

Leasing Cargo Space at the Grenada Airport¹ (A)

GRENADA, WEST INDIES

FIFTEEN YEARS AGO

It was a warm April night when the lights on the Grenada Point Salines Airport runway illuminated for the American Airlines flight coming in from Puerto Rico. Mr. Leopold Cromwell, the General Manager for the Airports Authority of Grenada (AAG), watched from his office window as the American Airlines 747 appeared past the control tower hill. It had been a long day of negotiations—labor talks in the morning and negotiations in the afternoon with LIAT (Leeward Islands Air Transportation), which was five months behind in payments. The next day at 8:30 a.m. he would meet people from American Airlines to discuss their need for cargo

space at the airport. Despite his long days, he knew they would approach him in the meeting as if he were laid back and lazy, and as if had slept long and well. He wondered if the Americans felt they were vacationing while in Grenada and recalled how at the last meeting Mr. Anderson, Manager of Cargo Shipping for Caribbean and Latin America, had commented that it must be nice to live here all the time and how he had just smiled in response, not wanting to disrupt the perception of a potential tourist.

The meeting tomorrow was about leasing to American Airlines the area of the airport currently used as the airport's maintenance shop. American was currently leasing space in the bottom floor of an unattractive and unkempt building six miles away and on the other side of the island's principal city, St. George's. American was hoping to lease space "on-site" to reduce transportation costs to and from the airport, increase customer service by providing a nicer atmosphere and a one-stop-shop capacity, and negotiate a lower rent than what they currently pay at the other building. The Airports Authority of Grenada was looking forward to the rent income that leasing the space would provide.

Mr. Cromwell felt that he had a good hand to play in the negotiation and he was looking forward to the meeting and to facilitating American Airlines' quick move into the space. He was eager to provide polite and professional customer service and to prove that the airport was happy to have American servicing the island. In addition to the funds that the rent would provide the airport, the government and Grenadian population needed the economic boost and foreign capital that would be brought by increased tourism from the U.S. American Airlines had a monopoly on all flights to the U.S. except for one daily British West Indies Airlines (BWIA) flight to New York City. In fact, American Airlines essentially had a monopoly on all flights to the United States from the



Exhibit I. Map of Grenada

Caribbean.² In addition, American Airlines provided rapid transport of cargo to the U.S. market and transferred 60% of the mail leaving the island.

Despite the need for tourism dollars to make the economy healthy, Grenada was better diversified than most Caribbean islands. In the 1980s the Grenadian government had taken bold steps to move away from reliance on a single source of income. Unlike the islands of Barbados or Dominica, for example, which relied almost completely on tourism and bananas, Grenada had been forced in the late 1980s to move away from a single market economy. The banana exporting agency had ruled in the mid-80s that Grenadian bananas were not of sufficient quality to export because the government had done little to educate farmers about proper packing procedures and consequently the fruit arrived bruised and unmarketable. Around the same time, the government stopped subsidizing fertilizers and pesticides for bananas. The island's farmers were forced to diversify their crops to cocoa (Grenada exported the finest cocoa in the world), nutmeg and nutmeg oil, fish, flowers, minor spices, and exotic fruits.

Despite the stabilized income offered by diversified array of crops, many of the farmers left farming altogether and came to the southwest tip of the island to work in St. George's in construction, tourism, as taxi drivers, tour guides, waiters or hotel staff. Grenada promoted diversification of services by building a very successful American off-shore medical school, promoting off-shore banking, an electronics industry and several printers. In addition, the Tourism Board launched a successful campaign to persuade Grenadians who had been educated and worked abroad to retire in Grenada. This resulted in a construction boom and a boost to all related industries.

The Americans Check into the Hotel

In preparation for their meeting the next day, the two American Airlines executives, Rick Anderson and Sayed Assad, checked into their hotel.

"Good night, Mr. Anderson and Mr. Assad. Please follow Richard, he will show you to your rooms," the uniformed receptionist said warmly. Rick and Sayed followed Richard past bougainvillea, a lovely pool with a swim-up bar, and a path leading off to the beach.

