Standards Provisions Inspire, Enforce Quality

By Evonn Gibbs

If the original draft of a concession contract looks anything like the final after it comes out of legal review, Susan and O.B. Schooley celebrate. In fact, the comparison has become "kind of a sport" for the couple, who are both principal consultants with **SI Partners**, based in Yorba Linda, Calif.

"Many years ago, we wrote a short, two-sentence contract provision that was given to an attorney for review who sent it back stating he had made the two sentences into one," says O.B. Schooley. The sentence was a page long. "We thought he was making a joke, but found out later he had no sense of humor."

Whereas the giggle factor in concession contracts is rare, quality standards provisions can resemble one-liners beginning, "Thou shalt not." But consultants who help airports write the clauses say punishment is not the point, and effective standards result from collaborative efforts.

Andrew Weddig, senior vice president of **Unison Consulting Inc.**, based in Chicago, Ill., notes there is a lot for airports to consider in deciding whether to add performance standards to contracts and how they should be enforced, he says.

"It's [deciding] when you do it and how you negotiate something that everyone can agree to at the front end. You're not going to get it out of just imposing it," says Weddig. "Over the last five or six years, we've been involved with about 14 or so RFP processes where this would have come up. … I can think of five where it has been introduced. In other places it hasn't been adopted yet because it involves changes to the boiler plate."

Because of that, a standards provision needs to be brought in at the beginning as part of the overall concessions planning to make sure it's supportable, says Weddig.

"The building has to support it to some degree, too. If you don't have storage, then you've got issues with delivery and restocking," he says.

Other considerations are management and staffing, he says, and how to go about monitoring and enforcing provisions.

"There's also resistance from concessionaires, and their main concern is that the standards not be arbitrary and be objective as opposed to subjective, and that the fine, the damages, are consistent with the infraction.

"For example, one airport has recently talked about essentially refunding the entire purchase price if it took too long to be served, which is a noble idea but it's also very difficult to implement and it's also particularly onerous," says Weddig. It's difficult to monitor too, he adds, and concessionaires want to be sure it's done "in a way that if two people were monitoring it, generally they would come to the same conclusion. They also typically want some form of grace, a cure period or some kind of warning," he says.

Moderate Penalties Beat Termination

Penalty and enforcement provisions evolved from a need to minimize potential revenue loss to airports from things done or left undone that interfered with the overall quality of a food and retail program, explains Weddig.

Unison began writing provisions that address performance standards and service quality in food and beverage and retail contracts seven years ago when consulting on the McNamara Terminal at **Detroit Metropolitan Wayne County** (DTW), he says.

"Since that time, we've generally been including performance standards inside our draft leases that we include with our RFPs that we negotiate directly on behalf of the airport," he says.

Before standards were introduced, says Weddig, if an operator didn't open its store on time, didn't staff it appropriately thus causing long lines or consistently ran out of inventory, the airport's only options were "pleading with the tenant, cajoling the tenant to start performing better or just defaulting them."

"So you had essentially either no stick, or a very big stick, neither of which was appropriate for this situation," says Weddig. "In the last few years, fines of between $100 and $1,000 per incident that can be assessed by the airport started coming out, sometimes after just a warning."

Echoing other consultants, O.B. Schooley says, "The fact is that most concessionaires are as concerned about the quality of concessions as the airport and only need to be made aware of the problem and allowed to work out a cost-effective solution."

Instead of fines, some airports such as **Portland International** (PDX) offer awards, he notes, but often the only incentive needed is healthy competition.

"It's best for airports not to give any exclusive agreements of any kind for anyone, and no right of first refusal," he says. "These speak to quality because where airports benefit is by having competition. There's nothing better than one vendor looking at another vendor's store and trying to outdo them."

Provisions Address Multiple Needs

Written operating standards and management policies can address issues such as when and how to receive and stock goods so it doesn't disrupt customer service, says Weddig. There are issues of cleanliness, trash disposal, maintenance, staffing levels and how long people should be allowed to wait to get served, he adds.

"There are all sorts of little things that may not be visible to the passenger, but start to affect airport operations or start to affect customer service levels," he says.

