Analysis of City Staff Recommendations

RE: Dallas Love Field Food and Beverage Concessions Contract

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Executive Summary

Because of the news stories, speculation, and charges surrounding the Dallas Love Field Joint Venture, Ltd. (and its successor Love Partners I, Ltd, called "DLFJV") concessionaire contract extension and renewal recommended by the City staff and unanimously approved by the City Council Transportation and Environment Committee on February 22, 2010, I was hired as an independent third party (with no ties to the industry) to examine and analyze the proposed contracts and related facts. This white paper provides my analysis of the proposed contracts. Before providing my key findings it is important to note that much of the debate has focused on the financial details of the contracts. While these details are tremendously important, they are not the only factors considered in the industry when evaluating proposed concession contracts. For instance, in the 2007 Request for Concessions Proposal at DFW Airport, the key considerations, and their relative weights were: [1]

1) Minority/Woman Disadvantaged Business Enterprise – 20%
2) Local Business – 10%
3) Concept, Management, Staffing – 25%
4) Revenue to Airport – 15%
5) Proposer Experience/Financial Information - 30%

It should be noted that the objectives implied by these criteria can be conflicting, making clear-cut determination of the 'best' proposal difficult, and suggesting that attempts to only maximize revenue to the city is in conflict with other goals and responsibilities of the city council. Key findings in this report related to the above criteria include:

1) MWDBE and Local:
    a. DLFJV is 100% minority owned, and is designated as a disadvantaged business enterprise.
    b. DLFJV is based in Dallas and is locally owned.
2) Management/Staffing/Concept:
    a. High quality and committed to customer service. DLFJV has received numerous awards, and an excellent rating from Smart Shopper. The low 2010 JD Powers' survey rating is contradicted by ARN award as #1 airport for customer service and Smart Shopper ratings of 'excellent.' The City itself has acknowledged the high quality of performance of DLFJV in committee meetings and in recitals contained in the contract itself.
    b. Committed to diversity in the hiring of employees: 66.7% of management and 90% of all employees are minority and/or women. Further, the wages for hourly, tipped and first-line managers are above local (Dallas/Fort Worth/Arlington) and national averages.

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[1] Source: Martin Moodie (2007), "Dallas/Fort Worth International Airport calls retail and food & beverage RFP – 12/04/07," Moodie Report, http://www.moodiereport.com/document.php?c_id=1178&doc_id=13767. I also note that the relative weights for these criteria may be different for Love Field, and that the FAA has mandated that some of these criteria must change (e.g., MWBE enterprise must now be a disadvantaged business enterprise, and Local business can no longer be considered), this list provides a good starting point for illustrating key criteria and their relative importance.

    c. Has access to many brands desired by the passengers. Additionally, through their relationship with HMSHost, they have access to brands available in more than 100 airports around the world.

3) Revenue to City:
    a. Rents paid to Dallas by DLFJV have increased by approximately 80% over the period from 2005-2009, much faster than either sales growth (approximately 65%) or enplanement growth (approximately 32%). The increase in sales, double the rate of the increase in enplanements, suggests DLFJV is providing excellent customer service, and providing brands and facilities desired by the passengers.
    b. Rents per enplanement and per square foot better than comparable airports.
4) Proposer Experience:
    a. According to City staff, DLFJV has been an excellent operator and has been successful at Love Field, see, e.g., rents findings above and Transportation Committee meeting minutes from April 28, 2008. DLFJV has operated all food and beverage concessions at Love Field since 1996 (except McDonalds) and through its affiliates has operated numerous concepts at DFW for the past 15 years. Prior to that, the principal owner of the company operated a successful street side restaurant business since the 1980's.
5) City Staff Recommendation Concerns:
    a. Rather than being rare in the industry, contract extensions appear to be very common. HMSHost reports that they have received extensions at 50% of the airports in which they operate. DFW, Houston George Bush, LAX, Austin Bergstrom, Houston Hobby airports are among the airports granting contract extensions. Las Vegas McCarran International and Palm Beach Airports are very good examples of airports that utilize a blended approach of RFPs and negotiations with existing tenants. In fact, APA Parking received a five-year contract extension at Dallas Love Field in 2009 (City Council meeting minutes, June 10, 2009).
    b. DLFJV stands to lose anywhere from $3.6 to $5.7 million over the 40 months of construction, ignoring any risk factors other than reduced passenger flow over the last 19 months of the contract. These potential losses and risks appear to be the driving force for increasing the length of the contract from 10 to 12 years.
    c. It is difficult to argue against the premise that providing a contract extension would reduce competition in the new terminal, at least in the short-term. That said, the competitive concerns should be outweighed by ensuring high-quality services are provided to passengers during the construction period, i.e., over the short-term. After the construction period is completed, competition is ensured by bidding part of the space (and the city can decide how many packages of real estate to bid). Given the attractiveness of the space, the city has ensured that the extensions given to incumbents have similar rental and performance terms as the winning bids through contract provisions already provided and discussed in city council briefings
    d. The staff recommendation providing a contract extension with DLFJV has a minimum annual guarantee (MAG) of $0.90 per enplaned passenger, compared to the $0.59 rent per passenger in 2009, a 53% increase. Therefore, the contract extension appears to be a very good deal for the city from a financial standpoint.
    e. The quality of the brands provided to the passengers appears to be in city's control as they will approve the brands placed in the new space.

f. Fair and open process, consistent with city council recommendations and DFW policies was followed through the contract negotiations and transportation committee vote: a three year process of City Council briefings, negotiations with the concessionaires, strong input from the City's consultant, and final contract preparations by the City attorney, and, of course, the transportation committee vote which unanimously approved the contracts this year.