"This isn't bad," said Sayed.

"No, it sure isn't. That's why we service this island - it's really pretty but not a lot of people know about it yet. People just don't come here. They think of us sending the Marines in and that's about where it stops. But Grenada is building hotels, and American Airlines thinks this will become a popular destination in a few years."

"Well, you know what? Today I don't hate my job. I'm going to get in the pool and have some sort of drink with an umbrella in it," replied Sayed.

The next morning they met at 7:00 a.m. for coffee and breakfast. They waited to be served by one of the laughing employees gathered around the cash register, but no one came. Finally Sayed got up and asked them for a menu. The request was met with an indifferent nod and the server continued his joking even as he idly picked up the menus.

"Hi, we're in a bit of a hurry - we have an 8:30 a.m. meeting," Sayed said.

"OK, sure, sure," the server said as if he understood. The group reconvened at the register and Sayed had to get up fifteen minutes later to place the order.

"Is this fresh squeezed juice?" Rick asked when the server brought breakfast.

"No, this is from Trinidad," the server replied.

"Why don't you have juices from here?" Sayed responded.

"I don't know. We have too much from Trinidad. Everything from Trinidad or from U.S. We have beautiful fruits here, but no one is making anything out of them. Mangoes rot on the ground. You should smell it during mango season." Rick and Sayed glanced at each other. "It is a big problem here," the server continued. "We don't have the know-how to maintain the machines." The server walked back to his group around the register.

"Why do you think there are so many of them working? There are not even five guests here," Sayed said to Rick.

Meanwhile at the airport, Mr. Cromwell had arrived at 6:30 a.m. after being paged that the security manager had failed to show up for work. The security manager, Mr. Redhead, was a childhood friend of Mr. Cromwell. They had attended the same Anglican boys school. While the smartest people Mr. Cromwell knew growing up had gone to Britain or the U.S. to study and work, many people employed at the airport either went to his school or attended his church. Disciplining people therefore was a problem because he knew the employees, and more often than not, he was friends with them or their family. Mr. Cromwell knew that Mr. Redhead had problems at home and likely had overslept by accident. It would be impossible to say anything to him. If he reprimanded Mr. Redhead, the entire staff would see him as cruel and cold and would refuse to do any more than required by their basic job description. He had learned this the hard way some two years ago when he disciplined an employee and his staff had invented excuses to leave on a day when he needed them to stay.

	STATISTICS BY YEAR			
	1998	1999	2000	2001 Jan-Sept
Total Arriving Tourists	369,336	386,013	368,417	289,141
Stayover Tourists	108,007	108,231	110,748	87,607
Cruise Ship Passengers	249,879	266,982	246,612	193,327
Same Day Visitors	11,450	10,800	11,057	8,207
Estimated Expenditures by Visitors	155,528	161,064	160,422	127,189
By Stayover Visitors	143,159	147,135	147,485	117,291
By Cruise Ship Passengers	12,369	13,216	12,207	9,384
By Excursionists		713	730	514
Stayover Visitors – Nationalities				
USA	30,033	30,380	29,320	22,569
Canada	3,920	4,205	4,977	4,124
United Kingdom	18,480	19,583	21,350	17,043
Europe	18,002	18,006	16,446	11,084
Grenadians Residing Abroad	18,145	17,030	16,922	13,852
CARICOM	14,615	14,357	16,407	14,220
Other	4,812	4,670	5,326	4,7
Facilities				
Number of Cruise Ships	446	393	323	239
Total Number of Hotels, Guest Houses & Cottages	78	78	80	83
Total Number of Rooms	1,652	1,669	1,775	1,815
Hotel Occupancy Rate, room per night	66%	59%	64%	

Exhibit 2. Grenada and Caribbean Tourism

Tourism provides an estimated EC \$7 million a year to the Grenada economy.

