



# Welcome

Please MUTE your microphones, as we wait for others to join.

Thank you.



Raleigh-Durham Airport Authority

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# Concessions Outreach

Introduction of Operator Model

# Agenda

- Introductions
- Overview of Opportunity
- Introduce Operator Model
- Concessions 101 Overview
- ACDBE
- Next Steps
- Networking
- Terminal Tour of Units – Registrants Only
  - Today at 3 pm – Terminal 2 Ticketing
  - Meet at entrance to Checkpoint



# RDU Concessions Team

- David Freedman, SVP and Chief Revenue Officer
- Rob Hale, Vice President, Commercial Management
- Kimberly Stewart, Director, Concessions
- Thiane Carter, Director, Small Business Program Office
- Tyler Maheu, Director, Commercial Management
- Diane Harris, Business Manager
- Tara Glarum, Business Manager
- Donald Monah, Business Analyst



# Introduction of Presenters

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# T2 Current Concessions Program

- Current need to grow the Terminal 2 Concessions Program as enplanements recover
- Resulting from Covid, a food and beverage partner exited the program in T2
  - Leaving 5 food and beverage units permanently closed
- 42<sup>nd</sup> Street and Starbucks Marketplace will close June 2021
- LaFarm will open in June 2021
- The current recovery period is an excellent time to phase in concessions redevelopment to meet future demand



# Concessions Program - Goals

What drives our efforts to create a better concessions program at RDU?

- Develop a well-balanced and reimagined concessions program

➔ **“Three R’s”: Refresh, Reimagine, Realign**

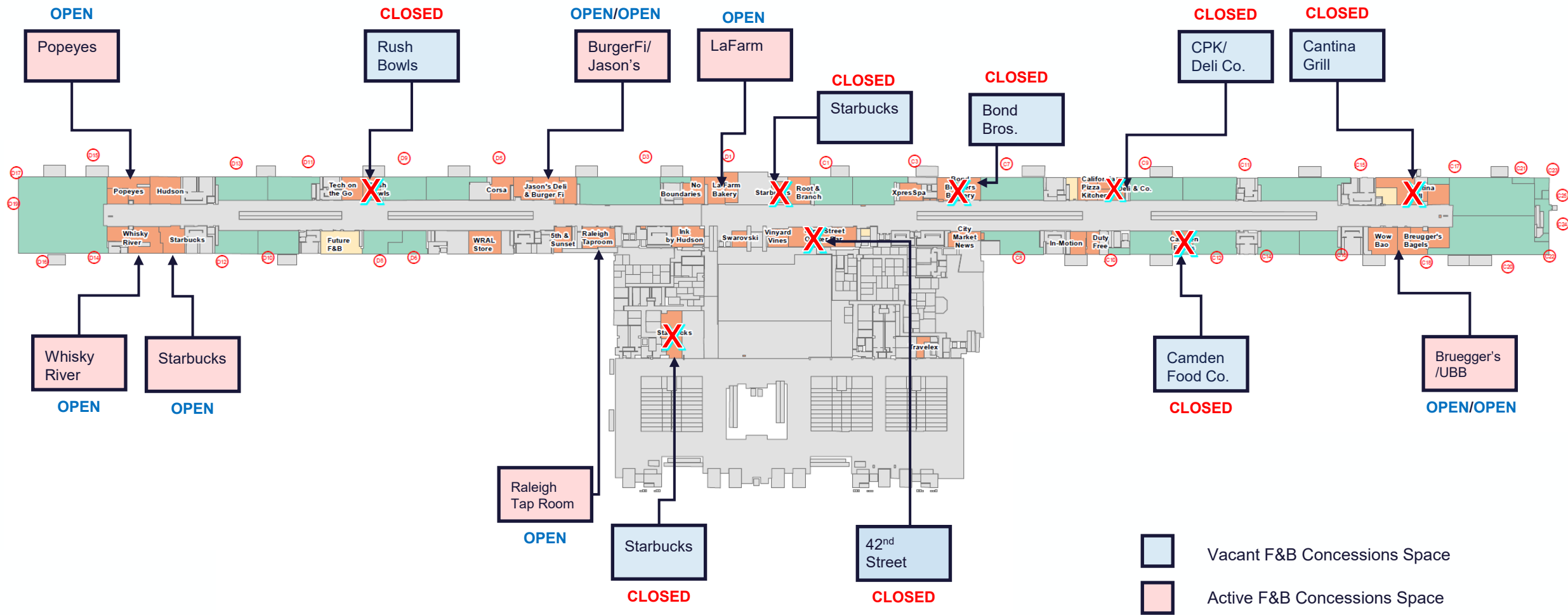
- Reflect local (Triangle region/NC) concepts
  - Cultivate authentic sense of place
- Elevate guest experience
- Facilitate and encourage ACDBE participation
- Promote a competitive concessionaire environment
- Increase diversity of concessions offering

