Dermot

Introduction to session

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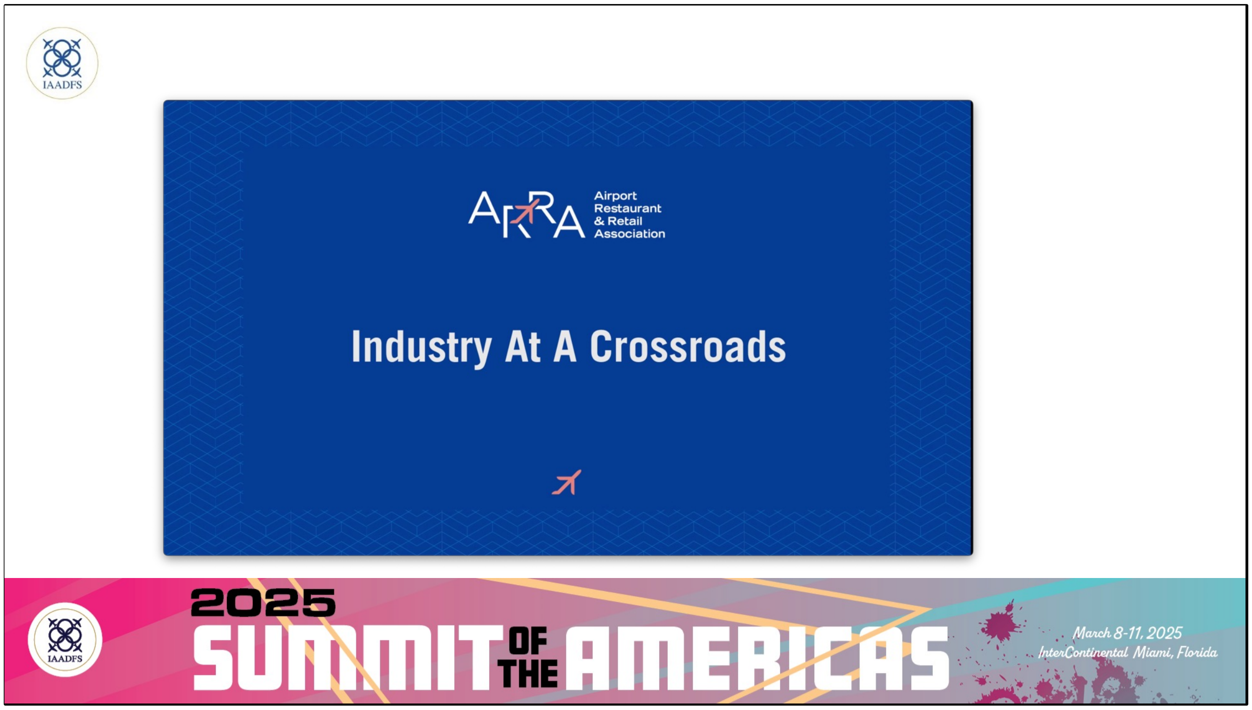


