Retail Renaissance
Atlanta Airport RFP Earns Accolades

By Andrew Tellijohn

When Hartsfield-Jackson Atlanta International (ATL) set out to establish its new retail program, airport officials set a list of goals. Some, including a sense of place, DBE leadership and revenue growth, are standard to the industry. Others, including the push for innovation and world-class concepts, were taken to another level.

“We expected the best of the best concepts, very high-end and recognizable, international names to come to the program,” Concessions Director John Cugasi told attendees of the ARN 2009 Revenue Conference & Exhibition. “We were seeking some new concepts, some new services, things that would be the first of their kind given the size of this procurement.”

In doing so, airport officials built a hierarchy of needs and spent two years building and tweaking a request for proposals that has received a lot of industry accolades. The RFP covered nearly 70 stores, some of which are open and the rest of which are expected to do so by this summer.

Areas USA and Airport Retail Management won two big packages and three single operations for a total of 26 stores at Hartsfield-Jackson Atlanta International. Airport officials were drawn to a mix of domestic and international brands, as well as a combination of executives with decades of experience operating in airports across the country, including at ATL.

The airport offered five large packages and six individual stores. There were 82 proposals for 11 RFPS.

Miami-based Areas USA Inc. and its joint venture partner, Airport Retail Management, won two large packages and three individual stores for a total of 26 stores.

HSTA JV, led by Bethesda, Md.-based HMSHost Corp. and including its partners, Trans Air Concessions and Shellis Management Services, received two packages accounting for 26 stores.

Atlanta, Ga.-based The Paradies Shops, with joint venture partners Belinda Stubblefield and Nancy Cook, earned one large package and two single stores for a total of 13 stores; L’Occitane Airport Ventures received the final individual store.

“However you want to slice it, the market interest for any given package was very high,” Cugasi says in a separate interview. “And the quality of the proposals was extremely high. So we were very happy with that response.”

Several Unique Facets Of The RFP

Cugasi and a team of airport officials from concessions and other departments spent nearly three years working internally on the
process and researching how other airports had built their concessions programs. They traveled the country, looking at airports such as Portland International (PDX), Seattle-Tacoma International (SEA), Minneapolis-St. Paul International (MSP) and Phoenix Sky Harbor International (PHX), seeking best practices.

The end result was an RFP that ATL officials, industry consultants, concessionaires and other observers indicate contained several facets with the potential to change the way contracts are awarded in the future.

"We designed the program to attract the best and most players to the market," Cugasi says. "We did that very carefully. We did that in communication with the industry."

Among the features:

- Capped MAG: The airport didn’t want to set a prohibitively high rent, Cugasi says, because it ultimately leads to poor service and closed stores. But it wanted to ensure a competitive RFP allowing large and small companies to bid. So it capped the minimum annual guarantee instead.

 "We were wanting to ensure service levels and quality concepts were at the forefront," Cugasi says.

- Flexible store space: If ATL had a series of contiguous store spaces in one package, bidders had the flexibility to break up the square footage in whatever way they wanted.

- Seven-year terms with three-year options: Concessionaires will know after five years whether they are being renewed. If they are, they will have to plow significant resources into the remaining five years. If not, they still have to renovate but for less.

- Industry day: It’s not unusual for airports to have industry days. But ATL had a complete rough draft of the lease document on hand so anyone interested in the program could ask questions and offer critiques. The airport then took that feedback and made some changes.

**Winners Thrilled**

Areas and ARM officials were extremely satisfied with the process. The RFP was different in its focus on concepts, quality design and customer service instead of on maximizing financial gain, says Eduardo Uribe, Areas’ vice president of business development.

"The Atlanta airport understands that they can provide a better service to their passengers by bringing high-quality concessions that can focus on these things instead of having to cut corners to make their margins to be able to pay outrageous MAGs," he says. "In the long run, a quality concession program that is based on good designs, good products and good service translates to better numbers to all parties involved."

Uribe adds that he thinks the airport is "very happy with the result of this approach" and predicts that the result will be one of the best concessions programs in the country. Company officials say construction is progressing "very close to schedule" with several locations, including ALL ATL, Atlanta Today, Panda Veranda, Blackberry, Mori Luggage and Atlanta Daily World expected to open before press time.

HMSHost, in conjunction with Shellis Management and Trans Air, won two large store groupings. The concessions giant thought ATL did a nice job of inviting comments from everyone in the industry and then incorporating those comments into the final RFP.

"It would be great to see other airports evaluate this option when issuing an RFP," says Pat Banducci, senior vice president of
business development for HMSHost. "This approach led to a balance of concessions having something with appeal to almost every consumer and traveler."

HMSHost also thought it was good to create multiple packages within the RFP and to keep the large packages together — a strategy that allowed the company to create a "fashion avenue" consisting of Ermenegildo Zegna, Ferragamo and Bvlgari in a row.

"The ATL staff really took a look at the way they needed to merchandise the airport," Banducci says.

The Paradies Shops was glad to have won one big package and it supplemented that victory with two more individual locations, re-entering its hometown airport. The company is bringing some widely known brands such as New York Times Books & News and Brighton Collectibles, along with others that are unique, such as Centennial Park Travel Mart and the Georgia Aquarium.