Still, negotiations would be more difficult without Mr. Redhead. Security was the primary sticking point in renting the space, as far as Mr. Cromwell could tell. He could not let American Airlines cargo customers into the area that the airlines wanted to rent because of the security risk. He was afraid American Airlines would either get frustrated or believe this requirement to be unacceptable and would refuse the space. Mr. Cromwell decided he would call Mr. Redhead at home and express concern and sympathy, thereby indirectly indicating that his absence was noted and that he should be at the airport as soon as possible.

History of the Airport

Before 1984, the Grenada airport was located in Pearls on the northeast side of the island. Pearls had a 5,200 foot runway and was in the prime agricultural area of Grenada, St. Andrew's parish.

In 1983, construction began on a new airport on the southwest tip of the island, Point Salines, about five miles from the largest city and biggest economic center, St. George's. The space was chosen because of the relatively large expanse of flat land—however there were many salt ponds that had been

filled in to create the planned 9,000 foot runway. Most commercial airstrips are 7,500 to 12,000 feet, with the average size strip in the Caribbean being 5,500 feet. The airport was built with the help of the Cuban government at a time when Grenada's population was leaning towards socialism. That fact, in conjunction with the unusually long runway, aroused suspicion on the part of the U.S. government about the ultimate purpose of the facility.

In October 1983, the socialist party (New Jewel Movement) had developed enough friction that civil unrest broke out and the Prime Minister, the Honorable Maurice Bishop of the People's Revolutionary Government party, was assassinated along with five other people. Ronald Reagan and the U.S. government became uncomfortable enough with the alliance of Grenada and Cuba—and with the presence of Americans in potential danger at the St. George's Medical School—that the U.S. sent in Marines to establish and maintain peace and democracy. Fighting lasted only five days, resulting in twenty-five Grenadian deaths. Grenadians' reaction to the marine invasion was mixed; most were glad to have a sense of law and order preserved, but a very large minority perceived the Marines and the U.S. as bullies and their presence was a sign

of worldwide disbelief that the Grenadian people could take care of themselves.

The New Jewel Movement fell apart after the assassinations due to infighting. A new Prime Minister, Mr. Geary, was selected and Grenada set to work rebuilding its damaged reputation.

The airport at the point of American intervention was about 80 % completed. The Marines stayed for one year, and construction of the airport and its 9,000 foot runway continued during that time with American aid. The airport was finished and facilities were moved from Pearls Airport to Point Salines in October 1984. The continued presence of the Marines for the year drew more and more opposition from Grenadians. Most Grenadians felt that the American presence lasted longer than what was necessary to maintain peace and stability.

The Meeting

The American team walked into Mr. Cromwell’s office and his heart sank--the gentlemen were dressed in suits of dark colors and long sleeves. His light shirt with short sleeves and pockets seemed so different. He felt self-conscious, as he was aware of current fashions. He was angry with himself for feeling that he wasn’t properly dressed. After exchanging brief greetings, the Americans launched into the business of the day. Mr. Cromwell pressed his lips together. He had wanted to start with an overview of the purpose of the meeting and to make sure everyone was clear about the agenda. He had also wanted to extend a warm welcome to his guests and show his appreciation for their coming all the way down from Miami and to make sure their accommodations were comfortable. But the Americans were clearly comfortable. Though he felt the American style of skipping formalities and not setting aside time to build relationships was rude and pompous, he let it pass.

“Leopold, we would very much like to take over the space you are currently using for your maintenance shops and rent it for use as a cargo area,” Rick stated.

“Mr. Anderson, I have reviewed the documents you sent to us on March 25th and we would like to offer you 1,520 square feet of space for \$1.75 a foot,” Mr. Cromwell replied.

“We would like to rent it for \$1.45 a square foot,” Rick countered.

Mr. Cromwell felt that he had offered a reasonable and dignified price and was a bit taken aback that Mr. Anderson had made a counter offer. It offended him, and he felt that the Americans wanted to take advantage of him.

“Mr. Anderson, I assure you the offer of \$1.75 is quite a reasonable one. LIAT and Star Agency are paying significantly more than that.”

