

RESPONSE TO REQUEST
FOR ADDITIONAL REVIEW

COMPETITIVE BIDDING OF CONTRACTS
CONCESSION MARKET STUDIES
DETROIT METROPOLITAN WAYNE COUNTY AIRPORT

PREPARED FOR
THE DETROIT METRO AIRPORT REVIEW COMMITTEE

June 7, 2001

The Honorable Glenn D. Steil
Michigan Senate
Chair, Detroit Metro Airport Review Committee
1020 Farnum Building
Lansing, Michigan

Dear Senator Steil:

This special report is in response to the June 6, 2000 letter from the Joint Legislative Select Committee on the Wayne County Detroit Metropolitan Airport requesting a more detailed review of the Detroit Metropolitan Wayne County Airport (Airport). This special report contains our response to one question in the general issue area of competitive bidding of contracts.

Specifically, that Committee asked us if the Airport conducted any market studies or other studies to verify that the concession fees at the Airport are within acceptable norms for the industry.

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We are available to present this special report to the Detroit Metro Airport Review Committee upon request. If this is the Committee's desire or if you have any questions or concerns regarding this review, please contact me.

AUDITOR GENERAL

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** All exhibits of the Wayne County Detroit Metropolitan Airport Preliminary Review Reports are available by contacting the Office of the Auditor General in writing and specifying the exact exhibits that you would like to receive. Your written request, with your name and address, must be sent to: The Office of the Auditor General, 201 N. Washington Square, 6th Floor, Lansing, Michigan, 48913.*

OVERVIEW

The Office of the Auditor General performed a preliminary review of the Detroit Metropolitan Wayne County Airport in the general issue area of competitive bidding of Airport contracts. The preliminary review, dated March 16, 2000, identified a number of contracting irregularities, ranging from a lack of necessary documentation for evidence of compliance with competitive bidding requirements to a lack of administrative oversight.

Wayne County enters into contractual agreements with various concessionaires who operate revenue-generating services, such as food and beverage, advertising, transportation, and merchandise shops, on Detroit Metropolitan Wayne County Airport property. These concessionaires contractually agree to compensate the County for the privilege of operating an Airport concession for a limited contract period. Compensation is typically based on a percentage of concession revenue.

SCOPE OF REVIEW

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We interviewed Airport staff regarding their use of market studies in managing and planning for concessions at the Airport. We analyzed concession studies for the Midfield Terminal.

COMMENTS

Request:

Various concession fees are mentioned in the preliminary review. Please determine if the Airport conducted any market studies or other studies to verify that the fees are within acceptable norms for the industry.

Procedure:

We interviewed Airport staff regarding any market studies performed including comparisons of the Airport concession fees to concession fees in other U.S. airports. We analyzed concession studies prepared by Unison Consulting Group, Inc. (Unison), for the new Midfield Terminal.

Comment:

Airport staff informed us that the Airport has conducted surveys of concession fees at comparable airports. However the Airport could not produce any survey documentation. Also, Airport staff informed us that, in developing recently re-bid contracts, it reviewed industry standards contained in the "Airport Book" and information provided by its consulting contractor (Unison). We found no documentation of market studies or other studies verifying that the Airport's concession fees are within acceptable norms for the industry.

However, it is noteworthy that, in planning for concessions at the new Midfield Terminal, the Airport contracted with Unison to prepare five reports analyzing selected Airport concessions. The five reports include:

1. Detroit Metropolitan Wayne County Airport, World Travel Center, Concessions Planning Services, September 15, 1994 (Exhibit A)

This report reviewed the concessions program at the Airport, including an overview of sales and revenue statistics (Exhibit A, Table II-1), an analysis of future program space requirements, and a preliminary assessment of proposed concession locations based on drawings received by Unison in early September 1994.

The report included a comparison of the Airport's sales per enplaned passenger for food and beverage; news, gifts and specialty; and duty-free concessions to 6 U.S. airports with international passengers (Exhibit A, Table II-2). The report found that the Airport was on the lower end for food and beverage and for news, gifts and specialty of the 6 comparative airports' averages. The report concluded that Airport's duty-free concession was mid-range.