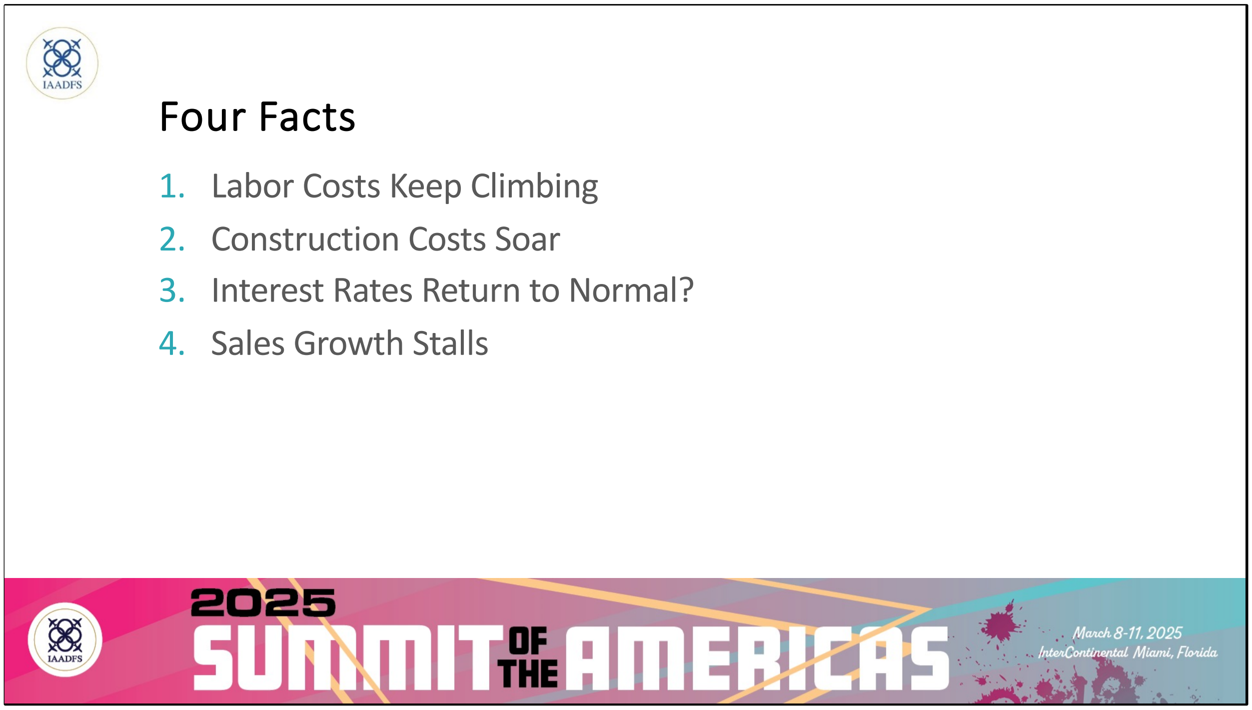
<u>Andy</u>

Today – early 2025 – the U.S. airport concessions industry is at a crossroads.

This includes all operators: retail (duty-paid and duty-free) and food & beverage.

Why? Let's watch …


IAADFS
Airport Restaurant & Retail Association
Industry At A Crossroads
Watch here: vimeo.com/1036882009
2025
SUMMIT OF THE AMERICAS
March 8-11, 2025
InterContinental Miami, Florida



<u>Andy</u>

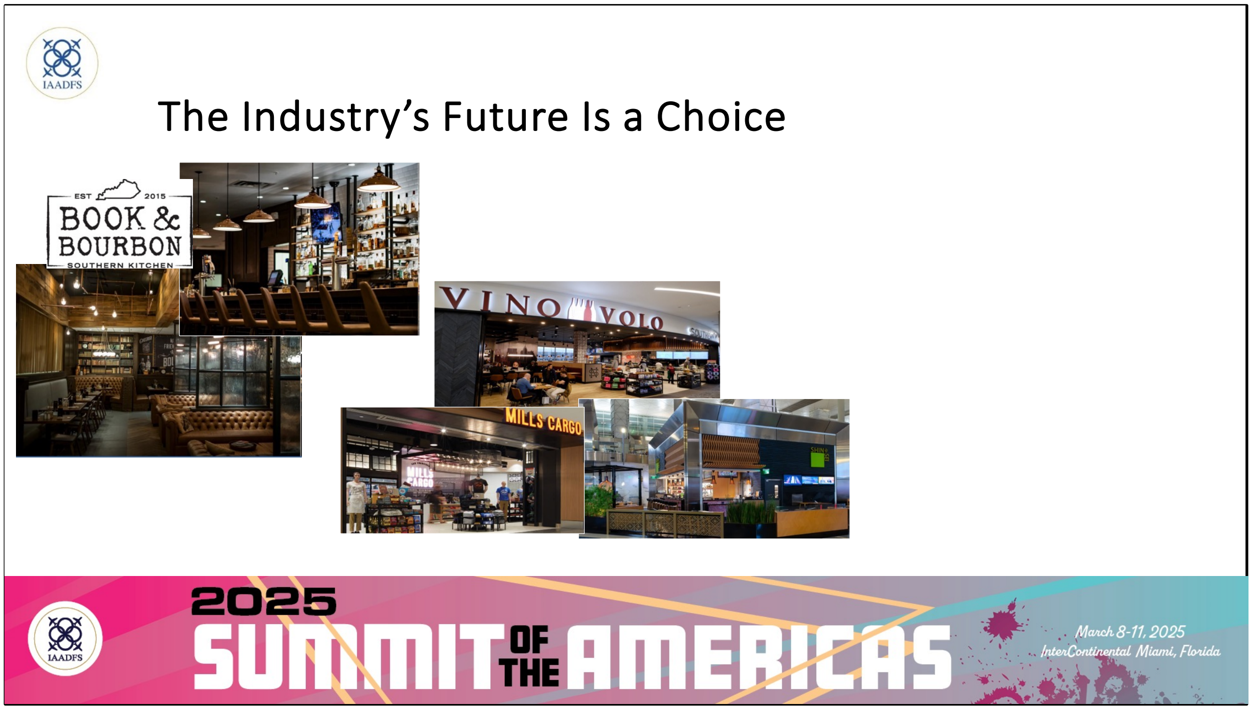
Four key facts:

