delivery. **Jeff Livney, Co-Founder and Chief Experience Officer for Servy**, said the service now offers pick up or delivery through the 'At Your Gate' app. The growing use and popularity of QR codes for order and payment on mobile devices was also highlighted. He described the exciting robot delivery pilot that is being tested at Philadelphia and a couple other airports, which for now must be human-assisted. The next step will be to see if a totally autonomous robot can work in an airport environment, much as robots are used for cleaning at some airports.

Chris Gwilliam, Vice President, Business Development for Airport Dimensions discussed the company's evolution from Airport Lounges and said there needs to be a balance between digital and hospitality. Noting that people "don't understand the complexity of the airport space," he said the lack of available real estate has been the biggest impediment to lounges, but "COVID may have solved that problem."

Terminal space was a hot topic. With the possibility that existing space may not be needed for current, traditional concessions, they discussed new opportunities for certain types of concessions that have faced airport space obstacles, such as lounges, sleep spaces, health and wellness centers, personal work space, and e-sports lounges that are becoming more and more popular. Gwilliam, **Mike Salzman, Executive Vice President for Umbail Rodamco Westfield (URW)**, and **JetBlue's concessions program director Blake Halseide** all said they believe concessions and sales will come back, but it will evolve and some spaces may have to make way for emerging and non-traditional concessions and other types of services.

Halseide discussed the airline's efforts to enhance the traveler experience in this pandemic environment and the concessions programs JetBlue operates at JFK and LGA airports. He noted some airports have completely touchless check-in, bag tagging and gate boarding processes. They've added QR codes for menus and ordering and an interactive mobile web page to help travelers navigate in JFK T-5 and see what concessions are open and their locations, as well as provided improved digital signage for those less tech savvy.

He said the airline is beginning to adjust to recovery mode and trying to find ways to improve the customer experience in this 'new normal.' They are rolling out a mobile website and also looking at robotics, especially for specialty retail offerings like coffee and smoothies. JetBlue is trying to give the customer flexibility, he noted: "If they want to go straight to the gate, give them concessions there; but also encourage them to explore the terminal and concessions offerings and experiences."

Salzman said URW is focused every day on "how to drive 'friction' from the traveler's experience." He highlighted the *LAX Order Now* service powered by Grab and said they are also looking to create a loyalty program and connect with airline loyalty programs. He also draws on Westfield's mall experience and is "looking to bring mall concepts and innovations into the airport, and vice versa."