The Americans pursued their line of negotiating and Mr. Cromwell stuck to his price, but was extremely uncomfortable because he felt he was being rude. Later, the Americans stated that they would consider the offer and get back to him the next morning.

When the American delegation returned to the Rex Grenadian Hotel to discuss their options, they were relaxed. “Well, I think we should take the offer anyway,” Rick said. “The only other option is for us to rent space out at the Frequente Industrial Park.” (See Exhibit 3.)

<i>Grenada had two primary industrial parks, the Frequente Industrial Park located in Grand Anse just south of St. George’s, and the Seamoons Industrial park, located near Grenville. In addition to these two parks, land was available for development and buildings were easily rented.</i>	
Frequente	Frequente was home to many of Grenada’s manufacturers and construction companies. The complex covered almost 200,000 square feet and hosted eighteen buildings. Other services provided by the park included 24-hour security, maintenance, day care center, cafeteria and a lobby area for product display.
Seamoons	The Seamoons park covered 33,000 square feet and was comprised of a main building plus a four-building complex. Services available were 24-hour security, maintenance, and a T1 line and Fibre Optic cable, located near the park. Grenville was the center of agricultural activity on the island, and this park was positioned well to serve this sector.

Exhibit 3. Grenada Industrial Parks

“Yeh, and that doesn’t sound so good. It’s more space, but we have to buy trucks to move the cargo.” Sayed said.

“Not to mention the time and people it will take to repack the cargo and transport it—and security,” Rick stated. “I guess the positive about having the cargo space out away from the airport is that customers can come straight in.”

“Nah, we should move on this offer. It’s cheap and it gives us a competitive advantage in rates over LIAT and more importantly over Amerijet. Plus, their cargo facilities are WAY out of town. What is that, about six miles and a lot of traffic away?” asked Sayed.

“OK, so we’ll accept in the morning.” Rick and Sayed agreed.

The next morning the Americans entered his office promptly at 8:30a.m. and announced that they would accept the offer for the space. But, they added that they wanted their cargo customers to be able to enter the area and wait inside for goods as they cleared customs. Mr. Cromwell blanched. The area could not be authorized for public pedestrian traffic. It was right off the runway and inside security gates.

“I’m sorry, as you know that is part of our security area. We cannot have people entering and leaving that area. The cars must be checked, as well as persons inside vehicles. I can’t blame you for asking, though.” Mr. Cromwell began to get nervous. Grenada needed American Airlines to service the island and he couldn’t tell what they would do when he said no.

Airport Physical Structure

The airport at Point Salines consisted of a departure lounge with four duty-free shops, a secondary departure lounge with a café, an immigration area and baggage claim with two luggage conveyor belts, a separate customs area with two tables, and a restaurant/bar and the administrative offices upstairs. Also located at the main building was a pilots welcome and registration area. Several souvenir shops were located in the hallway from the security area to the arrivals area. Detached from the main building and just to the right was the maintenance facility that American wanted to take as cargo space.

Outcome of the Meeting

American Airlines agreed to take the space without the capacity to allow customers into the building. Customers had to wait outside either in the airport lounge or in their vehicles.

American:	paid EC\$2.34 for 1520 square feet.
Star Agency (AmeriJet):	paid EC\$2 a square foot for 272 square feet and LIAT paid \$2.00 a square foot for 372 square feet. The price remained unchanged through 1999.
British Airways:	paid EC\$2.25 for 1440 square feet in a building 6 miles away from the airport and on the other side of St. George’s. The price changed to \$2.40 in 1997.
LIAT:	rented other space in the same building as British Airways for EC\$2.25 for 1296 square feet. The price changed to EC\$2.40 in 1997.

Exhibit 4. Cargo Space Lease Prices

Mr. Cromwell was relieved to have the income for the airport and to avoid the blame of the government and Grenadian people for American Airlines withdrawal from Grenada. He authorized a budget to build a new maintenance facility about a half a mile away from the airport on airport property and hired construction crews to begin immediately. He retired the next year and Mr. Donald McPhail was promoted from air traffic control to General Manager.

