

# Concession Contracts: Improving Sales, Revenue and Compliance Through Lease Terms

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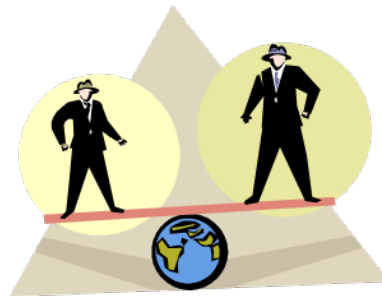


# Overview

- **What sets up an agreement for success for all parties?**
- **All contract terms contribute to success**
  - MAG
  - Percentage Rents
  - Term
  - Pricing
  - Incentives and Disincentives
  - Termination
- **This is a discussion, not a solution**
- **Finding the win/win/win**
- **PLEASE REMEMBER: YMMV**

# The Key is Being SMART

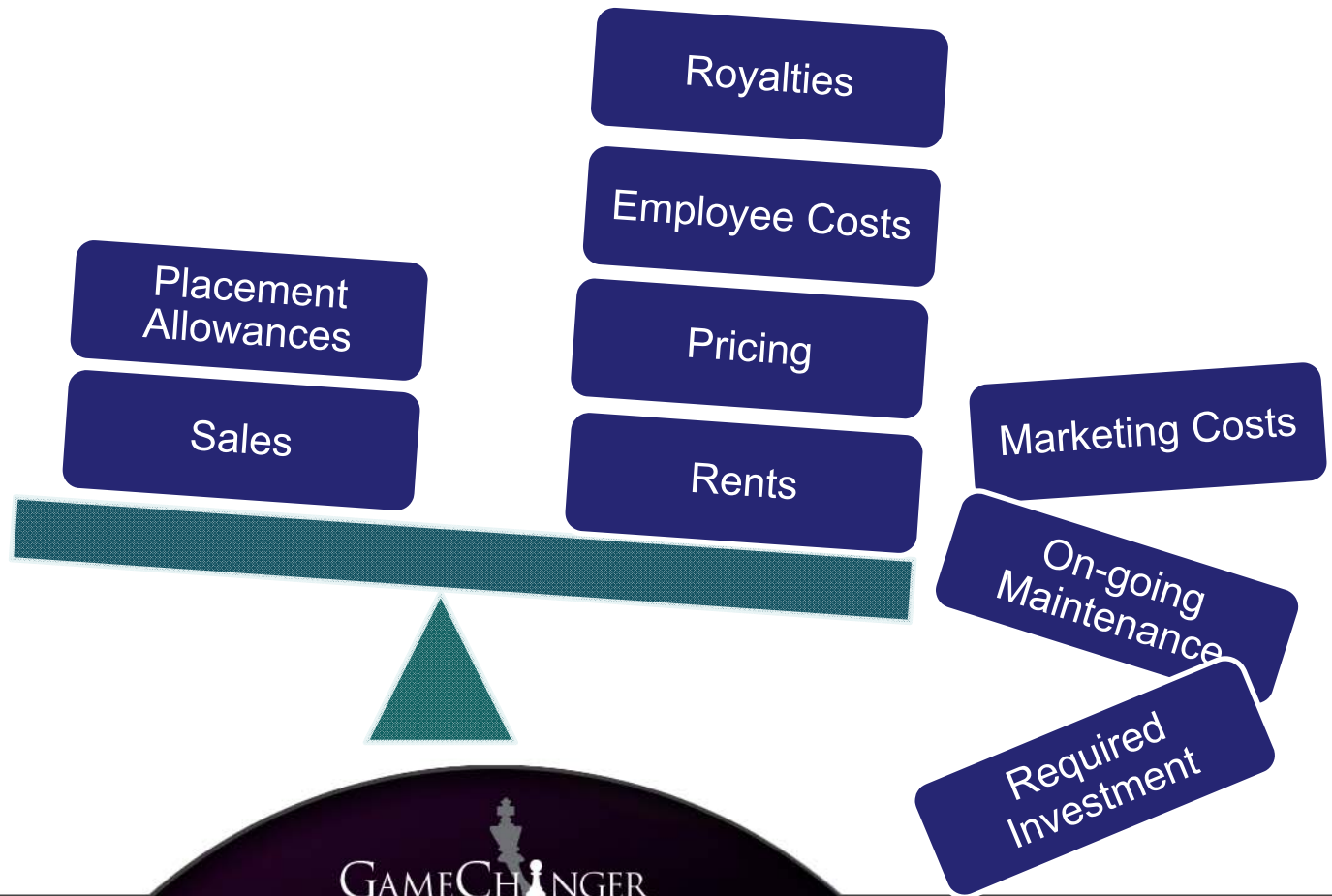
- Create a win/win/win situation
- Sensitive to “Force Majeure”
- Parties must be held responsible for their actions
- Flexibility
- Must focus on both top and bottom line