# Overview of Opportunity

- RFP Release – June 2021
- Three Food & Beverage Units in Terminal 2
  - Restaurant Bar w/food
    - Patio offers design flexibility
  - Coffee Kiosk
    - New layout orientation, more efficient queuing
  - Wine/Tapas Bar
    - Open air, expanded footprint

Unit	Desired Concept	Existing/Former Concept
Terminal 2 Room 2370	Bar w/Food	42nd Street Oyster Bar
Terminal 2 Room 2395D	Coffee/Tea/Pastry	Starbucks Marketplace
Terminal 2 Room 2230	Sushi/Wine/Tapas Bar w/coffee	Camden food co.

Terminal 2 – Projected Concessions Landscape as of **June 2021**: Open/Closed Units



The background image shows a large stadium with a blue corrugated metal roof and a yellow wall. The text 'Traditional Concessionaire Model' is overlaid in white.

# Traditional Concessionaire Model



# Traditional Concessionaire Model

**This is the most common model used in U.S. airport concessions for decades**

- To date, used at RDU for all concessions agreements
- Concept Development
  - Concessionaire proposes brands/concepts
  - Licenses brands for local, regional and national concepts
  - Proprietary concepts
- Financial Structure
  - Contract term is usually 7-10 years
  - Minimum Annual Guarantee (MAG) w/ percentage rent
  - Rent range to Authority is 10-17% depending on brands, unit locations, etc.
  - Concessionaire assumes the risk for CAPEX, development schedule and OPEX
  - Midterm refurbishment required
- Operations
  - Authority staff manages concessionaire and monitors units' performances
  - Concessionaire is responsible for the day-to-day operations of all units in package (including, staffing, maintenance, product ordering, customer service, etc.



# Traditional Concessionaire Model

## Limitations of the Model

- Concept Development
  - Concessionaire directly responsible for all design, construction and development
  - Few truly local, “street” concepts participate directly in airport locations – limited interest due to high-CAPEX investments
- Financial
  - During extreme economic downturns (COVID, Great Recession, etc), concessionaires are unable or unwilling to pay MAG, forcing airports to determine how to address the issue
    - COVID-19 exposed this weakness industry-wide – contracts often rendered meaningless
  - Opportunities offered are usually bid on by a limited number key industry participants who fully understand the higher-CAPEX, higher yield psf correlation at airports
  - Barriers to entry traditionally higher for ACDBE and Small Businesses
  - Model historically favors larger Prime concessionaires
- Operations
  - Unless there’s a direct incentive, the desire of a concessionaire is to drive bottom-line sales through cost-cutting measures rather than drive sales through top-line growth measures and positive guest experience




# Forces Driving Change

Limitations of the Traditional Concessionaire Model, combined with the impact of COVID-19, has underscored the uncertainty of the future of traditional airport concessions financial model

- Is there an appetite for concessionaires to develop space?
- Will concessionaires have the ability to deploy CAPEX at a reasonable rate in the near-term?
- Will Minimum Annual Guarantees ever be contractually required again?
- Future of ACDBE participation?

Staff considers the Operator Model the right concessions model for now and the future of RDU

The background of the slide is a photograph of an airport terminal building. The building features a large, curved, blue-tinted glass roof that reflects the sky. Below the roof, the building's facade is made of vertical, golden-brown panels. The sky in the background is a hazy, light blue. The title text is overlaid on the center of the image.

# Introducing Airport Concessions Operator Model



# Proposed Concessions Structure: Operator Model

- What Is the Operator Model?
- What Are the Benefits of the Operator Model?
- Who Is Using This Model?
- How Does the Operator Model Stack Up Financially?
- Where Do We Propose to Introduce this Model at RDU?



