A RESEARCH NOTE ON STREET PRICING REQUIREMENTS IN MAJOR U.S. AIRPORT RETAIL CONCESSIONS REQUESTS FOR PROPOSALS

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Introduction

When reviewing the subject of airport marketing, much of the literature is broken down into issues external or internal to the airport. The external literature tends to divide and differentiate airports on the issues of size (passenger counts) and who is the target of the marketing campaign. Those articles and books that tend to focus on the larger commercial airports (Jarach, 2005; Halpern and Graham, 2013) note the role the airport can play in economic development. Much of the external marketing tasks for the larger commercial airports are aimed at either attracting more airline service to the community or working in conjunction with economic development and tourism agencies in promoting the desirability of the location. Some discussion may examine those few markets in the U.S. where competition can occur between airports, however as airports tend to be dominated by the type of airline in place, legacy or network carriers in contrast to low cost or ultra-low cost carriers, the airlines in place often drive customer choice.

When pricing is discussed in the context of the airport meeting this external role, the focus is often on landing fees and other associated charges known in the airport industry as aeronautical revenue. While airports may have some discretion on these charges for new entrants, waiving fees for predetermined period as a means to attract a new carrier, the controlling airport authority, both local and national, may have the power to set these charges and the airport must charge what has been established by the controlling regulators. While prices for these charges will vary by airport, the airport management may have little control into the process for setting the prices and fees charged. While there has been a focus in the aviation research literature on the issue of the proper pricing strategy for aeronautical fees that airports should charge, a majority of this literature has focused on airside operational pricing and the need for regulators to allow pricing freedom to the airport (Choo, 2014; Czerny and Zhang, 2011, Yang and Zhang 2011, Czerny and Zhang, 2014). Issues researched in these studies include landing fees and the price that should be charged for operating slots or what auction mechanism would be economically optimal for the airport authority or regulatory agency to pursue for aeronautical revenues.
Smaller airports, many whose focus is on the corporate and general aviation marketplace, face the task of promoting the benefits of the airport to the local community and the various public venues the airport must utilize to get the beneficial message out to the community. As an Airport Cooperative Research Proposal report (Kramer, L.; et al, 2010) states in the Foreword, smaller airports “are increasingly under pressure to explain their contributions to the community and at the same time keep expenses down, it is important that an airport has, as a resource at their fingertips, effective strategies to generate goodwill, strengthen relationships, increase use of the airport, and showcase the facility (page 7).” In this duty the airport the airport is not without allies as the National Business Aviation Association (NBAA.org) publishes the *NBAA Airports Handbook* (http://www.nbaa.org/ops/airports/handbook/airports-handbook-2013.pdf) and the *Airport Advocate Guide* (http://www.nbaa.org/ops/airports/handbook/airport-advocate-guide-2013.pdf) to assist airport owners and managers in the vital public relations activities that need to be performed.

**Internal Airport Marketing and Non Aeronautical Revenue**

When the discussion moves to studying the role of internal airport marketing, the focus switches to the increasing importance of *non-aeronautical revenues* and the need for more non-aeronautical services in the airport (Appold and Kasarda, 2006; Graham, 2009). Revenue from such sources as property rentals, parking and airport concessions are needed now more than ever as airlines have struggled in the past financially and do not want to pay for airport facilities except when and where necessary (major strategic hubs) and local populations do not want to pay more taxes to support the airport. There are no specific studies on the pricing strategies pursued by the airports in terms of revenue generation and consumer satisfaction unlike what has appeared for aeronautical charges and fees. The research on airport retailing and the pursuit of non-aeronautical revenue focuses on airport retailing and the consumer segmentation typologies or what passengers may be looking to buy in the airport (Castillo-Manzano, 2009; Perng; et al, 2010; Lin, Y-H, and Chen, C-F., 2013). When investigated though in the popular press, the overwhelming story that emerges in fact is one of consumers being unhappy at the price points paid and feeling that airports allow overcharging for the services the consumer purchases (O’Malley, 2009; McCartney, 2015).