6) Going forward:

a. The first decision which must be made is whether or not a high-quality operator which provides well-known brands is desired during the construction phase or not. If so, then whether or not the council goes with DLFJV, the prime contractor will require financial and/or contract incentives (e.g., space in the new terminal) to stay through the construction phase to mitigate their losses and risk (the city council briefing on May 27, 2010 notes that the potential losses makes this "venture highly risky for new concessionaire.") It is reasonable to assume that any new concessionaire will do financial projections similar to the ones in this report and read the council briefings. If the city chooses to not make the necessary incentives available to the high-quality operators, the city can bring in other operators, but these operators will be unwilling to make investments and use national brands which have staffing and other service-level requirements which drive the losses. Therefore, they will either attempt to make minimal investments to use the stripped-down facilities left by DLFJV or Love field will be left with hot dog and other vendors in carts. This latter scenario would be a disaster from an image standpoint for the city of Dallas, and, while not attempting to speak for Southwest Airlines, I suspect that they would be unhappy with this situation.

b. Assuming that the council decides to go forward with a high-quality operator, they must then make the decision of whether to go forward with negotiations with DLFJV or request proposals. As noted by staff, the RFP process will be expensive and take some time to complete. In addition, I would expect that the highly politicized, public and personal nature of this controversy[2] would make the bidders more cautious in their dealings with the city. Specifically, they would want the mayor and several council members participating in the negotiations. This last requirement derives from the fact that the mayor, possibly unintentionally, has signaled a lack of trust in city staff and transportation committee after rejecting their unanimous vote to approve the contract extensions with Hudson, the incumbent retail concessionaire, and DLFJV after the fair and open process noted above.

c. In summary, I would agree with the staff recommendations: "*The cost of going through all this process, plus the challenge of trying to run restaurants and shops during major construction means keeping the same guys in place makes the most sense, even if it means less competition in the short term.*"[3] Further, the three year delay in this process has already resulted in loss of revenue to the City from concession expansion proposed by the concessionaires and a loss in Love Field's reputation for superior customer service. Any additional delay only exacerbates the situation.

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[2] As an aside, the fact that most of the news has focused on DLFJV, and ignored Hudson – which has requested a similar extension – makes me wonder if something else is driving this controversy.

[3] http://aviationblog.dallasnews.com/archives/2010/06/more-on-gilbert-aranza-and-lov.html.

Introduction

Because of the news stories, speculation, and charges surrounding the Dallas Love Field Joint Venture, Ltd. (DLFJV) concessionaire contract extension and renewal recommended by the City staff and unanimously approved by the City Council Transportation and Environment Committee on February 22, 2010, I was hired as an independent third party (with no ties to the industry) to examine and analyze the proposed contracts and related facts.

The current debate about the contract extension seems to center around financial considerations of the extension (e.g., ensuring competition, maximizing rent, etc.) and process considerations (e.g., was the process fair and open). There is no doubt that both of these considerations are important and of serious consequence. However, the conversation has been missing the other fiduciary responsibilities of the city council and mayor. For instance, in a 2007 RFP for concessionaires at DFW airport, the financial considerations (e.g., rent) was only 15% of the evaluation criteria. The remaining 85% of the evaluation criteria were devoted to other fiduciary duties such as empowering and representing disadvantaged business enterprises, the experience and financial strength of the proposer, quality of brands brought to the table, etc.

A second key element missing from the conversation has been to put the decision into context. It is almost an academic discussion of whether or not competition is better. There is no doubt more competition is better (one of the fundamental principles of the Federal Trade Commission), as long as the short-term as well as long term goals can be met. For instance, the incumbent concessionaires' contracts expire before the end of construction at Love Field. So, one short term goal is to ensure high-quality concessions in the airport through the construction phase. The problem is that my analysis below suggests that the incumbent faces multi-million dollar losses during the construction phase. This analysis is consistent with the City council briefing on May 27, 2010 in which City Staff suggests that it would be very risky for a new concessionaire to provide services during the construction phase as they would be facing losses for the last two years of the contract due, in part, to the $1.2 to $2.4 million capital investment required. Others have speculated that the capital investments could reach $4 million or more.

Therefore, the city will have to provide incentives in the form of more favorable contract terms, reduced rents and/or real estate in the new terminals to attract high-quality concessionaires. Without these incentives, the city could attract other vendors to provide services, but they would not be willing to make capital improvements required to provide high quality products, services, brands, and staffing. Therefore, the city could be faced with the proposition of having popcorn and hot dog stands providing concessions in the airport. This situation would be a disaster from an image standpoint for the City of Dallas.

The remainder of this document is organized as follows. In the next section a historical analysis of the performance of DLFJV is provided which is intended to address not only some of the additional criteria implied by the RFP criteria, but to also provide context for the discussion. I focus only on DLFJV and do not include Hudson, even though Hudson is seeking a similar extension for several reasons. First, somewhat surprisingly, the conversation in the news media has focused primarily on DLFJV and its owner, and this white paper is intended to correct and help the discussion move forward. Second, my time (but not my opinion) was funded to only investigate DLFJV.

The third section then discusses some key elements of the contract extension to put the terms into context. Included in this section is a discussion not only of some of the concerns raised in regards to the contract, but a discussion of the process, noting that contracting extensions are not 'rare' in this industry. In fact, the Dallas City Council approved a five-year contract extension to APA Parking in 2009. The final section then provides the key conclusion and recommendation of this report, which is that when the context is considered, it appears that the contract is a good deal for the city even if it means reducing competition over the short run. This conclusion is consistent with the City staff recommendations.

Historical Analyses

In this section we examine the performance of Dallas Love Field Joint Venture, Ltd (called "DLFJV") from three of the key stakeholder viewpoints: the flying public, the employees and the city. I use these criteria, as they are noted as being part of the RFP criteria for the DFW airport. Specifically, Disadvantaged Business Enterprise and Local business are 30% of the evaluation criteria, Concept/Management/Staffing is 25% of the evaluation criteria, Proposer Experience and Financial Information is 30% of the evaluation criteria, and rental income to the airport is 15% of the criteria.[4] I used DFW criteria because Dallas appoints seven of eleven board members for DFW airport (so, the city should approve of these criteria), and I do not know of any published evaluation criteria for Love Field. Additionally, the minutes from Transportation Committee meeting on the April 28, 2008 indicate not only that the city has the authority to enter into direct negotiations with the concessionaires, but the staff was asked why they had not done so already.

Employees

In this section, we examine two key measurements of employee welfare for DLFJV, and its parent company Star Concessions, Ltd. (called "Star"). The first metric is provided in Table 1, and shows minority/female employment as a percentage of total employment as of March 9, 2010, i.e., their commitment to hiring minorities and women. This table demonstrates DLFJV's commitment to EEOC employment as fully two thirds of the salaried and 92.8% of the hourly employees are minorities and/or women. For the entire company, 90.3% of all employees are minorities and/or women.

Table 1. Female/Minority Employment by Job Class[5]

	Minority[1]		Female		Total	
	Number	Percent	Number	Percent	Number	Minority or Female Percent[2]
Salaried						
Corporate Office	5	38.5%	7	53.8%	13	69.2%
Operations	24	54.5%	12	27.3%	44	65.9%
Subtotal	29	50.9%	19	33.3%	57	66.7%
Hourly						
Corporate Office	2	28.6%	7	100.0%	7	100.0%
Love Field	140	83.3%	86	51.2%	168	89.9%
DFW	301	82.7%	211	58.0%	364	94.0%
Subtotal	443	82.2%	304	56.4%	539	92.8%
Total	472	79.2%	323	54.2%	596	90.3%

Notes: 1. Minority defined as African American, Hispanic or Asian.
2. Total Female/Minority percent corrects for employees in both categories

[4] Source: Martin Moodie (2007), "Dallas/Fort Worth International Airport calls retail and food & beverage RFP – 12/04/07," Moodie Report, http://www.moodiereport.com/document.php?c_id=1178&doc_id=13767.