# Operator Model

## What Is It? What Isn't It?

### An Operator Model IS:

- A contracted entity to manage and operate concessions space
- An Owner (Authority) and Operator partnership
- An arrangement where the Authority provides direct CAPEX
- An excellent means of encouraging and retaining a substantial minority and small business participations rather through the ACDBE program

### An Operator Model is NOT:

- A new concept in airports or other “streetside” venues
- A prototypical Landlord vs. Tenant relationship
- A departure from the day-to-day operational structure of concessions space

# Operator Model Benefits

- Offers opportunity to concessionaires of all sizes, many of which may currently have limited access to capital at a reasonable rate
- Allows operators to focus on being operators first and foremost – create a world-class, high quality guest experience
- Higher degree of Authority control and concept flexibility
- Authority invests in the success of its own concession program
- Excellent opportunity for Authority to have visibility and understanding around operational details and cost structures associated with food/beverage business
- Unit/concept management directly through the Operator



# Who Uses the Model?

- Stadiums
- Hospitals
- Universities



## Des Moines International Airport (DSM)

- Model already implemented successfully
- Authority speaks highly of this model
- Average annual returns 25-27% of total gross sales
- Successful operator is 100% ACDBE
- Reiterates needs to establish partnership with Operator for success



## Greenville-Spartanburg International Airport (GSP)

- Model implemented in November 2020
- Primary goal was to increase airport control over guest experience
- Partnership with Operator has been collaborative
  - Menu options
  - Promotions/advertising
  - Staffing decisions
- Guest experience feedback has improved

# Operator Model vs Traditional Model

Responsibility	Operator Model Authority	Operator Model Operator	Traditional Model Authority	Traditional Model Operator
Source Architect and Engineer	X			X
Manage Design Process	X			X
Review Design Documents	X	X	X	X
Lead Project Meetings	X		X	
Attend Project Meetings	X	X	X	X
Lead Permitting	X			X
Lead Licensing		X		X
Source GC/CM	X			X
Manage GC, Construction	X			X
Site Inspections	X	X	X	X
Invoice/Req Review and Approval	X			X
Stakeholder Group Update	X			



# Authority as Owner

- Provide Capital Investment
- Provide Design Services
  - Engage Architect & Engineer
- Provide Construction Services
  - Engage General Contractor



# Questions

Use Chat feature to send your questions



# Financial

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# Financial

- Management Fee
  - Authority
  - Operator
- Net Revenue Split
  - Proposed
- Amortization strategy
  - Authority recoups cost
  - Operator recoups startup costs\*



# Monthly Cash Flow – Operator

- Operator will collect all revenue
  - Credit Card PCI requirements the responsibility of the Operator
  - Safe cash handling and collection the responsibility of the Operator
- Operator will pay all operating expenses
- Operator will remit all sales taxes
- Operator will request RDU approval for any unanticipated / unbudgeted expenses in excess of \$5,000
- Operator will submit weekly sales and transaction reports to RDU
- Operator will submit monthly P&L and reimbursement request to RDU no later than the 15<sup>th</sup> of the proceeding month
  - Note: RDU will not make a reimbursement payment to Operator because expenses will be paid out of operator revenue, but RDU must still review and approve monthly to ensure expenses align with budget
- Operator will remit RDU Management Fee and Percent Net Revenue no later than the 15<sup>th</sup> of the proceeding month

# Monthly Cash Flow



Operator collects  
gross revenues

- Cash
- Credit
- Contactless Payment



Operator pays  
operating expenses

- Cost of goods
- Labor
- Direct Operating
- Marketing
- General / Admin
- Repair / Maint.
- Commissary
- Storage / Office Rent
- Sales Tax



Operator pays  
carryover deficit

1. Operator working capital deficit
2. Management Fee deficit
3. Amortization deficit



Operator pays  
Management Fees

- Authority Management Fee
- Operator Management Fee



Operator pays  
amortization

- Operator Start Up Costs
- Authority Mid-Term Investment (when appropriate)



Operator pays net  
revenue split

- Revenue split to Authority
- Revenue split to Operator



# Agreement Highlights

- Proposed Term of Agreement – 10 years
- Operator must cover working capital
- Pre-opening costs (staff, staff training, small wares, inventory) are reimbursed
- Authority handles the direct contracting to, payment of and management of all design, construction, furnishing and consulting contracts associated with the complete redevelopment of these locations
- Payment security calculation is based on 3-months' projected Authority management fee and will be carried as LoC only
  - Authority reserves the right to access these funds to address maintenance issues if not addressed by Operator. Operator must replenish these funds ASAP
- Operational service standards and maintenance requirements, environmental regulations and insurance requirements are generally consistent with other existing concessions agreements