In addition, the Airport's sales statistics for food and beverage and news, gifts and specialty were compared to 19 large and medium hub airports (Exhibit A, Table

II-3). The report stated that there is "great opportunity to improve Airport sales and revenues at DTW [the Airport] by developing a creative and dynamic concessions program."

Excerpts of this report that may be of interest to the Detroit Metro Airport Review Committee in understanding the report content are provided in Exhibit A. The report is a 31-page document.

2. Detroit Metropolitan Wayne County Airport, Midfield Terminal and West Concourse, Preliminary Concessions Programming Requirements, May 30, 1997 (Exhibit B)

This report identifies the preliminary concessions programming requirements for the new Midfield Terminal and the West Concourse. The report has five sections:

a. Goals and Objectives

The goals and objectives presented in this section of the report were as follows:

- (1) Provide a selection of high quality retail shops with international and regional appeal.
- (2) Offer a broad selection of passenger services and amenities.
- (3) Optimize revenues generated from the retail program.
- (4) Develop innovative, high impact facility designs.
- (5) Provide the appropriate level and type of infrastructure support to ensure efficient retail operations.
- (6) Integrate food and beverage with general merchandise and specialty shops in the retail space plan.
- (7) Allow the program the flexibility to react to changes in national retail trends and in the needs and preferences of the Airport market.

- (8) Maximize disadvantaged business enterprises (DBE) and local participation in the retail program.

b. Review of Sales and Revenue Statistics of Existing Concessions Programs

The review of sales and revenue statistics of existing concessions programs focused on three major categories (see Exhibit B, Tables II-1, II-2, and II-3):

- (1) Food and beverage - Sales per square foot was the highest among airports surveyed. Sales exceeding \$600 per square foot suggest that facilities may be undersized.
- (2) News, gifts and specialty - Sales per square foot was within the industry range; sales per enplaned passenger was at the lower end of the industry range.
- (3) Duty-free - Sales per square foot was the third highest among airports surveyed and within the industry range; sales per enplaned passenger was in the lower half of the industry range.

Also included in this section of the report is the description of the existing concessions program in terms of square feet of revenue-producing space and the existing retail mix. The trends, statistics, and retail mix of the existing concessions program are used for the development of the new Midfield Terminal concessions program. The report concludes that there was considerable opportunity to improve the concessions program in the Midfield Terminal.

c. Quantitative Assessment of Recommended Retail Space Requirements

This section of the report contains a quantitative analysis for determining the amount of retail space required to meet future passenger demand at Northwest Airlines' Midfield Terminal and West Concourse.

Four quantitative measures were used to determine the adequacy of the size, productivity level, and location of retail operations:

- (1) Utilization factor - The utilization factor is the number of square feet of concession space per thousand annual enplaned passengers and is based on the recommended retail program. Passenger characteristics (demographics of customers), facility characteristics (attraction to facility), and retail characteristics are all used to determine the utilization factor. The value of the utilization factor represents a qualitative assessment of each characteristic's importance in determining the amount of terminal space allocated to retail operations.
- (2) Sales per enplaned passenger and sales per square foot - These quantitative measures provide important information regarding the adequacy of retail space and serve to validate the utilization factor analysis. Retail space should be allocated to balance sales per enplaned passenger and sales per square foot.
- (3) Retail space as a percent of total terminal space - Unison recommends that the Airport's retail space should encompass approximately 7% to 8% of the total space (adjusted downward from the calculated utilization factor).

d. Comparative Airport Analysis

This section documents Unison's analysis of six comparable airports. This analysis provide retail statistics and trends used to develop plans for the new Midfield Terminal.

e. Concessions Layout Summary

This section describes preliminary plans of the layout for concessions in the new Midfield Terminal as developed by SH&G Incorporated, the design team for the new Midfield Terminal.