Consultant Ann Ferraguto, principal of **AirProjects Inc.**, based in Alexandria, Va., describes how a few of her airport clients resolve some of those issues,

"We have included sanctions in the lease for non-performance in several areas, including operating hours, service standards, employee standards, pricing and quality, sanitation and cleanliness," she says. "In some cases, the first violation does not warrant a sanction. Thereafter, in most cases, the amount of the sanction increases with frequency to act as a deterrent to future violations. These sanctions were added to leases in **Spokane International** (GEG), **Dane County Regional** (MSN) and **John F. Kennedy International's** (JFK) **jetBlue** Terminal."

RIGHT: *Andrew Weddig, senior vice president with Unison Consulting Inc., says a standards provision needs to be included in the overall concessions planning process.*

FAR RIGHT: *Susan and O.B. Schooley are principals of SI Partners Inc., an aviation and airport consulting firm.*

Frequent Checks, A Valuable Tool

Whether spelled out in provisions or not, there are some practices that concessions experts agree are vital to maintaining top-notch operations. Mark Knight, president of **BAA USA Inc.**, based in Pittsburgh, Pa., and Ferraguto both emphasize the value of written tenant design guidelines and daily concessions visits to check for cleanliness, inventory, and violations of lease lines, delivery, trash, signage and staffing.

"Staying on top of things is one of the best ways to ensure quality," says Ferraguto.

Susan Schooley agrees. "In other words, you can have elaborate mandated maintenance provisions in the contracts, but unless the airport is inspecting on a regular basis, contract provisions alone will not keep the concessions clean."

A detailed maintenance schedule, to be signed off on by the airport, should also be developed for each unit, she notes, and fines should be assessed for non-compliance.

Globally, Quality Requires Partnership

Some of the newest approaches to ensuring quality in concessions can be found abroad, according to Lynn McDevitt, *BAA promotes flexibility in minimum investments by concessionaires, including at the new Terminal B AIRMALL at Boston Logan International.*

managing director with **Innova Aviation Consulting**, based in Bethesda, Md. Her European colleague, Johan Schölvinck, is senior airport economist with Innova Aviation Consulting LLC/NACO based in The Hague, The Netherlands. The companies are part of **DHV Group**, a global provider of transportation consulting and engineering services.

"**Singapore Changi International** (SIN) has a good working price guarantee program for retail and food and beverage," says Schölvinck. "It's called the Double Price Back Guarantee. The difference, if you find it cheaper elsewhere, is doubled.

"**SSP** [based in Surrey, U.K.] has introduced in food and beverage an environmental program at, and together with, **Hong Kong International** (HKG)," says Schölvinck. "It is called 'triple R': REDUCE (plastic takeaway bag reduction), RE-USE (cooking oil used as bio-diesel) and RECYCLE (recycled and bio-degradable napkins and packaging).

"**Amsterdam Airport Schiphol** (SPL), has had a master food and beverage concession since 1995 with HMSHost" Corp., says Schölvinck. The concession fee is linked to customer feedback. "If the feedback is better than expected, a fee reduction (bonus) comes in place. If worse, a fee increase. It seems to work well and ensures active joint management between concessionaire and airport," he says.

Schölvinck, whose global work gives him a broad perspective, says airports everywhere should have contract provisions.

The most common obstacle to operator compliance, he says, is that airports and retailers "don't have their noses in the same direction" and have their own margins to worry about.

"The airport is passive, has no commercial management; focuses on a minimum fee guarantee and/or too high a concession fee; and contract periods are too short for the retailer to earn a good return on its investment," says Schölvinck. "Because of this, the retailer focuses on maximizing the gross margin in a minimum of time. The result is high prices passed on to the customer. The end result is inferior volume and there are only losers. In this atmosphere, quality level provisions will not work."

The best solution for that, he says, is "true partnership," which provides "a joint focus of sales volume enlargement; a joint marketing fund (e.g. airport 50% and retailers 50%); an active retail-experienced commercial airport manager, or better, at board level; an open line between airport and retailers and at least monthly meetings to address issues and goals; smart contracts which share the upside and the downside of the business and reward both partners if they increase total volume."