[5] Source: Company EEOC report dated March 9, 2010.

The second measurement for employees is the hourly wages, which are provided in Table 2. The values for DLFJV are compared to the average (mean) wages for the United States and Dallas/Fort Worth/Arlington areas (2009).[6] The standard errors for the US and DFW/Arlington values are provided in parenthesis and are a measure of the reliability of the estimates. One striking fact from this table is that DLFJV provides much higher wages to their employees than the average for either the US or the local area (Dallas/Fort Worth/Arlington). One implication is that if DLFJV was not renewed, one could expect the new operator to provide somewhere near the average salaries for the local area, which would result in significant loss for the employees.

Table 2. Hourly Wage Comparison

	United States[1]	Dallas/ Fort Worth/ Arlington[1]	DLFJV[2]
Exempt			
Managers[3]	15.12	14.79	19.38
	(0.20)	(1.90)	
Hourly			
Bartenders[4]	10.08	9.32	20.86
	(0.40)	(2.60)	
Wait Staff[4]	9.80	9.03	20.86
	(0.40)	(1.70)	
Non-tipped[5]	8.71	8.32	9.07
	(0.30)	(1.20)	

Notes: 1. Source: US Bureau of Labor statistics for May 2009.
2. Source: Internal company report.
3. Managers Hourly wage calculated by dividing salary by 2080 hours.
4. Bartenders and wait staff combined for DLFJV. Values include tips.
5. Use combined wait-staff and server wages for US and DFW/Arlington.

In addition to the wages, hourly employees receive paid vacations, paid holidays and discounts on meals. DLFJV tried to offer health and dental insurance for the hourly employees, but was not able to institute the program because insurance companies require 75% of the employees to sign up for the program, which did not happen.[7]

Finally, I looked at turnover rates. These rates are indicators of employee satisfaction and are indirect indicators of their willingness to provide good customer service. DLFJV's turnover rate for their hourly employees stands at 70%[8], whereas the average turnover for fast-food restaurants for the

[6] Source for the US and DFW/Arlington Numbers is the US Bureau of Labor Statistics Occupational and Employment statistics. They can be found at: http://data.bls.gov:8080/oes/occupation.do.
[7] Source: Internal company report.
[8] Source: Internal company report.

12 months through third quarter of 2009 was 116% and for non-fast food restaurants was 80%.[9] Therefore, their turnover rates for DLFJV are well below the industry average.

In summary, DLFJV pays their employees more than the local average for restaurants, and has a strong commitment to hiring and promoting minorities and woman, with slightly more than 90% of their employees being minorities and/or women. Further, their employee turnover rate is well below industry averages. Finally, DLFJV is a disadvantaged business enterprise.

Flying Public

In this section we examine the satisfaction of the flying public with the concessions offered by DLFJV and Star. Some of the awards won include:

1. JD Power & Associates – Love Field as #1 or #2 Airport for years 2006-2008. They did not do a 2009 report. In both the 2007 and 2008 reports, concessions at Love field received four of five stars.[10]

2. Airport Revenue News - Love Field ranked #1 in customer service for 2009.[11]

3. Favorite Places to eat (Cool River) – Gary Stoler (June 9, 2009), "Airport Treats that are worth the wait," USA Today.

4. DFW Concessionaire of Year Award (2001, 2006, 2008, 2009).[12] This award has been granted nine times, with a range of 21-26 competitors.

As noted in the Ad Hoc Concession Committee Meeting minutes (5-20-2010), the 2010 JD Power (for calendar year 2009) report showed Love Field had slipped to the bottom of the ranking with 679 points compared to 709 points for 2008 report. In the 2010 report, all services in the airport were rated lower, not just food and beverage. All services in the airport other than retail had been

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[9] Frumkin, Paul (December 21,2009), "Industry lobbies for health care admendment," Nation's Restaurant News, http://www.nrn.com/article/industry-lobbies-health-care-amendment. Also see Flex Execs Management Solutions "WHY DO PEOPLE LEAVE? :Employee Retention," http://www.flexexecs.com/fe_images/WOWno5.pdf

[10] Sources: JD Power & Associates Reports 2006, 2007, 2008, 2010. Available at JDPower.com, http://businesscenter.jdpower.com/news/pressrelease.aspx?ID=2008050, http://businesscenter.jdpower.com/news/pressrelease.aspx?ID=2007077, .

[11] Source: http://www.airportrevenuenews.com/newsArchives/2009/news022720095808.php

[12] Source: http://www.starcons.com/news.asp.

ranked with four or more stars previously. In fact, the only service with greater than two stars was baggage claim. As noted in the JD Powers press release,

> "*However, the study finds that the areas with greatest impact on overall passenger satisfaction are speed of baggage delivery; ease of check-in and baggage check; comfort in airport terminals; and the amount of time required for security check.*"[13]

So, it appears that there is a halo effect associated with the construction and/or security and/or check-in which is bringing down the satisfaction ratings for all services in the airport. This hypothesis is supported by the fact that the 2009 award from ARN for best customer service at a mid-sized airport covers the same time period as the 2010 JD Powers survey. Additionally, their commitment to customer service is demonstrated not only by the many awards noted above, but also by their secret shopper program. The purpose of the program is to provide accurate feedback to the organization regarding customer service and procedures, where they have received very good grades. In their recent report from July 2010, DLFJV received an overall score of 93.9% for the Chili's at Gate 2, a 97% score for the lower-level Chili's, and a 100% score for the Cinnabon. All of the scores were given a rating of 'Excellent' from Smart Shopper.

In summary, DLFJV has a history of providing excellent service not only at Love Field, but at all of their locations, including DFW. This service has been nationally recognized. Their commitment to excellent service is epitomized by the hiring of third party (i.e., Smart Shopper) organizations to evaluate and provide feedback on the service provided.

Dallas

In this section, we examine the financial performance of DLFJV to see how it is performing, even though the minutes from the March 3, 2010 city council briefing suggest that some city staff believe that the concessionaires are 'first class' operators. Table 3 provides the financial performance for the years 2005-2009.[14]

There are a couple of interesting points in this table. First yearly rents grew approximately 80% from 2005 to 2008 ($1.3 million to $2.3 million) even though sales only grew by approximately

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[13] Source: http://businesscenter.jdpower.com/JDPAContent/CorpComm/News/content/Releases/pdf/2010015-naas.pdf.