# Agreement Highlights

- Operator is responsible for all cleaning, maintenance, and repairs
- Cooperate with any RDU exclusive rights agreement (Pepsi pouring rights)
- Financial-related requirements: 1) revenue control system installation, 2) computerized point-of-sale system installation, and 3) annual budget submittal for RDU review or approval
  - First-year budget to be proposed no later than three months prior to anticipated opening date
  - Each year thereafter to be proposed no later than Jan. 1 (for the upcoming fiscal year)
- Agreement includes termination language



# Concessions 101 - Overview





# Concessions 101

- Concessions 101
  - [www.rdu.com/concession](http://www.rdu.com/concession)
  - Pre-Covid RDU Demographics
  - Pre-Covid Concessions statistics
  - Solicitation process
- New Challenges Post-Covid
  - Recruitment of Staff
    - Background Check – Badging requirement
    - Shuttle to terminals
  - Changes in traveler behaviors

The background of the slide is a photograph of a large, modern building with a curved, blue, ribbed roof and a facade of vertical, golden-brown panels. The sky is a hazy, light blue. The title 'ACDBE Program Requirements' is centered over the image in a large, white, sans-serif font.

# ACDBE Program Requirements

# What is an ACDBE?

- An **ACDBE** is a for-profit, small business **owned, managed and controlled** by socially and economically disadvantaged individual
  - Minority or women-owned with personal net worth and business size standards
- Must undergo a certification process to be certified in North Carolina as an ACDBE



# ACDBE Program Objectives

The regulations and the ACDBE program seek to achieve several objectives:

- Create a **level playing field** on which ACDBEs can compete fairly
- To **ensure nondiscrimination** in the award and administration of concessions opportunities
- To ensure that only firms that **fully meet the eligibility standards** are permitted to participate as ACDBEs;
- To help **remove barriers** to the participation of ACDBEs in opportunities for concessions



# ACDBE Program Objectives

- To ensure that the ACDBE program is **narrowly tailored** in accordance with applicable law
- To provide appropriate flexibility to airports in establishing and providing opportunities for ACDBEs.

# ACDBE Program Requirements

- ACDBE program requires that RDU sets goals for the participation of ACDBEs in concessions activities
- Goals represent the percentage of revenues that ACDBE firms could expect to achieve **absent of discrimination and its effects** based on the availability of ACDBEs
  - Goal for ACDBEs in **car rental concessions** activities
  - Goal for ACDBEs in **non-car rental concessions** activities



# How Does RDU Achieve the Overall Goals?

1. The overall goals are submitted to the Federal Aviation Authority (FAA).
2. Each time an RFP is issued, RDU will analyze the opportunity and assign a contract goal. **Proposers must meet or exceed the goal or efforts in good faith to meet the goal in the proposal.**
3. Leaseholders must meet the contract goal or make efforts in good faith to meet the goal.
4. RDU compiles the ACDBE participation of each lease and submits the overall ACDBE participation to the FAA annually





# RFPs & ACDBE Goals

- Many of RDU's RFP will include a contract goal for the participation of ACDBEs within their proposal.
- Both ACDBE and non-ACDBE proposers must comply with the ACDBE program, including the goal requirement.

# How Do Proposers Meet the ACDBE Goal?

Non-ACDBE proposers should analyze each RFP to determine whether there is an opportunity for **direct ownership arrangements** with ACDBE firms:

- Is there an opportunity to sublease one or more locations to an ACDBE operator?
- Is there an opportunity for meaningful participation through a joint venture partnership?

Proposers may also propose to meet the ACDBE goal through the **purchase of goods and services** from certified ACDBEs.



# How Do Proposers Meet the ACDBE Goal?

- **Direct ownership arrangement** – ACDBE owns and controls a concession through a direct lease, joint venture, partnership, sublease or other arrangement.
- Proposers are required to make good faith efforts to explore all available options to meet goals, **to the maximum extent practicable**, through **direct ownership arrangements** with ACDBEs.
- Participation is calculated by comparing the total revenues from concessions to the revenues generated by the ACDBE firm.