Excerpts of this report that may be of interest to the Detroit Metro Airport Review Committee in understanding the report content are provided in Exhibit B. The report is a 52-page document.

3. Detroit Metropolitan Wayne County Airport, Midfield Terminal, Preliminary Merchandising Plans and Sales and Revenue Projections, June 24, 1997 (Exhibit C)

This report presents the retail tenant mix, retail concepts, terminal layout plans, and sales and revenue projections (including proposed rental rates) for food and beverage; news, gifts and specialty; and duty-free stores for the period 2001 through 2010 for the Midfield Terminal. The report includes three alternative layout schemes.

Section one of the report documents an overview of the merchandising plan objectives, retail trends, and merchandise concepts.

The merchandising plan objectives were to:

- a. Optimize sales and maximize Northwest Airlines' return on investment.
- b. Provide a selection of high quality retail shops with international and local/regional appeal.
- c. Offer a broad selection of passenger services and amenities.
- d. Develop innovative "high impact" facility designs.
- e. Provide the appropriate level and type of infrastructure support to ensure efficient retail operations.
- f. Integrate food and beverage with general merchandise, specialty shops, and services in the retail space plan.
- g. Allow the program the flexibility to react to changes in national retail trends and in the needs and preferences of the Airport market.

Retail trends discussed include:

- a) National brand names and street pricing.
- b) Specialty retailing.

- c) Entertainment retail.
- d) Other factors, such as travel purpose, international traffic, and hubbing activity.

Preliminary merchandise concepts (see Exhibit C for examples) were identified considering whether they:

- (a) Promote the "local" and regional flavor of Detroit, such as the "Motown" sound, Greektown, and the automobile industry;
- (b) Offer new and exciting specialty concepts in airport retailing, such as the Discovery Channel Store, Imaginarium, the Body Shop, PGA Golf, and Brookstone.
- (c) Are in demand in most significant retail centers worldwide because of their broad consumer appeal, such as the Tie Rack, the Gap, Disney/Warner Bros., and Nike.
- (d) Offer DBE opportunities in the form of franchises or joint venture partnerships with national food operators such as McDonald's, Wendy's, Burger King, and Subway.
- (e) Offer unique dining experiences, which offer variety, freshness, and entertainment, such as microbreweries, food courts, wine bars, and cafes.

Section two of this report contains sales and revenue projections for food and beverage; news, gifts and specialty; and duty-free stores for the period 2001 through 2010 for the Midfield Terminal assuming three alternative merchandising schemes (see Exhibit C, Tables II-1 and II-2).

Excerpts of this report that may be of interest to the Detroit Metro Airport Review Committee in understanding the report content are provided in Exhibit C. The report is a 109-page document.

4. Detroit Metropolitan Wayne County Airport, New Midfield Terminal and West Concourse, Analysis of Alternative Leasing and Management Structures, September 10, 1998 (Exhibit D)

This report details four alternative concession leasing and management approaches currently in use at airports nationwide:

a. Direct Leasing Approach

The Airport directly leases specific space to individual retail operators. The responsibility for conducting outreach meetings, soliciting tenants and evaluating proposals, administering leases, and monitoring individual retail operations would lie solely with the Airport, although the Airport could contract with a third-party management company to conduct these activities on its behalf as an agent.

b. Master Concessionaire Approach

Retail operators are awarded a contract for a particular category or categories of retail (e.g., food and beverage or news, gifts and specialty). As part of the master concessionaire approach, the master concessionaire develops and operates a substantial portion of the space and subcontracts some areas to DBEs and local businesses. In this arrangement, the master concessionaire is responsible for funding the capital improvements required to "finish out" stores and food and beverage facilities and for making the minimum guarantee or percentage of gross sales payments for the entire leased area to the Airport (both of which are passed through to subtenants).

c. Developer Approach

Under the "pure" developer approach, the Airport retail program is constructed, financed, managed, and operated by a third-party developer. However, there are alternative developer-led approaches, such as engaging a developer solely to lease and manage the retail program. The Airport or other sources would provide financing. The third-party management structure may be combined with the direct leasing approach and/or the master concessionaire approach.

d. Hybrid/Third-Party Management Approach

The Airport could use hybrid combinations to realize the benefits of the various approaches while minimizing the disadvantages. Under both pure and third-

party management structures, the Airport could hire a professional property management firm to administer the total retail program on behalf of the Airport as its agent.

