

MERCHANDISING GUIDANCE

I. BACKGROUND

A. Development Process

In 2007, the airport undertook a major revision of its concessions policy. Since then, the Concessions Management Group has worked to improve concession policies and procedures, RFP documents and process and planning related to merchandising at the airport. The revised policy announced the intent to create a merchandising plan for the concessions program. Several consultants were hired to help evaluate the current concession program, to identify areas of improvement, and to understand DIA's customer demographics and shopping patterns.

In conjunction with work on the merchandising plan, the airport began work with concessionaires on an "Earned Value" program, which will be summarized later in this document. Due to the scope and impact of the "Earned Value" Program, the merchandising plan has been altered in scope to become the Merchandising Guidance. This enables the original plan to have the flexibility needed to address an unpredictable inventory as a result of keeping top performing concessionaires operating at the airport through the Earned Value program.

B. Feedback Process

Substantial resources were utilized to communicate the draft versions of the former Merchandising Plan with various stakeholders, industry experts and airline partners. The industry experts identified were consultants within the airport industry, retail specialists and management of other airports. Several stakeholders were identified as frequent travelers, current concessionaires, airlines, city officials and potential proposers to the concessions program. The resulting Merchandising Guidance reflects the information exchanged through that communication process.

C. Summary of Relevant Feedback

1. Top performing concessions should be allowed to continue
2. Greater timeliness in remodels
3. Greater emphasis on design
4. Better outreach techniques to local business
5. More emphasis on performance
6. Incorporation of small businesses into the program
7. Branding should be discussed in the merchandising plan

II. CUSTOMER

A. Passenger Characteristics

	All	Concourse A	Concourse B	Concourse C
Arriving	51%	49%	48%	55%
Departing	49%	51%	52%	45%
Transferring	43%	45%	41%	41%
Business	35%	31%	35%	39%
Leisure	22%	24%	24%	20%
Both	40.0	39.6	40.5	40.0
1-2 Flights/Year	23%	22%	27%	21%
3-5 Flights/Year	32%	30%	31%	36%
6+ Flights/Year	22%	22%	20%	24%

Transferring Passengers

1. *Approximately 22.7 million passengers connected through DIA in 2008.*

O&D Passengers (originating in Denver or Denver destination)

1. *Approximately 28.5 million O&D passengers used DIA in 2008.*
2. *75% of DIA's O&D Passengers are within a 51 minute drive of the airport.*

Meeters, Greeters, and Well-Wishers

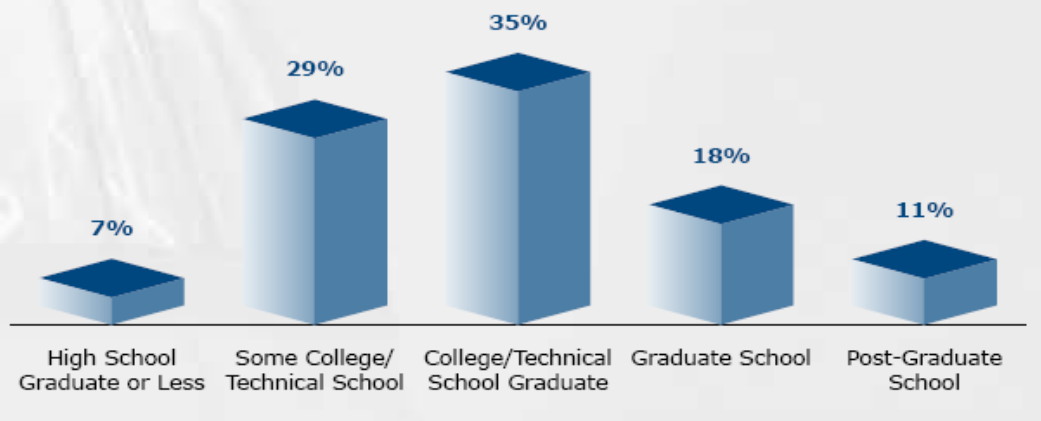
1. *In 2008, there were approximately 11 million meeters, greeters, and well-wishers. This group is restricted to the pre-security Jeppesen Terminal.*