[14] Source: Internal company financial report.

65% ($8.7 million to $14.4 million), and enplanements only grew by 32% (2.9 million to 3.9 million). Second, while Sales decreased in 2009, rents to the city decreased by a smaller percentage. Finally, even considering the drop in 2009, all rent metrics have substantially increased as compared to 2006.

As pointed out in the Love Field Transportation Committee meeting minutes (February 22, 2010) and the city council briefing minutes (March 3, 2010) the metrics for Love Field should be compared with other 'comparable airports.' The problem is finding comparable airports to Love Field. Characteristics of Love Field Airport include:

1) Characterized as medium-sized airport with average flight distance of 365 miles[15].

2) Average passenger "dwell-time" of 45 to 60 minutes (versus 90 to 112 minutes for DFW).[16]

Table 3 – DLFJV Financial Performance, Years 2005-2009

	Year				
	2005	**2006**	**2007**	**2008**	**2009**
Enplanements	2,949,033	3,439,050	3,980,867	4,028,686	3,890,130
Growth Year-to-Year		16.6%	15.8%	1.2%	-3.4%
Square Feet	13,409	13,409	16,268	16,268	16,268
Sales	8,742,264	10,923,477	13,926,957	15,204,415	14,420,516
Growth Year-to-Year		25.0%	27.5%	9.2%	-5.2%
Per Square foot	651.97	814.64	856.10	934.62	886.43
Per Enplanement	2.96	3.18	3.50	3.77	3.71
Rent	1,288,746	1,613,986	2,093,189	2,388,505	2,326,180
Growth Year-to-Year		25.2%	29.7%	14.1%	-2.6%
Per Square foot	96.11	120.37	128.67	146.82	142.99
Per Enplanement	0.44	0.47	0.53	0.59	0.60
Rent/ Sales	14.7%	14.8%	15.0%	15.7%	16.1%

In private conversations with Steven Johnson, Senior Vice President, Business Development, HMSHost, he indicated that he believed that three comparable airports would be Cincinnati,

[15] Airline Competition Plan: Submitted for Love Field on Behalf of City of Dallas, July 31, 2001.
[16] Eric Torbenson (June 9, 2010), "More on Gilbert Aranza and Love Field", http://aviationblog.dallasnews.com/archives/2010/06/more-on-gilbert-aranza-and-lov.html. I have been invormed through personal conversations that the dwell time for Love Field has recently increased to 45-60 minutes and for DFW to 112 minutes.

Cleveland and Kansas City. So, the comparable revenues for these airports (as well as Houston Hobby, which appears to always be included) are provided in Table 4 (source: May 27, 2010 Concession Committee Briefing).[17]

There are some interesting results that appear from this comparison. First, the rents per enplaned passenger (EP) and per square foot (SF) are highest at Love field (although we are missing information for two airports). Therefore, the city of Dallas appears to be receiving good rents. Second, the sales per square foot are second highest at Love Field, and the sales per enplaned passengers are in the middle. This relationship seems to indicate that the concession space is under stress. Specifically, passenger wait times are a key indicator of purchase.[18] High per square foot sales indicate more customers are being serviced in the same area, implying longer queues and wait times. Therefore, more passengers will forego the service (especially when the average dwell time is so short), implying lower per passenger revenues. We see a similar pattern for Hobby, and the reversed pattern for two of the other airports. The problem of needing more space is being addressed in the new terminal under construction.

Table 4 – Comparable Airport Revenue Metrics in 2008

Airport	Code	Total EP's	SF	Gross Sales	Sales/ EP	Sales/ SF	Gross Rent	Rent/ EP	Rent/ SF
Dallas Love Field	DAL	4,028,626	16,514	15,105,957	3.75	915	2,300,996	0.57	139
Cincinnati	CVG	6,801,611	67,917	29,940,863	4.40	441			
Cleveland	CLE	5,545,205	26,172	22,834,682	4.12	872			
Kansas City	MCI	5,527,549	44,691	20,487,721	3.71	458	1,881,654	0.34	42
Houston Hobby	HOU	4,560,485	15,406	16,701,133	3.66	1,084	2,338,159	0.51	152

City Staff Recommendation Classification and Terms

In this section, the question of whether or not the City Staff recommendation can be characterized as a contract extension or if it should be characterized, as the Dallas Morning News has done, as a "losing proposition for the city."[19] In making this determination, there are a few key

[17] Love Field numbers are slightly different than those provided in Table 3 as they were copied from the briefing and may be due to different reporting periods in the two reports (fiscal vs. calendar).
[18] Airport Magazine, June/July 2010.
[19] http://www.dallasnews.com/sharedcontent/dws/dn/opinion/editorials/stories/DN-love_20edi.State.Edition1.889970.html

questions that need to be answered: 1) Is it unusual to have contract extensions (i.e., no RFP) at other airports? 2) If it is not unusual, are there policies which help determine the circumstances when it is 'appropriate' to forgo an RFP? 3) Are there any special circumstances surrounding Love Field which may warrant differential treatment for these proposals? And 4) Are the general terms reasonable in terms of objections raised against the staff recommendation?

To address the first question of whether or not it is unusual to grant contract extensions in lieu of an RFP, we first turn to Pauline Armbrust, president and founder of Airport Revenue News, who stated,

> "*Airports today typically do not go out for bids to find the best concessionaires. They issue what is called a Request for Proposal. This is a complicated, lengthy and costly process for all parties involved. For several reasons many airports will forgo issuing an RFP and instead grant contract extensions to existing concessionaires who have already proven their success. This is not an unusual practice in airports. For example, over the past couple of years many airports have suffered passenger declines. Since retail and food sales are directly linked to passengers, when those numbers do not materialize, it becomes difficult for stores to turn a profit. Similarly, when the costs of doing business increase substantially by factors outside of a store's control, reasonable accommodations are considered. Under these circumstances, many airports feel it is fair and reasonable to grant automatic extensions.*"[20]

Supporting Ms. Armbrust's comments, some examples of Airports which have awarded contracts over the last few years, in lieu of RFP's, includes:

1) Love Field Airport – Granted five-year extension to APA Parking (City Council Meeting Minutes, June 10, 2009).
2) DFW Airport – Granted extension to HMSHost.[21]
3) Wichita – Granted extension to HMSHost.[22]

[20] Source: Dallas Morning News, http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/060910dnmetconcessions.2063c8d.html?plckFindCommentKey=CommentKey:f7dd1d0d-1b42-4852-83ab-7947d1eb5382.
[21] Business Wire May 18, 2006.
[22] Ibid.

