

# Unique Aspects of Operating in an Airport

# Operating a Business in an Airport . . .

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It's nothing like operating  
your business on the  
street!

# Operating Days and Hours

- ALL food and beverage units must be open **7 days per week, 365 days per year**
  - No closures for holidays
- Operating hours can start as early as **3:30 am - 4:00 am**
  - Units must be open 90 minutes prior to the first departing flight in the morning
- Units **stay open** until the last flight leaves from the terminal, no matter the hour
- Units may have to **stay open** late due to flight delays caused by weather, aircraft mechanical, etc.

# Passengers

- Departing passengers (enplaning passengers) are the operators' customers
- Arrive at airport 60 to 90 minutes before departing flight
- Airports are stressful to most passengers – passengers prefer to dine and shop once through security screening
- Majority of concessions are located post-security

# Passenger Preferences

## What They Look For

- Variety of dining options
  - Full service dining
  - Quick serve/Fast casual
  - Grab and go
- Quick and efficient service
- Tech-savvy operators; online ordering capabilities
- To-go containers - environmentally friendly, easy to carry-on flight
- Price/value – passengers still believe they are being over-charged at airports

# Passenger Preferences

## Types of Food and Beverages

- Variety of food options
  - Sandwiches
  - Salads
  - Burgers
  - Healthy and vegan
  - Ethnic Foods
- Variety of Beverage options
  - Bottled water
  - Coffee
  - Juices, vitamin water, energy drinks, sodas, and other non-alcoholic beverages
  - Craft beers and whiskeys, wine
  - Other alcoholic drinks

Note: Alcoholic beverages in open containers must be consumed on-premises where purchased, and can not consumed in other areas of the terminal or taken on-board a flight.

# Employees

- All employees must be badged and go through a 10-year FBI background check
- Employees park in designated lots/spaces, not at the terminal
- On-going staffing considerations
  - Early morning and late evening shifts
  - Peak periods during the day
  - Seasonal fluctuations
  - Receiving and stocking inventory
- Training and management programs
- There should be sufficient employees on-call at all times for emergency situations
  - Add staff during flight delays
  - Relieve staff during emergency situations
  - Replenish stock

# Employee Retention and Labor Peace Assurance

- Operator required to offer employment to employees of the prior tenant for a period of 90 days – Airport’s Worker Retention Policy
- In order to submit a Proposal, the Proposer must return and sign the Proposal Form which contains the following:
  - “Proposer acknowledges and agrees that it will comply with the Labor Peace Assurance provision of the Space/Use Permit as required by Board Resolution No 17-35 and acknowledges that if selected, it must enter into a labor peace agreement within 30 days of a request by a labor organization prior to signing the Space/Use Permit.”



# Use of Space

- Units are small, little room for storage and support functions
- Limited space at the Airport for storage and support, tenants will be charged a fee
- May require space off-airport
- Logistics Plan – replenishing inventory on a daily basis and during emergencies

# Financial Considerations – Proposed Rent

Rent is the greater of:

- Minimum Annual Guarantee (MAG), or
- Percentage rent

## MAG is established by OAK based on size of unit

For example, a unit 1,000 SF in size would have a MAG of \$200,000 (1,000 SF x \$200/SF)

## Percentage Rent established by OAK

Food and Non-Alcoholic Beverages = 13% of Gross Sales

Alcoholic Beverages = 16% of Gross Sales

# Financial Considerations

## Example of Rent Calculation

### Assume:

Lease Space = 1,000 square feet (SF)

Gross Sales = \$1,750,000

Food and Non-Alcoholic Beverages = \$1,400,000

Alcoholic Beverages = \$350,000

### Operator Pays Greater of MAG or Percentage Rent:

**MAG = \$200,000**

$\$200/\text{SF} \times 1,000 \text{ SF} = \$200,000$

**Percentage Rent = \$214,000**

$\$1,400,000 \times 13\% = \$182,000$

$\$200,000 \times 16\% = \$32,000$

**Operator's Annual Rent Payment = \$214,000**

# Financial Considerations (cont'd)

## Proposed Marketing Fee and Capital Investment

- Marketing Fee = 0.5% of Gross Sales
  - Gross Sales = \$1,750,000 \* 0.5% or **\$8,750 Marketing Fee**
- Capital Investment: Minimum \$450 per square foot
  - 1,000 SF would require an initial minimum investment of **\$450,000**
- Mid-Term Capital Investment = \$150/SF
  - 1,000 SF would require a minimum investment of **\$150,000** in Year 5

# Financial Considerations (cont'd)

- Performance Deposit in the form of a Cashier's Check or Letter of Credit (LOC) = **Six Months MAG**  
Example: MAG for 1,500 SF = \$200,000  
Performance deposit = \$200,000 x 50% = \$100,000
- Proposal Deposit in the form of a Cashier's Check - **\$50,000 per package**

# Develop Business Plan

## Ten-Year Plan

- Develop ten-year sales projections
- Determine cost of goods sold
- Estimate operating expenses
  - Employee wages and benefits
  - License/franchise fees
  - Rent to the airport
  - Marketing fee
  - Repairs and maintenance
  - Administrative and management fees
- Annual Operating Cash Flow to recover capital investment
- Determine funding sources for capital investment
- Calculate rate of return on investment

# Ways to Participate at OAK

- Prime Operator
- Subtenant to a Prime Operator
- Joint Venture Partner to a Prime Operator
- Supplier of Goods and Services

# Why Businesses Succeed at Airports?

- Have well-trained and paid staff
- Provide excellent customer service
- Understand their customer
- Are up-to-date on trends
- Provide exceptional value for the price



# Questions