# What is a Joint Venture?

An “association of an ACDBE firm and one or more other firms to carry out a single, business enterprise, for which the parties combine their property, capital, efforts, skills and knowledge

and

in which the ACDBE is responsible for a distinct, clearly defined portion of the work of the contract and whose shares in the capital contribution, control, management, risks, and profits of the joint venture are commensurate with its ownership interest.”



# What is a Joint Venture?

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# Joint Ventures

- JV participation is direct ownership participation
- Only the portion of distinct, clearly defined work performed by the ACDBE can be counted towards the goal
- FAA provided joint venture [guidance](#) to airports which may be helpful to proposers
- RDUAA will examine each JV agreement prior to accepting the proposed participation to determine the amount of ACDBE participation

# Indirect Participation

- The purchase of goods and services from an ACDBE
- Participation is determined by comparing the cost of the purchase to gross receipts of the business



# ACDBE Goals and Good Faith Effort

If a proposer does not meet the ACDBE goal in its proposal, the proposer is still eligible for contract award if it can provide **documentation** that it took **all necessary and reasonable steps to achieve the ACDBE goal** by their scope, intensity, and appropriateness, could reasonably be expected to obtain sufficient ACDBE participation.

RDU will determine whether a proposer has made good faith efforts by analyzing its documented efforts.





# Good Faith Determination

The efforts should be those that one could reasonably expect if the bidder were actively and aggressively trying to meet the ACDBE contract goal. Mere pro forma efforts are not good faith efforts to meet the ACDBE contract requirements.

# Good Faith Effort Considerations

Identifying ACDBEs, including suppliers and soliciting through all reasonable and available means the interest of all certified, capable ACDBEs.

- Networking at pre-proposal and networking events
- Advertising and/or providing written notices to ACDBEs

# Good Faith Considerations

Selecting portions of the contract to be performed by ACDBEs in order to increase the likelihood that the ACDBE goals will be achieved.

- This includes, where appropriate, breaking out specific activities into economically feasible units to facilitate ACDBE participation, even when the prime contractor might otherwise prefer to self-perform
- For example, individual locations within a joint venture to be distinctly operated by an ACDBE



# Good Faith Considerations

Negotiating in good faith with interested ACDBEs

- Documentation of such negotiation includes the names and contact information of ACDBEs which were considered; a description of the work or scope for which they were considered; and evidence as to why the agreement could not be reached for ACDBEs.



# Good Faith Considerations

Effectively using the services of available minority/women community organizations; local, State, and Federal minority/women business assistance offices; and other organizations to provide assistance in the recruitment and placement of ACDBEs.

- Networking events
- Trade organizations
- Engaging with interested ACDBEs, maintaining contacts





# Benefits of ACDBE Certification

ACDBE certification is a marketing tool which makes your business visible and more competitive to firms who may wish to partner. ACDBE certification does not guarantee that a proposal will be successful.



# Applying for ACDBE Certification

- Applicants must show that they meet size, group membership, ownership, and control standards by a preponderance of the evidence.
- The applicant bears the burden of proving, by a preponderance of evidence, that it meets eligibility criteria.

# Affidavit of Certification

**Program Objective:** To ensure that only firms that fully meet eligibility standards are permitted to participate as ACDBEs.

**All applicants must submit this signed and notarized statement:**

Any material or false statement or omission made in connection with this application is sufficient cause for denial of certification, revocation of prior approval, initiation of suspension or debarment proceedings, and may subject the person and/or entity making the false statement to any and all civil and criminal penalties available pursuant to applicable federal and state law.





# Questions\*

\*Verbal questions are not to be considered the official response of the Authority.  
All written responses supersede any oral response.