Location:	12 degrees north, 61 degrees 40 west
Area:	Grenada – 120 square miles Carriacou & Petite Martinique – 14 square miles
Population:	95,950
Ethnic Origin Composition:	African – 82% Mixed – 13% East Indian – 3% White – Less than 1%
Religions:	Roman Catholic – 59% Anglican – 17% Seventh Day Adventist – 6% Methodist – 3% Other – 15%
Language:	English
Nearest Islands:	St. Vincent – 75 miles Trinidad – 90 miles Barbados – 160 miles
Ports of Entry:	Point Salines; Lauriston (Carricaou) St. George’s Harbour, Lanse Aux Epines Harbour, Grenville Harbour, Hillsborough Harbour (Carriacou)
Currency:	East Caribbean Dollar (EC\$) US\$1 = EC\$2.70, fixed exchange rate
Banks:	Barclays Bank PLC Bank of Nova Scotia Grenada Bank of Commerce Grenada Cooperative Bank National Commercial Bank
Major Credit Unions:	Grenada Public Service Co-op St. George’s Communal Co-op
Telephones:	International Direct Dialing. American style phone jacks.
Political Parties:	Grenada United Labour Party Maurice Bishop Patriotic Movement National Democratic Congress New National Part The National Party

Exhibit 2. Grenada: Facts and Figures

The new building was not elaborate and did not take long to build. However, American Airlines Grenada (AAG) began having a hard time tracking employees immediately after using the building. While the building was not far away, it was behind a hill and employees drove AAG vehicles to get there and transport items. Employees would say that they had to go to the shop to get something and would seem to be gone for a long time. Inventory levels were also a new problem because people tended to store items both at the airport and at the new building. A phone was installed in the building, but the line was often busy. Perhaps the most frustrating problem was that employees would come back with the wrong part and then have to return to the shop to retrieve the correct one, sometimes wasting thirty minutes of otherwise productive time. Mr. McPhail estimated that the new building, procedures, and transportation costs to and from the shop easily cost the airport 20% more than before leasing the maintenance space to American Airlines.

FIFTEEN YEARS LATER

The airlines serving Grenada remained the same but serviced Grenada more frequently: American Airlines and British Airways had daily flights, and BWIA, LIAT, HelenAir, Airlines of Carriacou offered many flights each day to various destinations in the Caribbean. American maintained its essential monopoly on the United States market, and British Airways and BWIA were the only other airlines with flights outside the Caribbean. British Airways flew one flight daily direct to London, and BWIA flew three times a week to New York City. Three cargo airlines continued to service the island: FedEx, DHL and Amerijet. Recent tourism data appear in Exhibit 2.

The Airports Authority needed to renovate its runway, and needed to update its crash, fire and rescue facilities to meet international standards. Mr. McPhail placed the updating of the facility as a priority. He also felt that it was important to air condition the arrivals lounge. Grenada was fast becoming a significant tourist destination and at least twenty-four people a year fainted in the arrivals lounge from the heat. He realized the importance of word-of-mouth to Grenada's tourist industry and was aware that the airport was a significant first impression.

However, he was encountering significant obstacles to obtaining either Grenada government aid or bank loans to pay for renovations. The Grenadian government did not have any money allotted to give to the airport, and banks were only willing to extend a loan at a 12% interest rate, when he felt 8% should be the going rate. Consequently, he very much wanted to renegotiate rent with American Airlines, but he felt he had little to offer as an incentive to get them to pay more for the space. While he was not afraid to ask for what he wanted, he felt that if American Airlines was unhappy with the request they might retaliate by reducing flights to the island.

He was particularly wary of that tactic, as a short strike by the American pilots a few years before had meant outgoing mail did not leave the island for a week, and other cargo perished waiting for flight service.

