

Fast from the Gate: The Refashioning of Gate Gourmet

■ In a post-9/11 era

where a falling sea lowered all boats, Gate Gourmet was, at least initially, without wind or current. But the international catering firm carried out-of-court capital restructuring in the middle of the decade and, under the

leadership of Chairman and CEO David N. Siegel, proceeded to triple the value of the enterprise between 2005 and 2007.

Along the way, it acquired the new umbrella

moniker gategroup, an entity more attuned to the realities of today.

When the former US Airways Group president and CEO took control of Gate Gourmet back on June 8, 2004, it was with a mandate to "redefine the business model." Although catering continues to comprise 70% of gategroup's revenue, what goes into that piece is far more diverse these days. "You have the supply chain piece, the last-mile piece," says Siegel.

But most of all, you have the high-end loader. As Siegel sees it, it's a pipeline through which all manner of product can profitably flow into an airplane.

Consider catering, cutlery, comfort items (such as pillows and blankets), amenity kits, headphones and an array of print and electronic media. Essentially, "we plug the pipe into the airplane and the more

products and services you can push through there, the more effective your economics," he says.

To energize those economics, gategroup embarked on strategic acquisition. Among the catches was deSter for passenger contact and comfort items. DeSter also owns Supplair, which proffers prepackaged airline meals. Upstream, gategroup also landed Pourshins, a fourth-party logistics (4PL) firm; Fernley/IAS (now Gate Aviation), a UK-based ground handling and support supplier; Performa/Elan, which provides airline and hotel concept delivery services, and Potmstudios, a firm specializing in industrial design and brand enhancement.

Today's gategroup ain't your uncle's Gate Gourmet. In 2007, gategroup's footprint (which was technically Gate Gourmet's at that time) extended to 100 locations in 30 countries arrayed across a half-dozen continents. The same year, the company reported revenues of some \$2.1 billion.

Siegel says inflight catering revenue per se isn't back where it once was—not yet, anyway. Post-9/11, "food moved off the airplane and into the terminal. People are still going to eat—on the airplane, or in the terminal—but they're going to eat." He thinks some carriers are missing revenue by charging too little for buy-on-board items. Passengers who have scant

hesitation at throwing \$20 at Starbucks in the terminal, he believes, surely can ante up \$5 for food at their seat. But "for \$7 to \$10 they might want to buy it."

For all its diversification (it has two dozen premium class lounges at airports around the world), Siegel sees gategroup's future largely aloft. "Our expertise is in the air," he says. "When you're at 37,000 feet, tastes are different. You have issues with attractiveness, temperature, texture. It's much more difficult logistically in getting that stuff on airplanes."

Much of his focus these days is on the pointy end of the airplane, up front where premium passengers play. In a recent speech before the International Travel Catering Assn., he said, "we see the high end getting higher and the low end getting lower among the legacy airlines." It's up front where a significant share of the profits are because "these airlines continue to invest money in the premium cabin . . . that's where they are making their money."

According to Siegel, gategroup hopes to make its money by ditching "adversarial and procurement-centric relationship[s]" and focusing on "the total cost of ownership." He contends that "this will require building trust and airlines allowing suppliers to take more control to standardize, simplify and optimize the material supply chain and assembly."

—Jerome Greer Chandler

Siegel