B. Passenger Demographics

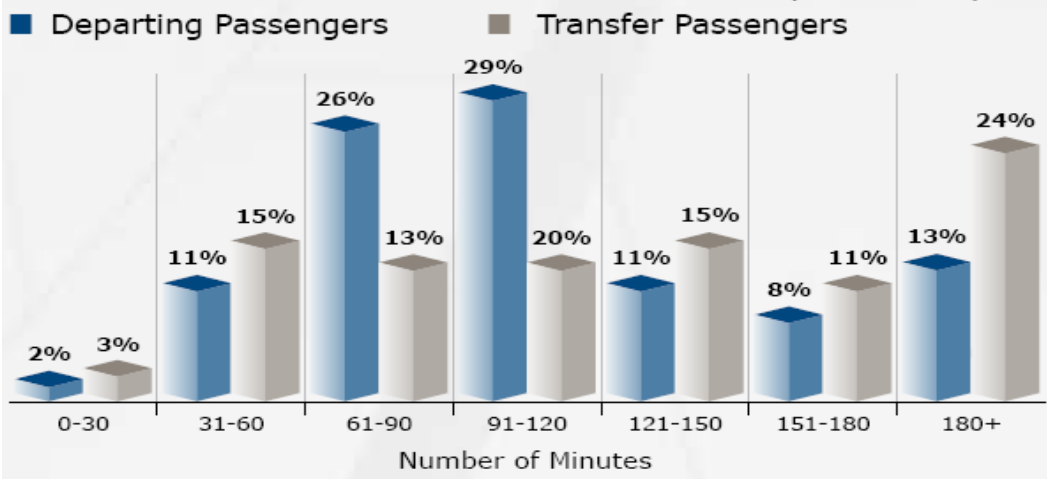
PASSENGER DEMOGRAPHICS PER CONCOURSE

	All	Concourse A	Concourse B	Concourse C
Male	51%	49%	48%	55%
Female	49%	51%	52%	45%
<35 years	43%	45%	41%	41%
35-54 years	35%	31%	35%	39%
55+ years	22%	24%	24%	20%
Mean Age	40.0	39.6	40.5	40.0
<\$50k/HH	23%	22%	27%	21%
\$50k-\$99k/HH	32%	30%	31%	36%
\$100k - \$149k/HH	22%	22%	20%	24%
\$150k+/HH	23%	26%	22%	19%

PASSENGER EDUCATION PROFILE



LENGTH OF WAIT AT CONCOURSE (Dwell Time)



C. Enplanements. It is a standard industry measure to use enplaning instead of total passengers to measure the customer base for concession goods and services. An enplaning passenger is one who boards a plane, typically, departing or connecting.

Since 2002, enplanements have grown at an average annual rate of 5%. In 2008, enplanements reached 25,650,294

III. PROGRAM OVERVIEW

A. Concessions Program Information

DIA's concession program consists of 167,000 square feet of concession space and more than 140 merchants. In 2008, the Concession Program generated over \$252 million in annual gross sales, \$1,457 per square foot and \$9.81 per enplaning passenger.

1. *Food & Beverage generated \$148 million in gross sales, \$1,321/sf and \$5.80/enplanement.*
2. *Specialty Retail generated over \$71 million in gross sales, \$1,230/sf, and \$2.80/enplanement.*

B. Revenue Per Concourse

2008	Concourse A		Concourse B		Concourse C		Terminal	
Average	Sales/SF	\$/Enpl	Sales/SF	\$/Enpl	Sales/SF	\$/Enpl	Sales/SF	\$/Enpl
Food & Beverage	\$1,598	\$4.38	\$1,369	\$5.96	\$1,470	\$4.33	\$820	\$1.10
Retail	\$1,433	\$2.30	\$1,504	\$3.04	\$1,385	\$2.17	\$599	\$.042

C. Concession Agreement Turnover

Expiring Agreements & Square Footage		
Year	Number of Locations	Square Footage
Holdover	18	10,646
2010	10	9,958
2011	13	13,516
2012	28	26,208

D. Earned Value

The Earned Value Program is a proposed scoring system that evaluates concessionaires in operations, financial performance and customer service and awards a new concession agreement to strong concessionaires in a merchandise category in accordance with concession agreement policies. The program also allows the airport to directly negotiate with premier local and

national brands in addition to marketing space via the RFP process. Earned Value incentivizes concessionaires to provide great customer service, enhance sales and comply with lease provisions in a timely manner. By keeping and bringing in the best, overall sales will increase leading to increased profitability to concessionaires, rent to the airport, and sales tax to the city.

Average Sales per square foot of Top Third: \$2,653

Overall Average Sales per square foot: \$1,457

In Process: Concessions located in the Terminal or designated as Services represent unique considerations. Because the determination of earned value relies on comparability among a class of concessions in financial performance and customer service, the terminal has been excluded due to its historical underperformance relative to concourse locations. Currently the terminal sales per square foot are about half of the concourse average. Further there are physical changes to the terminal discussed below which are also a factor. Services is a small category representing 1% of the concessions rent generated to the airport. Due to the size of the overall services category, a service such as shoe shine or money exchange is generally a single operator business which lacks comparability. We recognize the importance of services to airport passengers and are committed to exploring an alternative Earned Value program for Services.

E. Typical Airport Offerings

Newsstands, bookstores, food & beverage operations, and specialty coffee have been identified as the staple concepts of an airport concessions program and should be represented in all areas of the airport. Staples are necessary or important food and retail concepts that are in high demand by the traveling public, employees or visitors of the airport. Staples usually generate the highest sales per square foot compared to the non-staple concessions of the program.