# The Balancing Act

Revenue to Vendors

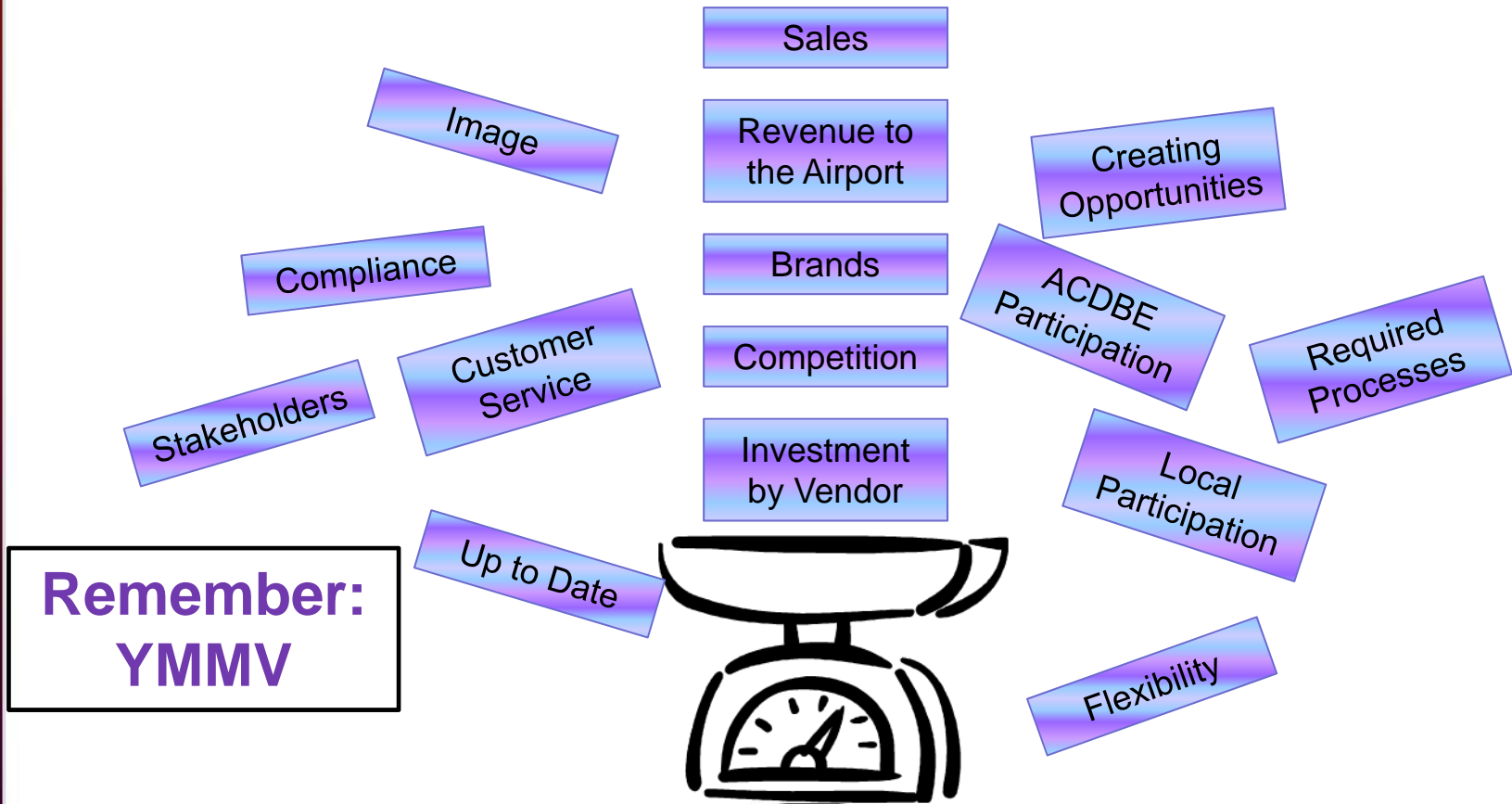
Pressures on Vendors



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ARN 2011 Revenue Conference & Exhibition

# Key Issues for Airports



# Minimum Annual Guarantee

- **Why a MAG?**
  - Airport security
  - Competition
  - Incentivize sales growth
- **How to set MAG**
  - We want to make THIS much
  - PSFPA (based on airline charges???)
  - Percentage of previous year payments
  - Per enplaned passenger
- **The “street” way**



# Percentage Rents

- **Branded vs. Non-Branded**
- **Graduated**
  - Upwards (greater sales, higher percentage)
    - *Start-up businesses with unknown chance of success*
    - *Airport gains more as they supply more customers*
  - Downwards (greater sales, lower percentage)
    - *Incentify top-line growth*
    - *Incentify promotional activities*



# Length of Lease



- **Pressures for longer terms**
  - Need to depreciate/amortize investment
  - Reduce risk
  - Easier/cheaper than competing
- **Pressures for shorter terms**
  - FAA
  - Eliminate the sense of entitlement