1. Labor costs keep climbing:
    a) wage rates up 57% over past 2-3 years
    b) total labor costs up 30% since 2019
2. Construction costs soar: 17% of ARRA members report > 50% since 2019
3. Interest rates back to pre-Great Recession levels.
    a) Unfortunately, perhaps the 10 years leading up to Covid were the abnormal years
    b) This is important because many of today's problems were "baked in" during a period of exceptionally low interest rates.
4. Sales have stalled. And they have stalled in specific ways: not only resistance to prices, but shifts in what passengers want
    a) From 2011 to today, the share of passenger spending on specialty retail has fallen from 18% to 11%

b) Not only has traditional F&B increased (on a per passenger basis), traditional travel convenience stores now get more than half of their sales for food and beverage items
c) ARRA members reporting weak sales over past 6 months

And there are other challenges:

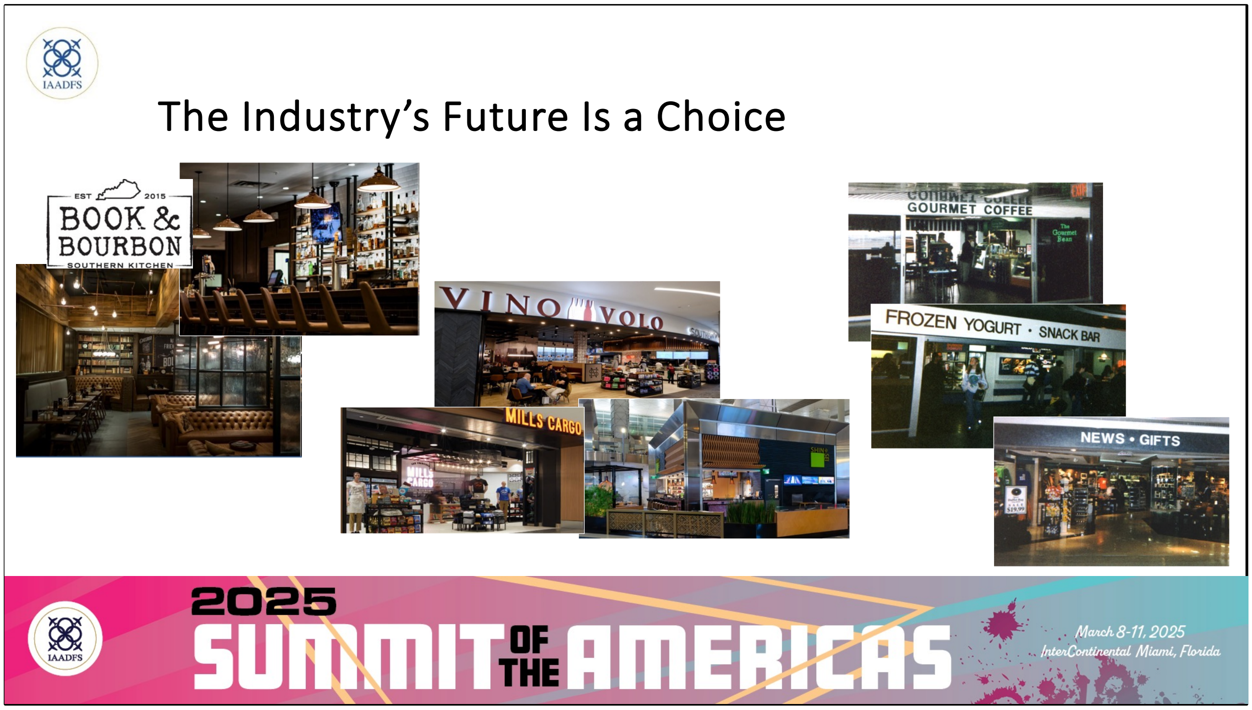
1. Inflation in costs of goods and other business cost
2. Perhaps most important, a sharp rise in% mandated minimum wage legislation. This is critical since there's no connection to the market



<u>Andy</u>

The "model" is broken. That said, we still have a choice. We can choose which fork at the crossroads we take:

Make changes to the business framework so that we can continue to offer variety, brands, service levels, prices that we all – airports, operators, and, most important, customers – have come to expect.



<u>Andy</u>

Or we keep the current economics and potentially regress. You remember: no brands, high prices, limited variety, dubious quality.

<u>Andy</u>

So, allow me to assume that we all want the former. Our customers want the former.

What is involved in a “vibrant future”?

Perhaps it’s a new rent structure:
- Lower rents
- Profit sharing

Perhaps it’s new ways of sharing capital costs and risk

Pricing? Always a possibility. But we need to be careful, to not create customer push-back

And so it goes: labor, brands, merchandising, program planning and sizing, how are tenders conducted.

Everything should be on the table. Because we have to come at this together – airports and operators.

So, I now turn it back to you Dermot – and Judy, David, and Derryl – for ideas of what to put on the table.

Creating a Vibrant Future

Co-Organized By:

The Moodie Davitt Report

ARRA Airport Restaurant & Retail Association

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