4) George Bush Intercontinental Airport (Houston) – extended JDDA Concession Management's contract until 2016.[23]
5) Palm Beach International – HMSHost contract extended 10-years.[24]
6) Sarasota Bradenton International Airport – extended Paradise Shop for 15 years (2007).[25]
7) DFW Airport – Granted restaurant space to the Pappas family from Houston for three restaurants (e.g., Papasito's Catina and Papadeaux) in DFW without an RFP (concession lease numbers 238978, 238979, 238980), approved at board meeting on 11-1-2007. Interestingly this vote was initiated by Mayor Leppert (source: board meeting minutes).
8) Houston George Bush Intercontinental airport (2008) - Nuance Group has been awarded a three-year contract extension to operate the duty-free stores.[26]
9) Kahului Airport (Maui) –HMSHost awarded ten-year contract extension as part of airport renovation.[27]
10) Bradley International Airport (Los Angeles) – Delaware North received a four-year contract extension[28] and was asked to bring a second restaurant to LAX Airport.[29]
11) Lambert (St. Louis) – 7 year, 11-month contract extension with HMS Host.[30]
12) Palm Beach International – extends Paradise Shop for 13 years (2007).[31]
13) George Bush Intercontinental (IAH) and William P. Hobby Airport (2010) - Central Parking System, Inc. received a five-year contract extension to manage and operate the parking and shuttle services.[32]
14) DFW (2010) – Increase and extension of two contracts with ThyssenKrupp Elevator Corporation extension of airport share ride contracts (March 2, 2010 board meeting minutes).

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23 Sept 19, 2007, http://blogs.chron.com/cityhall/archives/airport/.
24 Business Wire. New York: Sep 28, 2007.
25 http://www.theparadiesshops.com/artman/publish/Press_Releases_19/The_Paradies_Shops_Wins_Contract_Extension_at_Sara_54_printer.shtml.
26 Nicole Mezzasalma, DFI Online, http://www.dfnionline.com/article/Nuance-awarded-contract-extension-at-Houston-1856906.html.
27 Entertainment Business Newsweekly. Atlanta: Aug 31, 2008. p. 161.
28 http://media.delawarenorth.com/article_display.cfm?article_id=641.
29 http://buffalo.bizjournals.com/buffalo/stories/2009/11/02/story6.html.
30 July 21, 2010 http://aircrafttechs.com/print/Airport-Business-Magazine/Industry-News/1$20565
31 http://www.moodiereport.com/document.php?c_id=1178&doc_id=16124.
32 http://www.parking.com/press-release-2010-02-08.htm.

While the above list is not intended to be comprehensive, it does show that it is not unusual for airports to directly negotiate with concessionaires and other contractors and forego the RFP process. In conversations with Steven Johnson, Senior Vice President, Business Development, HMSHost, he indicated that they had received contract extensions at 50% of the 75 US airports locations where they operate. He also indicated that for food and beverage almost 90% of the contract extensions are for 10-years or more (only a few are for more than 10 years). For instance San Francisco Airport is offering 12-year terms for food and beverage contracts.[33]

A good example of an airport which has a mixture of contract extensions and limited RFP's is Las Vegas McCarran International. Last year Hudson received a 10-year contract extension for all of its existing stores.[34] LAS is also constructing a large new terminal and additional gates. The agreement negotiated with Hudson includes all of the newsstands in the new terminal. Additionally, LAS recently sent out an RFP for a liquor store in the airport while renewing other leases.[35] Another example is Palm Beach International which provided a contract extension to Paradise Shops in 2007, then awarded them a contract through RFP in 2010.[36]

Consistent with this discussion, both the DFW Airport concessions policy and minutes from the Transportation committee meetings (April 28, 2008) explicitly allow for direct negotiations and contract extensions bypassing the RFP process. The DFW concessions policy states[37]:

> "*However, competitive bidding of concession contracts is not required by law, and the costs normally occurred in soliciting and reviewing large numbers of voluminous proposals sometimes outweigh the anticipated financial benefits. Therefore, a solicitation of a limited number of proposers, or even direct negotiations with a single proposer may be justified.*" (Section 2.2, p. 4)[38]

The policy goes on to suggest (section 2.2.1) that it is part of the due diligence process for the Concessions Department to ensure that the contract is 'commercially reasonable." In the case of

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33 http://www.moodiereport.com/document.php?c_id=1123&doc_id=21759.

34 http://www.thefreelibrary.com/Hudson+Group+Wins+10-Year+Contract+Extension+at+McCarran+Airport.-a0198734364.

35 http://www.moodiereport.com/document.php?c_id=31&doc_id=23373.

36 http://www.dfnionline.com/article/The-Paradies-Shops-wins-contract-extension-at-Palm-Beach-1695259.html.

37 I use the DFW concessions policy as I am unaware of a published version of the Love Field policy.

38 Source: DFW concession policy admendments Nov. 5, 2009. It can be found at: http://www.dfwairport.com/tdp/concessions/pdf/Concessions-Policy-Amendments.pdf.

Love Field, it would seem to fall on a similar department (e.g., Transportation Committee and/or Staff) to ensure the reasonableness of the contract. The March 3, 2010 city council briefing minutes demonstrate the due diligence of the transportation committee and the use of consultants to ensure the appropriateness of the contracts. It is interesting to note that in the minutes that it is argued that this is a unique situation where the lease runs out in June 2011, but construction continues through 2014.

There are two important implications. First, the DFW Concessions Policy (section 2.2.1.F) states that direct negotiation with a concessionaire is permitted for relocation of the space, as will happen at Love Field if the contract were to be extended. In my opinion, a contract extension, and relocation of the real estate to the new terminal, is the best way to describe the staff recommendations, especially because the square footage in the new terminal is tied to the current square footage.

That said, it appears that the processes for the city which are implied by the DFW policies as well as meeting minutes have been followed: At the direction of the transportation committee in April, 2008, the concessionaires negotiated in good faith with city staff to develop a concession plan through the construction period and into the opening of the new terminal. The city hired consultants to evaluate the proposals and to ensure that the space set for RFP was attractive. The plans were presented to the transportation committee in numerous meetings for discussion. A final plan was presented by City staff to the transportation committee for approval in February, 2010, where it received a unanimous vote for approval. The City then drafted contracts based upon the plan, the concessionaires executed those contracts, and they were then set for submission to the full City Council for a vote in April, 2010, which has still not taken place.