F. General Staple Strategies

The following represent airport strategy by staple category:

1) Newsstands & Bookstores

- a. Newsstands and Bookstores need to have a larger venue to reflect greater customer base, accommodation of carry-on baggage, and customer need for quality and variety.
- b. The Center Cores of each concourse currently have two newsstands and one bookstore.
 - i. One newsstand and bookstore would be combined to provide a larger selection of reading materials.
 - ii. The other location, a newsstand would provide reading materials and periodicals, as well as traveler convenience items and Colorado souvenirs.

c. Sub core and outer core newsstands should provide reading materials and periodicals, as well as traveler convenience items and a modest selection of inexpensive Colorado souvenirs.

2) Food & Beverage Operations

- a. Food Courts shall consist of brands that are typically found in food courts in airports and other venues focused on providing quick service of meals.
- b. Where feasible, encourage coverage of all day-parts (i.e. breakfast, lunch and dinner).
- c. Addition of concepts that passenger surveys indicate are in high demand.
- d. Ensure concepts have a variety of price points.

3) Specialty Coffee

- a. Supportable in center cores as well as strategically placed nearer to passenger gate hold areas. Passenger convenience and desire for brands should be considered in placement and leasing decision.

IV. TERMINAL AND CONCOURSES

A. Terminal Characteristics

The Terminal significantly underperforms relative to Concourses resulting in a smaller pool of potential proposers. Retailing in the terminal is fractured by extensive security operations and dispersed traffic patterns. Significant impacts to the Terminal are projected due to FasTracks, changes in the location of security checkpoints, and the construction and opening of a Hotel. The Terminal plan is currently being determined and construction work is estimated to be 3 to 5 years out. The uncertainty created by these issues presents practical challenges to issuing RFP for terminal spaces.

B. Concourse Characteristics

Concourses perform well compared to the terminal and other airport venues. Customers prefer to eat and shop post-security nearest to their gates. Customers typically do not shop between concourses with the possible exception of the seasoned or international traveler with significant time between flights. Customers indicate a high regard for variety and branding. The Concourse Center Cores receive greatest exposure as these are the focal points of gate-bound traffic, while traffic exposure diminishes in sub-cores. Customers prefer to shop near their gates, followed by Center Core.

C. General Merchandising Strategies

1. Terminal

- a. Pursue steps that will stabilize existing concessions through holdovers.
- b. Where possible, add new concessions through temporary leasing.
- c. Add RMUs for ski season and vacations

2. Concourses

- a. Ensure that the staple concepts are in all cores and sub-cores
- b. Specialty Retail prioritized in center cores due to higher exposure, as well as strategically placed in sub-cores
- c. Combine some spaces to make larger spaces where feasible to accommodate passengers with carryon luggage.
- d. Add RMU's
- e. Increase variety of offerings
 - a. Food courts to contain high appeal branded food concessions suitable for high meal volumes
 - b. Quick Serve and Casual Dining to cover a mix of American, ethnic and healthy options
 - c. Specialty retail to cover travelers necessities in fashion, electronics and gadgets, luggage, gifts, Colorado specific merchandise, cosmetics and gallery type concessions

D. Concourse Specific Strategies

1. Concourse A

- a. Re-concept poor performing spaces at the end of their term.
- b. Expand outer core newsstands
 - i. Smaller spaces limit the variety of news offerings
 - ii. Specialty retail spaces, with some exceptions, are poor performing in sub-cores and can be replaced with expanded news or food offerings
- c. Add specialty coffee locations in outer core to meet demand

2. Concourse B

- a. Improve the specialty retail mix to appeal more to business travelers.
- b. When appropriate, a premier fine dining with bar restaurant in center core
- c. Convert under-performing retail upon lease expiration.
- d. Outer sub core strategy is to reconfigure spaces as necessary to accommodate optimally sized Newsstands, Specialty Coffee, Quick-Serve and Specialty Bar concepts.
- e. Inner Sub Core strategy is Casual Dining Bar, Newsstands, Retail and Snack concepts.

3. Concourse C

- a. Expand specialty retail mix in the center core by leasing vacant retail space and re-merchandising as agreements expire to accommodate increasing traffic on Concourse C.
- b. Add Quick Serve with Bar concept to Center Core when it is appropriate to do so.

V. Premier Brands

Earned Value gives the airport the discretion to issue RFPs or negotiate individually with brands. Customers recognize brands on a local, regional, national, or international basis. Brands bring a sense of familiarity, quality, comfort and expectation that enhances the customer experience. Below are examples of local and national brands whose merchandise customers have expressed as appealing either through intercept surveys or in local media.

Food

- ◆ Capital Grille
- ◆ Elway's
- ◆ Jax Fish House
- ◆ Ted's Montana Grill
- ◆ Bonnie Brae Ice Cream
- ◆ Moongate Asian Grill
- ◆ M&D's BBQ Café

Retail

- ◆ Rockmount Ranchwear
- ◆ Apple
- ◆ Cry Baby Ranch
- ◆ Chico's
- ◆ Sony Style
- ◆ Pine Creek Clothing Company
- ◆ Paradise Pens