# Next Steps

- Terminal Tour – 3 pm today
- ACDBE Presentation – 5/26/21
- RFP Release – Early June 2021
- Pre-Proposal Conference – Part 1
  - Date *TBD*
  - Agenda – Detailed review of RFP
- Pre-Proposal Conference – Part 2
  - Date *TBD*
  - Agenda – RFP Review & Terminal Tour



# Questions

Use Chat feature to send your questions





# Networking

- Group will be divided into Rooms with an Authority Facilitator
- Introductions
- Network for 20-30 minutes
- Facilitator will close out the meeting
- Networking will end promptly at Noon

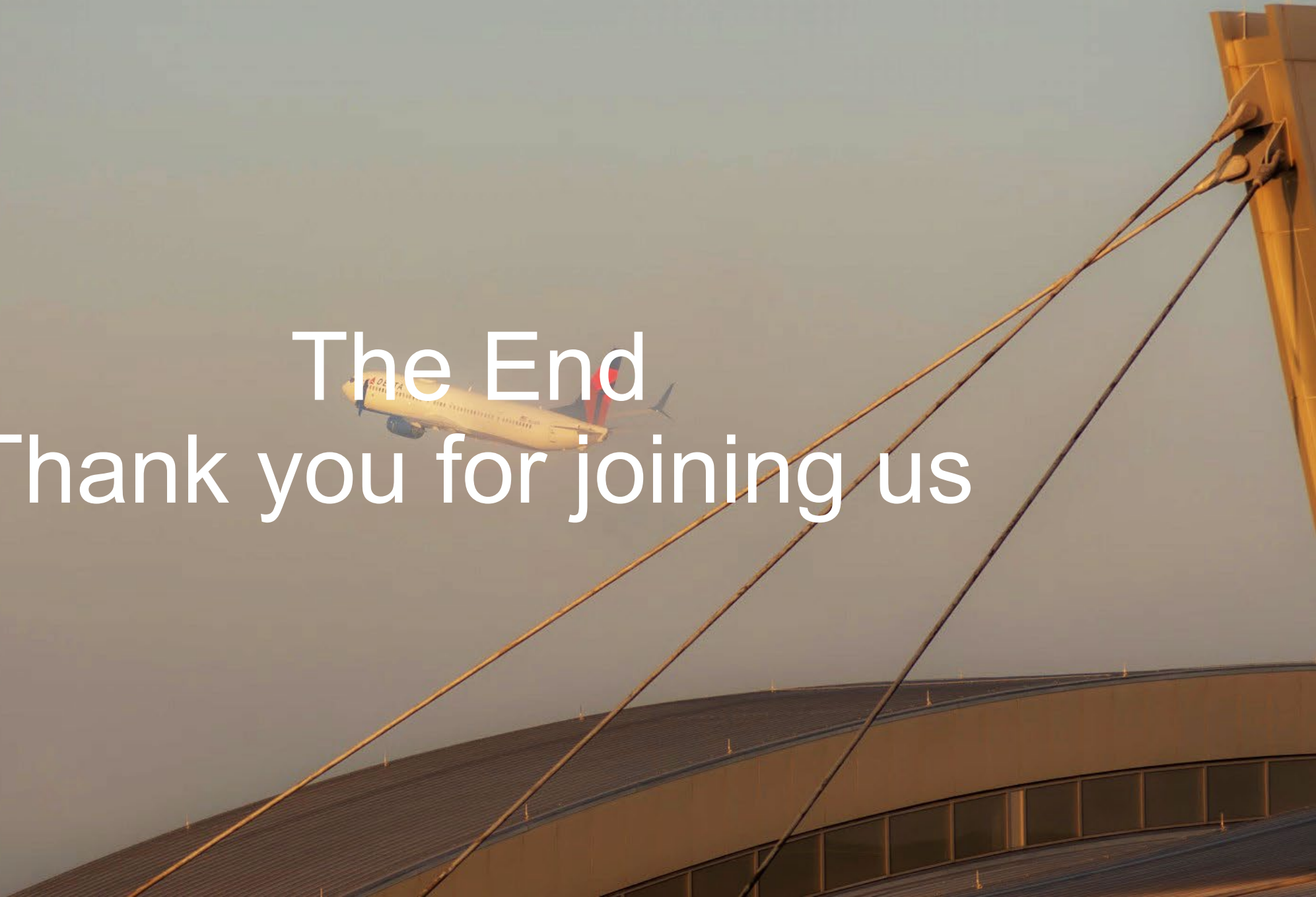


There will be a slight pause  
as Rooms are organized.