"In this atmosphere, retailers will pursue compliance with quality contract provisions … because it is in their own interest," he says.

Licensee Oversight Ensures Local Quality

SI emphasizes planning for quality when balancing local with national brands.

"Probably the newest and one of the most effective clauses SI has been involved with is in the area of license agreements," says Susan Schooley. "It has been our experience that concessionaires operate national brands well, but aren't particularly good at translating local concepts into an airport environment.

"Therefore, SI has been requiring concessions operators not to just license a local concept name, but to consult with the owner and get them involved with the airport location to make sure the local concept stays special and true to its street location," she says.

Retailer Calls For Provisions Dialogue

Stuart Holcombe, executive vice president of business development at the New York, N.Y., office of **HDS Retail North America**, based in Toronto, says contracts best serve all parties when airports and concessionaires collaborate on standards requirements. Below, he gives a retailer's perspective on how that process might improve.

Stuart Holcombe, executive vice president of business development at the New York, N.Y., office of HDS Retail North America

"HDS Retail prides itself on working with each of our client airports to first understand what it is they want to accomplish and then discuss how to best achieve what is best operationally and financially reasonable.

"On occasions, we find ourselves complying with provisions that may not seem (at first) reasonable, but eventually we are able to work with the airport staff to achieve a better understanding and/or a compromise that is satisfactory to both parties. The key is to be willing and open to have an honest discussion about what works and what doesn't.

"The biggest challenge we have as an industry is the need to establish a standard and uniformity in which contract provisions would be implemented and monitored. … Consistent monitoring/implementation of policies and reasonable penalties should possibly be the subject of discussion at one of our numerous industry conferences.

"Though contract provisions aren't as critical as some of the issues we are faced with today, it is something we should include in our on-going dialogue to improve the 'partnership' between the concession operators and the airport in order to provide the airport visitor with the best possible experience."

LEFT: *Consultant Ann Ferraguto, principal of AirProjects Inc., says in order to keep operating standards and management policies in place, some of her airport clients include "sanctions in the lease for non-performance in several areas."*

RIGHT: *Johan Schölvinck, senior airport economist in The Hague, The Netherlands, with Innova Aviation Consulting LLC/NACO, says the biggest hurdle to operator compliance is that airports and retailers "don't have their noses in the same direction."*

SI writes clauses that require the airport's approval of license agreements to ensure the licensor has sufficient oversight over the licensee, she adds.

"Our goal is to make the local concept in the airport indistinguishable from the product produced in the local concept on the street," she says.

Numbers Are A Means, Not An End

Knight maintains that one key to the endurance of BAA's concession program at **Pittsburgh International** (PIT), now 16 years old, was the high standard set for materials and construction in initial build-outs. BAA applies that standard to all of its programs, he says, and any leases more than five years require mid-term refurbishment.

"At the newly rolled out development at Terminal B/Pier A at the AIRMALL® at **Boston Logan International** (BOS), for example," he says, "the minimum investment level for food and beverage units is $300 per sq. ft. The minimum investment level for retail in that area is $250 per sq. ft. The amount the tenants spend is supposed to be indicative of quality that both we and the airport are looking for."

Whether an airport runs its own concessions program, parcels it in bundles or has a master developer and manager run it, there is a lot at stake in keeping it up to high standards for the long haul.

When it comes to concession operators' investments on behalf of quality, Knight acknowledges that standards shouldn't be too rigid.

"Philosophically from BAA's standpoint, and especially in these times, we're not so hung up on the exact dollar amount of an investment. We're looking for a great-looking unit that stands the test of time. So if a tenant can get that look by spending a little less, we are perfectly happy with it.

"I think what should be new on that front," says Knight, "is a little bit more flexibility with that minimum investment number so that if a tenant is clever enough to design a store that's more efficient and still accomplishes everything we want to see, I think I would applaud him for that."

We'd like to hear your opinion about this article. Please direct all correspondence to Evonn Gibbs at evonn@airportrevenuenews.com.