Forbes.com

Special Report: Aviation

How Airports Profit From Your Wait

Joshua Zumbrun 06.03.08, 6:00 AM ET

In 2007, travelers lost 320 million hours to flight delays. This means the airlines are paying extra for crew, fuel and maintenance. Passengers are missing connecting flights, business meetings, dinner and hotel reservations. A May report from Congress' Joint Economic Committee put the total losses at $40 billion annually.

Everyone is frowning, except the vendors in the terminal.

In Pictures: Who Profits While You Wait?

In 1990, only about 30% of airport revenue came from retail, parking, concessions and other business partnerships. The majority of revenue came from charges to the airlines: landing charges, passenger and cargo fees, security and hangar charges, and others.

In recent years, however, the portion of revenue coming from non-aeronautical sources has risen to 50%, and at larger airports as high as 60%. An International Civil Aviation Authority study released in September of 53 North American airports found that in 2005, a year in which the airlines lost $10 billion, the airports earned $2 billion. Only five airports failed to turn a profit.

The top 50 North American airports had $4.6 billion in sales, according to the 2007 edition of *Airport Revenue News*' annual Fact Book. The largest airports by sales volume, Atlanta and Chicago, each do nearly $300 million a year.

Ultimately, the airports don't want the delays, says Pauline Armbrust, the president of Armbrust Aviation Group, which publishes *Airport Revenue News*. "They need the repeat traffic. Airports don't want delays because it makes people too unhappy," says Armbrust. "But the concessionaires do benefit."

Nobody blames Starbucks when their flight is delayed; in fact, they'll likely buy a latte while they wait. What else is there to do?

"They can see big spikes in their sales when there are delays," says Armbrust.

The concessionaire industry is largely privately owned. Four of the five largest companies are private: the Paradies Shops, Hudson Group, Delaware North Companies and SSP America; the fifth, HMSHost, is owned by the publicly traded Italian firm Autogrill. These firms develop proposals for space in airports around the country and then assemble the shops, restaurants and other services in the space.

The companies mostly began as local businesses bidding for space from local airport authorities, growing with the industry and never seeing a benefit from going public. The Paradies Shops, a family-owned firm in Atlanta, claims 48 consecutive years of profitability and growth. Paradies started with a single toy shop at the Atlanta airport and gradually expanded to over 500 stores in 65 airports today. It operates CNBC-themed newsstands, Atlantic Coast Conference, Big 10 and Big 12 merchandise shops; and *New York Times*-themed booksellers.

And prospects are looking better and better. Ever-increasing traffic at U.S. airports--the Federal Aviation Administration projects the number of U.S. travelers growing 2.7% per year through 2025--has led to a proliferation of services. The picture is one of increased passengers experiencing increased delay times, longer time spent waiting for flights after clearing security (an unintended consequence of the post-Sept. 11, 2001, policy of telling passengers to arrive at flights two hours before takeoff), and policies at many airports to keep prices in the terminal from differing too much from those on the street. Travelers find themselves essentially locked into a shopping mall.

As passengers become more accustomed to shopping in airports, the offerings have gone increasingly upscale and diverse, says Ann Ferraguto, a principal of AirProjects, a retail consulting firm specializing in airports.

A study from Airports Council International found that 26% of airports have DVD rentals ("Due to a maintenance problem, your flight has been delayed three hours, care to rent the *Transformers* movie?"), 48% have children's play areas, 11% have videogame stations, 28% have live music, 34% have massage services and 17% have nail salons.

For example, one of the largest concessionaires, SSP, owned by a Swedish private equity firm, announced a deal with the Palm to put five-star steakhouses in airports. Can a first-class business traveler with a two-hour layover (uh-oh, runway congestion, make that three hours) really be expected to content himself with boneless buffalo wings at Chili's Too?

"We typically look at things on a per-passenger basis," says Ferraguto. Over the past decade, "on a per-passenger basis we have seen sales grow by as much as 25% to 50%," she says.

As much as the concessionaires may benefit from passengers being trapped, like Tom Hanks in *The Terminal*, in the long run, their fate is tied to aviation as a whole. If oil prices continue to rise and people stop flying because they can't afford to buy tickets, nobody wins. But in the meantime, while you wait, looks like Hudson News has the new issue of *Forbes*. Why not grab a copy?

In Pictures: Who Profits While You Wait?