**Street Pricing**

Within the airport literature and industry the term ‘Street Pricing’ (Appold and Kasarda, 2006) has come to be well known but still one must know and understand the background of the term and how the term may be used at a particular airport. The basic concept is that airport concessions will be priced at a level equivalent to what a consumer / passenger would find for the item a location outside the airport, in
a traditional retail ‘street’ location. However, in practice there are two issues that create confusion about the usage of the term among airport consumers.

One factor is what type of outside retail location is used for the comparison purpose. Many of the RFPs will note the concept of a ‘comparable location’ to be used as means of checking and enforcing the street pricing concept. Interestingly, some of the RFPs will state that the comparable location is not to include any additional concession locations a bidder may manage; i.e.; sporting arenas, convention centers, entertainment or amusement venues. In some circumstances, if the comparable location is a nationally branded chain restaurant, the comparable location may be designated as another location of the same chain within the defined metropolitan area of the airport. If not a nationally branded concept, the comparable location becomes more open to interpretation unless stated guidelines are in the final concession contract awarded. The issue can arise when consumers hear of ‘street pricing’ and think in terms of nationally known stores such as Wal-Mart or Target, known for being low price leaders, while the concession operator may argue the comparable location may be other convenience stores within a close proximity to the airport who are the local competition to the airport and are not usually known for being low cost operators.

The second implementation issue that can impact street pricing policies and what variation may occur between the outside price and the in-terminal price point is the issue of any variation allowed due to the additional costs often associated with airport concessions operations due to issues such as security, product handling, employee costs and badging among other issues. Due to the unique operating environment in the airport and the costs associated with the additional security concerns as more retailing has been moved post security to the airside after 9-11, some RFPs do not follow a ‘strict’ street pricing policy. Many airports allow a limited percentage variation from the street price, up to 10% over the recognized street price in many RFPs, to offset these additional costs and to be used when price comparisons are done. Combining this cost premium along with a poorly determined policy on what is a comparable location, can lead to prices that the consumer may feel are still overly high in the airport location and variations in price for the same item across airports (see Figure One).

**Street Pricing in Airport RFPs**

This note examines the retail food concessions Request for Proposals (RFPs) released by the current “reportable airports” in the United States. The “reportable airports” appear in the monthly *Air Travel Consumer Report* (see Table One) issued by the U.S. Department of Transportation and are “airports with respect to which data must be submitted to the Department, located in the 48 contiguous states, enplaning 1 percent or more of the industry's domestic scheduled-service passengers, as reported on the Form 41 Schedule T-100top US airports (U.S. DOT, 2013).” This focus on the larger
airports is due to the findings from past studies (Appold and Kasarda, 2006; Castillo-Manzano, 2009) that airport size is a major factor for the sales volume in the airport and the number of retail opportunities that airport may be able to support. The RFP’s gathered were examined to determine if a stated pricing policy is named, i.e.; “street pricing,” or if guidance is given by the airport in terms of the price points the airport allows the concession winning firm to charge.

As the data gathering commenced, one barrier to gathering the information quickly appeared. While U.S. airports are still government entities in many forms, controlled by local airport boards, port authorities, or county governments, whose bidding process are open to public review, some of the airports have moved to electronic bidding portals for posting the full RFP (see Table Two for partial list). While the airport or county web site may be used to announce the release of the RFP and some details as to the goal of the RFP, only potential bidders who have completed the vetting process required by the various electronic portals can access the full RFP. As this research note is being completed, efforts are under way to complete the vetting process to increase the pool of RFPs as the research progresses.

Data Analysis

At this time 139 unique concession opportunities have been found from 13 of the reportable airports. Of note, is that many of the retail concession opportunities are released in packages by the airports. In the past most airports relied on a master concessionaire model to manage the airport retail opportunities and therefore only one opportunity, to be the master concessionaire, was bid via the RFP process. Three of the reportable airports, Philadelphia, Washington Dulles and Washington Reagan National, still rely on this model. However, in the drive for more variety and local influence in the concessions program, retail concession RFPs are now being broken-up into multiple packages with numerous retail and food & beverage opportunities within the package to bid upon as airports take on more a developer role in the process (McAllister, 2011; Miller, 2013). In reviewing the RFPs two named pricing strategies were found with only 2 of the 139 RFPs not proposing any pricing strategy. A difference within the named strategy was whether the named policy allowed any additional variation above the named policy due to the airport operating environment. The named pricing strategies found were:

- Street Pricing - “Strict” with no variation = 18 opportunities
- Street Pricing - with operating allowance = 72 opportunities
- Value Pricing - “Strict” with no variation = 33 opportunities
- Value Pricing - with operating allowance = 7 opportunities
- Bidder Proposed – required bidder to state policy = 7 opportunities
The airports utilizing a “Value Pricing” policy are Chicago O'Hare, Chicago Midway and Houston Bush Intercontinental. In the RFPs value pricing generally requires concessionaires to charge the same price for a product or service at the airport as the price charged for the same product or service at a benchmark store in the noted city. Except for the named difference, value pricing is a street pricing policy, just instead of a comparable location standard being the guidance; a benchmark outlet is to be selected.

**Discussion:**

From the RFPs gathered to date it is clear that the larger U.S. airports have overwhelmingly adopted the concept of street pricing in the concession opportunities offered. In the three airports that are noted as still following a master concessionaire model, street pricing is still noted as being a requirement of the arrangement. Even for the airports that may use a different term, value pricing, the concept still holds, to compare and find price points that are related to those prices that may be found in the local community. Unfortunately exactly what that community location may be is still open to interpretation at times and what should be the proper benchmark location is open to negotiation with the airport authority. Along with this discussion is the presence of the additional percentage charge that may be added by the vendor, usually no more than 10%, to cover the additional costs often found in airport retailing. While dictated by the unique operating environment in the airport, consumers are not likely to contemplate the differences in operating circumstances as making purchases at the airport and the additional charges lead many to feel the airport and concession operator is still engaged in profiteering.

**Table One: Airports Covered by the Rule (14 CFR PART 234)**

<table>
<thead>
<tr>
<th>Atlanta: Hartsfield-Jackson ATL</th>
<th>Balt/Wash: Thurgood Marshall BWI</th>
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<tbody>
<tr>
<td>Boston: Logan International BOS</td>
<td>Charlotte: Douglas CLT</td>
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<td>Chicago: Midway MDW</td>
<td>Chicago: O'Hare ORD</td>
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<tr>
<td>Dallas-Fort Worth: International DFW</td>
<td>Denver: International DEN</td>
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<tr>
<td>Detroit: Metro Wayne County DTW</td>
<td>Ft. Lauderdale: International FLL</td>
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<tr>
<td>Houston: George Bush IAH</td>
<td>Las Vegas: McCarran Int’l LAS</td>
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<tr>
<td>Los Angeles: International LAX</td>
<td>Miami: International MIA</td>
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<tr>
<td>Minneapolis-St. Paul: International MSP</td>
<td>Newark: Liberty International EWR</td>
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<td>New York: JFK International JFK</td>
<td>New York: LaGuardia LGA</td>
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<tr>
<td>Orlando: International MCO</td>
<td>Philadelphia: International PHL</td>
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<tr>
<td>Phoenix: Sky Harbor International PHX</td>
<td>Portland: International PDX</td>
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<tr>
<td>Salt Lake City: International SLC</td>
<td>San Diego: Lindbergh Field SAN</td>
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<td>San Francisco: International SFO</td>
<td>Seattle-Tacoma: International SEA</td>
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<td>Tampa: Tampa International TPA</td>
<td>Washington: Dulles IAD</td>
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<td>Washington: Reagan National DCA</td>
<td>Figure One</td>
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RUNWAY ROBBERY?

Price checks for common items at four airports—Los Angeles International (LAX), Dallas-Fort Worth (DFW) and New York’s Kennedy (JFK) and LaGuardia (LGA)—found common goods costing more than equivalent products at a Manhattan drug store and L.A. convenience store.

Table Two: Airports Now Using Electronic Portals:

Las Vegas: McCarran International LAS
Miami: International MIA
Newark: Liberty International EWR
New York: LaGuardia LGA
Phoenix: Sky Harbor International PHX
Los Angeles: International LAX
Minneapolis-St. Paul: MSP
New York: JFK Int’l JFK
Orlando: International MCO
Portland: International PDX

References


**TRACK: Retailing**