Second the unique situation of having the contract expire in the midst of the construction should be examined in more detail. In my opinion this situation implies that the contract was mismanaged by the City, especially given that DLFJV attempted to start negotiations more than three years ago by submitting a proposal in February, 2007 in which it offered to invest $2.8 Million (the proposal was revised in March, 2008 to offer a $3.4 Million investment) to expand and add concessions to accommodate increased passenger levels expected due to the gradual lifting of flight restrictions imposed by the Wright Amendment.

In analyzing this situation, one key factor to consider is potential financial impact on DLFJV (or any other company providing similar brands and services) during the period from July 2011 through October 2014 (40 months) under the assumption that no space in the new facilities is included in the contract. This assumption then allows the true financial risk and losses to be estimated. To help understand the financial impact on DLFJV, I conducted three simulations on their profit for the 40 months following the contract extension under the following assumptions:

1) The fiscal year starts in April (so the true effect of the passenger reduction can be demonstrated and it is not blended in with the non-reduction numbers). At the beginning of year three (i.e., April 2013), 80 percent of the enplaning passengers would be lost due to the relocation of 12 gates. Given that fiscal year (FY) 2011 only runs from July until the end of March, the revenues and expenses are adjusted to account for the nine-month "year." Additionally, the revenue, expenses and enplanements are adjusted for FY 2014 to account for the seven month period (April through October).
2) Yearly enplanement growth of 4%, starting with the 3,890,130 passengers in 2009. This number is in the middle of the 3-5% range indicated by the consultants.
3) Rent is set at 15.7% of revenue, consistent with the percentages set forth in Table 3 for the first two years. For years 2013 and 2014, rent is decreased to 13% of revenues. No minimum annual guarantee is enforced after April 2013, as this would increase the losses.
4) F&B have approximately 70% 'prime expenses', which are the costs of food, beverages, labor and benefits for labor. This number is slightly higher than the range of 65-70% (reported by John Nessel[39]), and is consistent with the above analysis where DLFJV pays above average wages to their employees. This number was estimated by regressing revenues on expenses for years 2005 through 2009.
5) Food, beverage, royalties and other true variable costs are set at 35% of revenue. This number is high for the industry, and suggests that labor and other costs are roughly 35% of revenue. This distinction is important because labor becomes a fixed expense when the enplanements drop.
6) Labor costs are assumed to drop 20% in 2013 and 2014 due to closing the gate nine food court and bar, and gate six Cinnabon and beer carts. All other properties are assumed to

[39] http://rrgconsulting.com/ten_restaurant_financial_red_flags.htm.

remain open. While additional, minor decreases in employment are possible, they are unlikely. Minimum employment levels are required to meet the service-level requirements in the contracts with the city (e.g., hours of operation) as well as with the franchisors and licensors of the branded concepts. Because we are assuming that the contract terminates at the end of the construction period in October, 2014, employee retention will become an issue – requiring retention bonuses as well as increased training to account for higher turnover.

7) Capital expenses will be required by DLFJV as the contracts with franchisors/licensors also expire in 2011. Additionally as noted in the proposal, significant improvements are required for the brands. Therefore, I estimate the capital investment to be $3 million, slightly lower than the number in the latest proposal from DLFJV. It is difficult to determine the true investment, and this number could be revised lower, to be roughly $2 million – consistent with the City Staff estimates. However, the net effect is only to increase profits or reduce losses by approximately $1 million.
8) Assume a 3% growth in revenue per enplaned passenger per year, starting with the $3.71 in 2009.

The base case scenario, provided in Table 5, assumes that the other expenses remain constant even when the number of passengers drops in FY 2013 but the food related expenses drop in proportion to the drop in revenues. One important implication of the table is that DLFJV would have a cumulative loss of about $5.7 million over the 40-month period under this scenario, ignoring any interest and taxes. Ignoring cost of capital issues for the investment in the new terminal, and assuming that they could make $2 million a year in net profits per year (higher than estimated for FY2012) in the new terminal it would take almost three years for DLFJV to recoup their losses. Note that the cumulate cash flow never becomes positive. If the lower capital investment amount of $2 million was used, the losses would still be in the multi-million range, approximately $4.7 million.

The key determinants of profitability in this simulation are: 1) amount of rent paid to the city, and 2) allocation of costs between food and other (fixed) expenses. For instance, consider the rent paid. If a 90% MAG of prior year rent was imposed, the losses would increase by more than $3 million, making the total losses approximately $8.7 million. However, if all rent was waived for the four-year period, losses would decrease to approximately $125,000.

Table 5 – Base Scenario

	Year			
	2011	2012	2013	2014
Total Enplanement	3,155,673	4,375,867	4,550,902	2,760,880
Revenue/Enplanement	3.93	4.05	4.17	4.30
Net Enplanements	3,155,673	4,375,867	910,180	552,176
Revenue	12,410,326	17,725,255	3,797,459	2,372,905
Food Expense	4,343,614	6,203,839	1,329,111	830,517
Other Expenses	4,917,436	6,973,412	5,578,730	3,254,259
Rent	1,948,421	2,782,865	493,670	308,478
Net Income	1,200,855	1,765,139	(3,604,051)	(2,020,348)
Cumulative Cash Flow	(1,799,145)	(34,007)	(3,638,058)	(5,658,406)
Margin before Interest, Taxes, etc	9.7%	10.0%	-94.9%	-85.1%

The allocation between food and other expenses is important because it determines how much of the expenses can be reduced when passenger traffic is reduced. A larger allocation to food (and other true variable costs) would reduce the losses by DLFJV. For instance, Table 6 provides the results of an analysis where food costs are increased to 45% of revenues, and other non-variable costs reduced to 25% of revenues (it is unlikely that this ratio is obtainable or realistic). In this case, DLFJV still has an approximate loss of $4 million over the 40 months. In this case, the rent would have to be reduced to 4% of revenues (approximately $1.5 million) for DJFJV to have zero profits, i.e., break even. If the lower capital investment was used, then DLFJV would have a profit of approximately $2.5 million if all rents were waived.