The report highlights the advantages and disadvantages of each approach. The report also indicates the management structure used at various U.S. airports.

Excerpts of this report that may be of interest to the Detroit Metro Airport Review Committee in understanding the report content are provided in Exhibit D. The report is a 13-page document.

5. Detroit Metropolitan Wayne County Airport, New Midfield Terminal and West Concourse, Preliminary Concessions Planning Study, December 18, 1997 (Exhibit E)

This report was prepared by Unison under a subcontract with Booz-Allen and Hamilton, Inc., to design a state-of-the-art concessions program for the new Midfield Terminal and West Concourse.

The report analyzed the following:

- a. Airport Retailing Trends and Retail Concession Program Review
- b. Retail Space Requirements
- c. Preliminary Merchandising Concepts
- d. Terminal Layout Schemes
- e. Projected Retail Sales and Revenues

Identified goals and objectives were as follows:

- a. Maximize return on investment generated from retail concessions program.
- b. Provide high quality retail shops with international and regional appeal.
- c. Offer a broad selection of passenger services and amenities.

- d. Develop innovative, high impact facility designs.
- e. Integrate food and beverage and news, gifts and specialty shops and services.
- f. Provide the infrastructure for efficient retail operations.
- g. Build in flexibility to respond to changes in national retail trends and in the Airport market.
- h. Maximize local participation and DBE participation.

Excerpts of this report that may be of interest to the Detroit Metro Airport Review Committee in understanding the report content are provided in Exhibit E. The report is a 144-page document.

Airport Response

The Division of Airport Concessions and Quality Assurance has a variety of reference materials at its disposal, detailing the performance of airport retailing throughout the country. This reference material can be found in the form of widely published airport retailing reference guides and daily and weekly periodicals that regularly include industry analyses regarding the performance of airport concessionaires. The surveys and studies prepared by the Airport's contracted consultants (Unison) as well as the ongoing efforts of both the Airport Council International and the American Association of Airport Executives are also utilized in the Airport's evaluation of industry standards regarding concession fees. A collaboration of the aforementioned documents is referenced during the evaluation process of concession fees to assess their appropriateness.

As duly noted in this report, the Division of Airport Concessions and Quality Assurance has provided the auditors with several reports and industry studies prepared by Unison dating as far back as September 1994. If additional documentation is deemed necessary to support the Airport's analysis of concession fees, it can be made available upon request.

The Division of Airport Concessions and Quality Assurance utilizes the *Airport Retail News'* annually released Airport Retailing Directory and Fact Book, which is a widely distributed publication. The annual Airport Retailing Directory and Fact Book provides an up-to-date analysis of the Airport's retailing industry. Included in

this reference book is a thorough description of concession products and services, as well as the annual financial performance of concessionaires based on total annual passenger enplanement and total square footage. In addition, and most importantly, the annual Airport Retailing Directory and Fact Book provides, on an individual airport basis, an analysis of the industry's most commonly assessed concession fees. A review and evaluation of these most commonly assessed concession fees is performed for the airports deemed to be demographically comparable with the Detroit Metropolitan Wayne County Airport. The result of this evaluation assists the Division of Airport Concessions and Quality Assurance in assessing the appropriateness of concession fees.

To further assist the Office of the Auditor General in its evaluation process, if additional documentation is deemed necessary to support the Airport's analysis of concession fees, it can be made available upon request.

Epilogue

None of the various reference materials referred to in this report and the Airport's response represents a verification that the Airport's existing concession fees are within acceptable norms for the industry. The Airport has provided no additional supporting documentation to verify that surveys or comparisons of existing facility concession fees have been performed.