The End  
Thank you for joining us





Raleigh-Durham Airport Authority

# Development Opportunity

Historical financial performance of each of the proposed units for redevelopment and operation under the Operator model have outperformed industry metrics:

Annual Gross Sales 2017 – 2019

Existing Unit/Concept	2017	2018	2019
42nd Street Oyster Bar	\$5,211,549	\$5,347,619	\$5,954,185
Starbucks Marketplace	\$2,619,989	\$2,460,896	\$2,518,410
Camden Food Co.	\$1,532,020	\$1,700,934	\$1,902,578

Sales per Square Foot (\$1,000 - \$1,500/sf Optimal KPI)

Existing Unit/Concept	2017	2018	2019
42nd Street Oyster Bar	\$1,957 (OVERPERFORMING)	\$2,008 (OVERPERFORMING)	\$2,336 (OVERPERFORMING)
Starbucks Marketplace	\$5,314 (OVERPERFORMING)	\$4,992 (OVERPERFORMING)	\$5,108 (OVERPERFORMING)
Camden Food Co.	\$2,007 (OVERPERFORMING)	\$2,229 (OVERPERFORMING)	\$2,495 (OVERPERFORMING)



# Operator Pool – Do not include for Outreach schedule 2 pre-proposals

- DO NOT INCLUDE in this OUTREACH
- Part II of new Model
- Identify a pool of operators to pre-qualify for future opportunities
- Pool is good for 3 years
- # to be identified – TBD (limit or no?)
- Future Opportunities:
  - Terminal 2
    - 1-2 packages of varying size
  - Terminal 1
    - 1-2 packages to include all F & B units



# Operator Procurement Highlights

The document is a 2-pronged approach to allow interested parties to:

- Participate in a program of qualified operators (RFQ) for a 3-year period
- Those who choose to participate in the RFQ are able, but not obligated, to participate in the specific 3-unit RFP opportunity
- RFQ: Submission for this and future Operator bid submissions
  - Creates a shortlist of Qualified Operators for future operator agreement RFP opportunities
  - “Quals and Creds” evaluation of the proposing entity
  - Reduced future procurement time for subsequent concessions operators
- RFP: Opportunity-specific response content
  - Focused on concepts, brands, designs and menus
  - More detail behind the team structure proposed for the specific opportunity
  - Only Qualified Operators are eligible

# Operator Procurement Highlights



- The evaluation panel for the RFQ may be comprised of different personnel than the evaluation panel for the RFP to create an unbiased evaluation for each.
- This approach will ensure that the list of Qualified Operators for future projects is established while moving forward with the redevelopment effort of the three concessions spaces.

# Traditional vs. Operator Model Financials

## Traditional Concession Agreement

- Concessionaire makes capital investment
  - \$600 - \$1,000 / SF on average
  - Typical cost of capital is 8 – 13%
  - Investment typically amortized over 7 - 8 years
- Concessionaire pays greater of Minimum Annual Guarantee or Percentage Rent to Airport
  - 10-17% of gross sales on average

## Operator Model

- Authority makes capital investment
  - \$600 - \$1,000 / SF on average
  - Cash funded
    - Typical Authority investment return is minimal
  - Accelerated amortization schedule
    - 3 – 5 year payback
- Operator Management Fee up to 5% of gross sales
- Authority Management Fee no less than 15% of gross sales
- Operator and Authority split Net Revenues
- Authority total revenue is 20-30% of gross sales





# Potential Terms & Conditions

- Legal entity of the Operator will be a contractor to the Authority
  - Not a concessionaire leasing space from the Authority
  - There is not a need to create a new structure
- ACDBE participation through:
  - Direct Operator certification (100% ACDBE) or;
  - Subcontractor to the Operator or;
  - J/V with ACDBE partner
  - Suppliers
- Structure is intended to level the playing field
- Contract length proposed to be in the 7-10-year range to maximize ROI, but ensure timely re-concepting to keep program fresh/relevant