Table 6 – Increased Food Cost Percentage

	Year			
	2011	2012	2013	2014
Total Enplanement	3,155,673	4,375,867	4,550,902	2,760,880
Revenue/Enplanement	3.93	4.05	4.17	4.30
Net Enplanements	3,155,673	4,375,867	910,180	552,176
Revenue	12,410,326	17,725,255	3,797,459	2,372,905
Food Expense	5,584,647	7,976,365	1,708,856	1,067,807
Expenses (w/o Rent)	3,676,404	5,200,887	4,160,709	2,427,080
Rent	1,948,421	2,782,865	493,670	308,478
Net Income	1,200,855	1,765,139	(2,565,777)	(1,430,460)
Cumulative Cash Flow	(1,799,145)	(34,007)	(2,599,784)	(4,030,244)
Margin before Interest, Taxes, etc	9.7%	10.0%	-67.6%	-60.3%

Finally, in Table 7, the scenario where enplanement revenues increase by 20% in 2013 is examined. This analysis assumes that because the restaurants are no longer over-crowded, more passengers will stop and purchase food. The table shows that the losses are reduced to approximately

$5.1 million for the four year period. In this case, DLFJV would have approximately $0.54 million in profits if all rent was waived for the 40 months.

Table 7 –Increased Revenue Scenario

	Year			
	2011	2012	2013	2014
Total Enplanement	3,155,673	4,375,867	4,550,902	2,760,880
Revenue/Enplanement	3.93	4.05	4.86	5.01
Net Enplanements	3,155,673	4,375,867	910,180	552,176
Revenue	12,410,326	17,725,255	4,424,224	2,764,550
Food Expense	4,343,614	6,203,839	1,548,478	967,592
Expenses (w/o Rent)	4,917,436	6,973,412	5,578,730	3,254,259
Rent	1,948,421	2,782,865	575,149	359,391
Net Income	1,200,855	1,765,139	(3,278,133)	(1,816,693)
Cumulative Cash Flow	(1,799,145)	(34,007)	(3,312,140)	(5,128,833)
Margin before Interest, Taxes, etc	9.7%	10.0%	-74.1%	-65.7%

Finally, I note that if the scenarios in Tables 6 and 7 are combined, the cumulative loss for DLFJV becomes approximately $3.6 million (or $2.6 million with the smaller capital investment). In this case rents would need to be reduced to 5.5% of revenues for DLFJV to break even, i.e., they would have net profits of about $2 million if rents were reduced to zero.

There are two consistent themes that are demonstrated through these simulations. First, DLFJV stands to have a multi-million dollar loss over the 40-month period. This implies that there is a negative return on their capital investment and no compensation for their risk. This finding is true for any non-zero capital investment. Second, the key drivers of the losses are the capital investment, rents paid to the city, and the labor costs (which include retention bonuses, and increased training costs due to turnover).

Therefore, any contractor taking the space during the construction phase would be expected to lose a significant amount of money, similar to the above analysis (the city briefing on May 27, 2010 estimated capital investment costs to be between $1.2 and $2.4 million dollars and that this investment would result in operating losses for years two and three of the transition phase "making this venture highly risky for new concessionaire").

An important implication is that, a concessionaire (whether the incumbent or a new one) would need financial incentives, through one or more of reduced rents, improved contract terms, and/or guaranteed space in the new facilities in order to operate during the construction phase.

Without these incentives, the alternative for the city would be to bring in vendors who would not be willing to invest money in upgrading and/or maintaining the facilities, providing high-quality brands which require franchise/lease agreements and staffing requirements, etc. Therefore, the vendors would likely either make minimal investments to use the stripped down facilities left by DLFJV, or simply use carts in the terminals. That is, there is a possibility that Love Field could be serviced by vendors such as sandwich carts and hot dog stands, which would be a disaster to the image of the city.

This analysis also clearly demonstrates why DLFJV wants a 12 year rather than a 10 year contract in the new terminal – they are trying to recoup the losses and mitigate the risks incurred during the transition phase. It is appropriate to note that the economics of the above scenarios would change under the assumption that DLFJV was awarded space in the new terminal as an incentive to operate in the transition period. In this case, assuming that similar brands were placed in the new space, employee retention issues would be minimized, management could be shared among the stores during the transition phase, and other economies realized that would help reduce losses and mitigate risks.

Finally, the key objections to the staff recommendations are discussed. I am using the minutes from the briefings given to the city council as well as from the transportation committee meeting to determine that the primary objections to the recommendations include: 1) the length of the contract extension and relocation, 2) allowing competition at the airport to ensure quality services, good pricing, and rents, 3) fair allocation of the space in the new terminal, and 4) whether or not the remaining portion is attractive to other bidders. Each of these issues will be addressed in turn.

Length of Extension and Relocation

From the discussion above, Mr. Johnson indicated that 10-year contracts are the norm for non-fast food restaurants in the airport industry. This is consistent with Delaware North's attempted extension in Syracuse[40] as well as Jacob's Consultancy's report for DFW.[41] The additional two years on the contract (note that the extension option (at the City's discretion) is only three years on this contract, as opposed to the usual five, so the total primary term and extension term length is the

[40] http://www.syracuse.com/news/index.ssf/2009/02/syracuse_airport_food_service.html .
[41] Available at: http://www.dfwairport.com/concessions/pdf/study_results.pdf .

same) is for the potential losses during the construction and transition phase described above in tables 5-7. The term length is not unheard-of, for example, San Francisco Airport is providing 12-year contracts to food and beverage concessionaires due, in part, to construction at the terminal. The staff recommendation to extend the contract for two additional years seems reasonable given the risk of multi-million dollar losses over the 40-month transitional phase, and the fact that DLFJV is not sharing this risk with the city.

Competition at Airport

It is difficult to argue against the fact that putting all of the new space in the terminal up for bid would increase competition. The key benefits of increased competition are potentially better rent to the city, and better quality of products, services, and lower prices to the public. That said, only putting part of the space out for RFP does provide competition, and is consistent with practices at other airports, e.g., Las Vegas and Palm Beach, among others. Further, concerns regarding rental income (noting the MAG in the proposal is $0.90 per enplaned passenger versus $0.59 today), selection of brands and concepts are covered through contract provisions which have been discussed at the Ad Hoc council briefings in May and June of this year. For instance, if DLFJV wins the RFP process, they must match the rental terms in the RFP. Similarly, if someone else wins the RFP, the city can force DLFJV to accept similar terms through the "terminate for convenience" clause. Finally, the city appears to have retained approval rights for the brands put into the airport, which should guarantee that the appropriate brands are placed in Love Field. Finally, the relationship between DLFJV and HMS Host implies that Dallas will have access to a tremendous variety of high-quality brands, some of which (e.g., Starbucks) are under the exclusive control of HMS Host.