  - Revamp and revitalize
  - The world changes



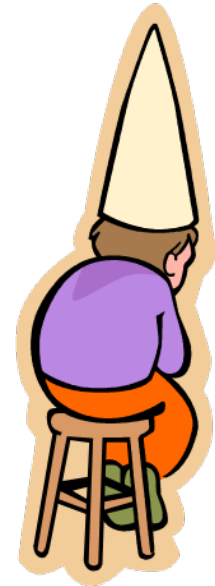
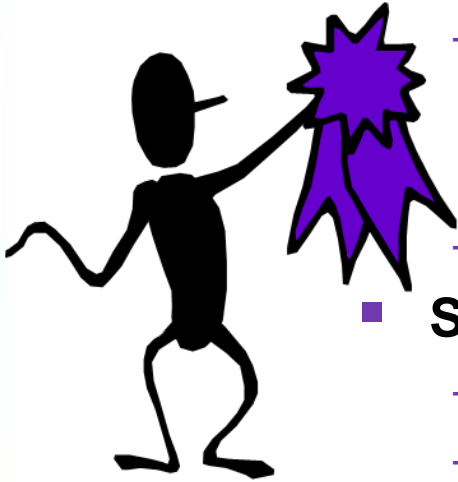
# Pricing

- **Why do we need pricing controls?**
- **Street**
  - What is “street?”
    - *What isn't “street?”*
  - Street plus how much?
- **Cost Plus?**
  - Difficult to administer
  - Requires a lot of information
  - Confidentiality



# Incentives and Disincentives

- **Carrot or stick**
- **One? Or both?**
- **Form**
  - Financial rewards/penalties
    - *Cash amounts*
    - *Change in percentage rents*
  - Changes in term
- **Subject to Incentives/Disincentives**
  - Lease term compliance
  - Performance above/below expectations
  - ACDBE/other subcontractor participation
  - Timely completion of build-out



# Termination

- **Most authorities want T for C**
- **Ability to move/relocate/change**
  - Buy-out
  - Right of vendor to say no



# In Summary

- **Optimal contracts are holistic**
- **Strike a balance**
- **Form a partnership**
- **Each party must be held to their responsibilities**



# Questions Comments Thoughts