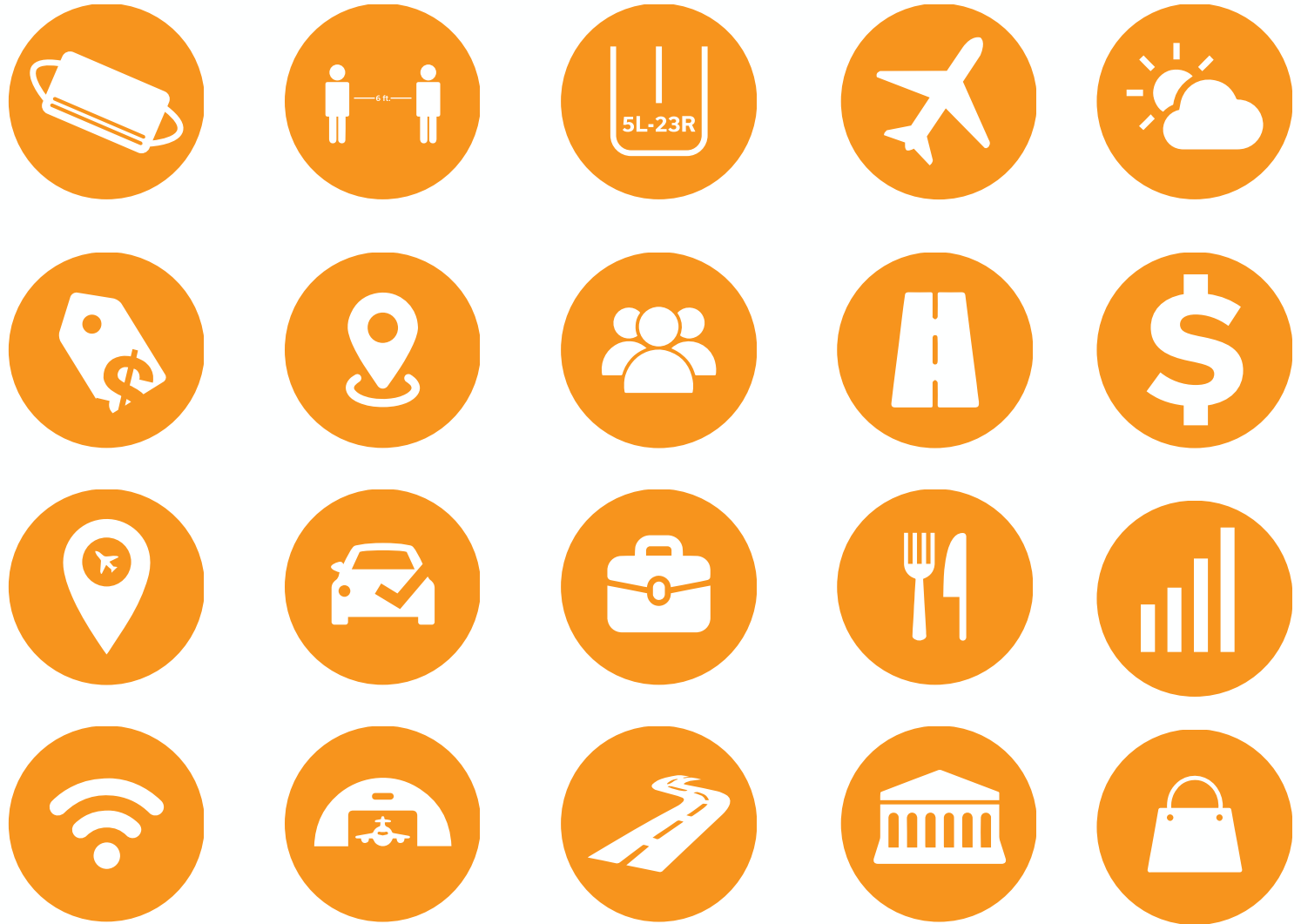
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# Maintained Air Service



## U.S. Destinations

Atlanta	Newark
Austin	New Orleans
Baltimore-Washington	New York-JFK
Boston	New York-LaGuardia
Charlotte	Orlando-International
Chicago-Midway	Orlando-Sanford
Chicago-O'Hare	Philadelphia
Dallas-Fort Worth	Phoenix
Denver	Punta Gorda
Detroit	Salt Lake City
Fort Lauderdale	San Juan
Fort Myers	Seattle
Houston-Bush	St. Louis
Jacksonville	St. Pete-Clearwater
Las Vegas	Tampa
Los Angeles	Washington-Dulles
Miami	Washington-Reagan
Minneapolis	
Nashville	

## International Destinations

Cancun  
Montego Bay



**BEFORE COVID-19**

**57** Nonstop Destinations  
with **5** International Destinations

**MAR. 2021**

**38** Nonstop Destinations  
with **2** International Destinations

# RDU's Vision, Mission and Core Values

## VISION

To deliver a world-class airport experience

## MISSION

To deliver excellence airport services, facilities and unparalleled customer service

## CORE VALUES

Learning  
Integrity  
Team  
Excellence  
Respect