Sources of Income for the Airports Authority

The airport collected rent from the airlines and also from the duty-free shops. The airport collected a percentage of gross sales from the duty-free and souvenir shops at the airport. The amount collected often ended up being three times what would be generated by a stable rent. The highest paying shop was Colombian Emeralds, a duty-free jewelry shop, which was exempt from the percentage schedule and paid a flat rate of \$EC5,000 a month.

In addition, a departure tax was collected from people leaving the island of EC\$40 (approximately US\$15) for adults and EC\$20 for children over age five. People flying to Carriacou paid a departure tax of EC\$10. The airport had air conditioned the departure lounge and did not have any major projects in the foreseeable future.

Donald McPhail wanted to renegotiate the amount of rent American Airlines was paying for cargo space but he was not sure how to go about doing so. He felt that upgrades such as air conditioning would add to the attractiveness of the island to tourists and encourage repeat visits. He estimated the total cost for these ventures to be EC\$2,000,000.

Asking But Not Expecting

Mr. McPhail called Miami to talk with Sayed late one Monday afternoon.

"Hi Sayed. I would like to arrange a meeting with you to discuss rent here in Grenada." Mr. McPhail had been educated in the United States and was comfortable using first names and dropping the "Good Afternoon" customary in starting conversations in Grenada.

"What about it?" Sayed replied.

"It's been quite a while since we took a look at the price per square foot and it needs to be brought up to date." McPhail stated calmly.

"I'll talk with Alan, he's the new manager, and see what he says."

"I'd like to meet in two weeks on Monday. That will be the 17th," McPhail continued.

“I’ll call you back as soon as possible, probably tomorrow morning,” Sayed said.

As Mr. McPhail walked out of the airport towards his Jeep to go home for the day, he stopped for a minute on the landing of the stairs to the arrivals area. He stared at the 20’x15’ sign saying “Way Out” to let arriving passengers know where to go for taxis. He wished he could walk out of the airport to find a better negotiating position, but felt the next morning would prove he had no way out—no way to raise fees to help cover the costs of the needed airport upgrade.

Leasing Cargo Space at the Grenada Airport (B)

GRENADA, WEST INDIES

The American Airlines team walked in a few minutes early for the meeting. Mr. McPhail was ready to meet them. He addressed their concerns right away.

“I understand that you do not want your costs to go up, and that your pricing is very sensitive to any increases. Your competition has increased here in Grenada,” he stated.

“Yes, it has,” responded Sayed. “We have many more airlines to compete with in this area now.”

“Then I’m sure that you will agree that we have been giving you a strong competitive advantage in providing this key storage and customer care spot. We want to continue to rent this space to you, but the price negotiated by the previous general manager is not sufficient. Let’s be clear about what our needs are. We need to update our crash, fire and rescue (CFR) so that American Airlines can continue to fly here. You need for us to update the CFR. That is going to cost a significant amount of money and I believe that we have not been charging you enough for this valuable space.”

The Americans were taken aback. They became defensive. Mr. McPhail wished immediately that he had taken more time to draw them into the conclusion that the CFR would benefit American Airlines.

“Look,” Mr. McPhail said, “Let’s do this. We can cooperate. We can help promote American Airlines in the country, and even in the region. And you can help us improve the airport, which will also help you. Customers won’t go home telling friends it was so hot that they fainted in the lobby. They will have a better first impression and number of return visits will increase.”

They agreed upon a price of EC\$4.00 a square foot, up from EC\$2.34, and that the Airports Authority would promote American Airlines in the local paper and improve their check-in area first. In addition, Mr. McPhail agreed to back American in an upcoming regional meeting of airports authorities called to address the issue of American Airlines’ request for heavy subsidies from the islands. He had managed to play the public relations card perfectly; he realized that American Airlines needed all the help they could get to maintain favorable relations in their Caribbean stronghold.

1. This case was written by Lisa Barnard of University of Maryland under the supervision of Professor Richard Linowes. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

2. Air Jamaica had daily flights from Jamaica to New York City and BWIA serviced most Caribbean islands.