"We think it was a well-run process, we think what’s happening will be a success and going forward we’re delighted we’re part of it," says Bruce Feuer, vice president of business development for Paradies. He indicated that the RFP process represents a significant step forward in how airport concessions programs will be dealt with going forward.

"More and more airports are looking to set or cap the MAGs and percentage in order to not have someone buying the contracts," he says. "The whole program loses its flair if you are only concerned about the financial part of it."

Companies that do so will be trying to make money while shirking on staffing, merchandising mix and other factors that hurt customer service.

"There’s only so many dollars, no matter what the volume is," Feuer says. "If you have an effective rent burden of a high percentage ... if you are bidding a minimum guarantee that is close to 25% or 30% effective rent, then other things have to give."

Non-Winner Thought Process Meant Progress

After the airport revealed its winning bids, concerns were briefly raised about the evaluation process. Nearly a year later, Stuart Holcombe, executive vice president of business development with HDS Retail North America, acknowledged being disappointed his company didn’t win.

But he was gracious in his comments, indicating that despite the result there were a lot of good things that came from the RFP. It provided an opportunity for small, independent operators to participate against primes. Setting the MAG cap, he adds, was great in that it took the focus off of rents and onto concepts.

"I think that, in essence, the process and the original intent of the way they laid this thing out was good," he says. "It’s all built around a model that will highlight the program itself. I believe that’s what’s critical to us as an industry."

Although the ATL procurement has been widely hailed as a step in the right direction toward a new way of doing business, some sources did raise a couple of questions. One industry official thought the RFP included some fantastic characteristics but said the evaluation process needed to be more transparent and "quantifiably validated."

Other officials expressed curiosity that Areas, which has a strong presence internationally but is quite small in the U.S., won two large packages and three individual stores. They wondered whether the company might have bitten off more than it could produce in winning 26 stores.

Cugasi defended the city’s choice. The proposal was a 51%-49% partnership, he says, between a billion-dollar company with experience in dozens and dozens of international markets and tremendous access to brands that they brought to the table at ATL.

"To say they are inexperienced is a false assumption," Cugasi says. "They are anything but inexperienced — they are highly experienced."

ARM is made up of five executives with experience in 25 major airports, including ATL.

"The team is being made out to be inexperienced when in reality they brought executives with tangible experience from Atlanta coupled with a company with access and experience on the international brand side," Cugasi says. "People are making these comments without really understanding the proposals. And we didn’t penalize somebody for being heavy international."
Industry Shifting Toward Flexibility

Kent Vanden Oever, associate director at Air Projects Inc., worked with ATL officials as a consultant during various points of the RFP project. He says he admires Cugasi's ability to get people on board with pursuing a different strategy for building the retail program, and he was impressed with how the focus turned from making money to providing a great experience for customers.

In addition to the capped MAGs, flexible store spaces and the different facets of the RFP itself, he complimented the airport's efforts to avoid confusion during the selection process. Vanden Oever, who was with HNTB Corp. at the time, personally went to Atlanta for a day to train the committee to make sure members understood the process. He also thought having the industry day in advance of the official RFP issuance was valuable because it allowed competitors to actually ask questions and provide feedback without worrying about violating a silence requirement.

"This was just a very public discussion between the airport and prospective proposers," he says. "There was some real frank discussion."

Walt Froman, senior manager of concessions marketing and operations at PDX, says he didn't follow the ATL RFP specifically, but he notes that some airports around the country are taking heed of concessionaire concerns about rigidity. PDX, for example, has never capped its MAG, but the airport does revisit its rent structure annually, setting rents at 80% of what a concessionaire paid the previous year.

PDX did so, he says, because the program is made up of many small operators that can't afford to be burdened by onerous rents.

"They're not a big national operator that can withstand a downturn," Froman says. The level of flexibility an airport can provide often depends on the support they have from the governing body and while there are no hard and fast rules it can't hurt to be open to new ways of doing business."

"It would depend on the nature of their program and what they want their program to be and present to passengers," he says.

What's Next

Store openings are about a month behind. Cugasi says that's due in part to an aggressive schedule and he expects to make up delays caused by inspections and other factors outside the airport's control during Phase Two.

Lather is one of a half-dozen personal care, health and beauty stores opening in ATL's new retail program. This store is operated by HMSHost Corp., which won two large packages for a total of 26 stores. Host will also create a boutique avenue at ATL, including the first free-standing Bulgari, Salvatore Ferragamo, Ermenegildo Zegna and Sean John stores offered in U.S. airports.

"That's just part of building a store in the airport," he says. The rest of the stores should be open sometime this summer. In the meantime, ATL has kept passengers happy with a substantial kiosk program.

"I'm not aware of any complaints with travelers being unable to get their most favorite items, whether that be a magazine or a bottle of water," Cugasi says. "We've been able to keep stock on all key items."

Additionally, work has already begun on an RFP for the airport's food and beverage program. That program expires in 2012. Cugasi says he expects an RFP to be on the street in 2010.

We'd like to hear your opinion about this article. Please direct all correspondence to Andrew Tellijohn at andrew@airportrevenueneWS.com.