Allocation of Real Estate

An important issue, regardless of whether or not DLFJV receives a contract extension, is how the real estate should be divided among the different parcels. The current proposal has the food and beverage real estate divided 52-40-8 in terms of spaces and 57-36-7 in terms of square footage (Ad Hoc briefing May 27, 2010), where DLFJV receives 52% (57%) of the real estate spaces (square footage), 40% (36%) of the real estate is available for RFP, and the remaining 8% (7%) will be available at a later time through an RFP. While it is beyond the scope of this paper to discuss the merits of the allocation, I will note that this allocation was approved by the consultants, city staff and city attorney. All of whom ensured that the RFP pieces would be attractive to bidders, and that DLFJV did not "cherry pick" the best locations. Whether the space is divided into two or more parcels is also beyond the scope of this paper. However, I will note that there is a limit on the number of parcels due to increased risk of failure and the number of enplaned passengers.

It is also important to note that the space is not free for DLFJV. The minimum capital investment require for the space is $400 per square foot (which is about 2/3 of the total capital investment because the $400 does not include training of employees, franchise fees, start up costs, etc.). Assuming that DLFJV was extended into 22,077 square feet, the minimum capital investment required is approximately $8.8 to $13.2 million. This amount is in addition to any losses incurred during the transition phase.

There is another option where the real estate square footage is divided approximately 50-50. In this proposal, DLFJV would decide how to split the real estate and the city would decide which part to put out for RFP**.** This approach would appear to ensure that DLFJV is not somehow cherry-picking the best spaces at the airport. The status of this option and the parties' willingness to accept this compromise is unknown to me at this point.

Attractiveness of Remaining Space

In a letter to the council, HMSHost indicated that they were interested in bidding on the remaining real estate, even though it represents slightly less than 50% of the total food and beverage concession space. Interestingly, Delaware North sent a letter stating that the property was not attractive and found the contract extension to be highly unusual.[42] I do not find the letter from Delaware North to be credible for several reasons. First, it appears to be disingenuous and self-serving given their recent contract extensions (or in their words "no bid contracts") in Los Angeles,[43] Austin,[44] Phoenix,[45] (and elsewhere) and their attempt at a ten-year extension in Syracuse.[46] Additionally, their extension at both LAX and Austin airports expanded the number of restaurants they operated, not just extended the lease on currently operated real estate. Finally, I do not find the

[42] both letters are available at: http://blogs.dallasobserver.com/unfairpark/2010/06/concession_giant_calls_leftove.php.
[43] http://media.delawarenorth.com/article_display.cfm?article_id=641.
[44] http://media.delawarenorth.com/article_display.cfm?article_id=734 .
[45] http://www.expectdelays.com/cblog/archives/262-Delaware-North-Companies-Travel-Hospitality-Services-Completes-Renovation-of-Phoenix-Sky-Harbor-Airport.html.
[46] http://www.syracuse.com/news/index.ssf/2009/02/syracuse_airport_food_service.html .

letter from Delaware North to be credible, as they operated a single restaurant at LAX (Daily Grill) for years, and agreed to open a second one – Pink's hot dogs – last year,[47] much less total space than what has been allocated for the RFP. Therefore, I suspect that Dallas would receive a strong response to the RFP for the remaining space.

Conclusions

If we take a step back from the details of the city staff recommendations and ask the questions of what are the key fiduciary responsibilities of the city in regards to this situation? And whether or not the recommendations meet these goals? The primary fiduciary duties appear to be balancing the conflicting goals of maximizing rental revenues, providing high-quality brands, products and services at reasonable prices to the traveling public, ensuring appropriate levels of disadvantaged business enterprise participation at Love Field, providing an open and fair process for the discussion and evaluation of contracts, minimizing the risk of store failure during and after the construction, and achieving all of these goals at reasonable expense and risk to the city of Dallas.

Given all of the conflicting goals and noting that reasonable people of good character can disagree about the best course of action, it appears that the city staff recommendations on February 22, 2010 provide a very good balance in satisfying these conflicting goals. This is especially true considering the fact that the concessionaire contracts are due to run out in the middle of the construction phase (which is unusual) and the length of the construction at Dallas Love Field (arguably more than four years). Therefore, my recommendations are consistent with the city staff conclusions:

> *The cost of going through all this process, plus the challenge of trying to run restaurants and shops during major construction means keeping the same guys in place makes the most sense, even if it means less competition in the short term.*[48]

[47] http://media.delawarenorth.com/article_display.cfm?article_id=651.
[48] http://aviationblog.dallasnews.com/archives/2010/06/more-on-gilbert-aranza-and-lov.html.

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COLLEGE OF BUSINESS ADMINISTRATION, The University of Texas at Austin
Sr. Lecturer, January, 2001 – June 2002
Assistant Professor, June, 1997 – June, 2000.
Center for Customer Insight Fellow.

LEONARD N. STERN SCHOOL OF BUSINESS, New York University
Assistant Professor, June, 1995 – June, 1997.

KELLOGG GRADUATE SCHOOL OF MANAGEMENT, Northwestern University
Adjunct Professor, 1994 – 1995.

Professional Experience

BRIESCH'S CONSULTANTS
Management Consultant, July, 1989 – May, 1999, October 2000 – Present.

Agular Systems Inc., Chicago, Il
Consultant/Advisory Board, May, 2000 – Present

POINTSERVE, INC., Austin, Texas
Vice President, May, 1999 – May, 2000.

TELEMATICS CORPORATION
Spectrum Digital, Herndon, Virginia (acquired part of MICOM)
Principal Engineer, October 1988 – July 1989.

MICOM SYSTEMS, Simi Valley, California (now owned by NORTEL)
Product Development Manager, October 1984 – October 1988.

IBM
Communication Products Division, Raleigh, North Carolina
Product Engineer, Store Systems, May 1981 – September 1984.

Consulting and Practicum Engagements

Agere, Inc., Agular Systems, Amerilife First Financial, Anderson Consulting, Barnes and Noble, BSG, Credit Solutions, Dell Computer Company, Information Resources, Inc., Just Brakes, Micom (acquired by Nortel), Motorola, Proctor and Gamble, Teradata, Texas Instruments, T-L Ventures, and other companies.

Other Activities and Awards

Leo F. Corrigan, Jr. Junior Faculty Research Fellowship, 2009-2010, 2010-2011
Cox Research Excellence Award, 2009
Cox Outstanding Teaching in MBA Program, 2007.
2004 Davidson Award for best paper in *Journal of Retailing* in 2002.
Center for Customer Insight Fellow, University of Texas at Austin 1998-1999.
Since 2002, Ad Hoc Reviewer for *Marketing Science*, *Journal of Marketing Research*, *Journal of Consumer Research*, *Journal of Marketing*, *Journal of Retailing*, *Journal of Consumer Psychology*, *Management Science*, *Review of Marketing*, *Journal of Interactive Marketing*, *Israeli Science Foundation*, *Journal of Econometrics*, and ACR, EMAC, AMA conferences.