THE MIDDLE EAST DUTY FREE CONFERENCE
CAIRO 28-29 NOVEMBER 2010
Reality & Opportunity
Mena House Oberoi Hotel

PRESS ANNOUNCEMENT
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MIDDLE EAST DUTY FREE CONFERENCE FOCUSES ON OPPORTUNITIES PRESENTED BY GROWTH

The 2010 MEDFA Conference on the theme ‘Reality and Opportunity’, described as a landmark event, opened in the Mena House Oberoi Hotel in Cairo on Sunday 28th November. This was the first time that the annual event had been staged outside the United Arab Emirates in its nine year history.

Welcoming the 338 delegates, moderator **Dermot Davitt**, Executive Director and Deputy Publisher, The Moodie Report said that the Middle East Duty Free Association had been set up as a regional not just Middle Eastern organisation and it was appropriate that the first conference outside the UAE should be in Egypt, a country full of untapped potential where the opportunities were to date far from being realised.

In his opening address, **Anthony Chalhoub**, CEO Chalhoub Group and MEDFA President, explained that MEDFA had been set up a decade ago to encourage closer links between retailers and suppliers in the Middle East and that they were slowly gathering more representatives from Africa. For years too few international operators have invested in travel retail here.

He stressed to his colleagues that a problem facing one sector affects all sectors and it is important that the industry works together to combat threats such as tobacco abolition and LAGs restrictions. He also called on operators and landlords to strictly enforce certain codes of practice such as sales of products to customers and not to wholesalers and sales only of genuine products. “We owe it to ourselves and to our customers,” he said.

Outlining the growth potential of the region, he said that the Middle East today accounts for 30% of global oil production and that this would increase to 40% by 2025. The development of oil, gas and mineral reserves will lead to trade and to travel growth which will have a huge effect on the region. Working population growth in the MENA region is increasing rapidly and GDP is expected to grow to $6.7 trillion by 2025, equivalent to 45% of USA and Europe combined GDP and 76% of China’s GDP.

He concluded by congratulating the Middle East region on achieving a +18% increase in duty free and travel retail sales in the first nine months of 2010 according to Generation Research. “We have done it again,” he said.

His Excellency Rachid Mohamed Rachid, Egypt’s Minister of Trade & Industry welcomed the delegates to Egypt and commented on the positive economic developments in the country. The reality is that the citizens of Egypt have seen very significant improvements in the last few years and the duty free industry is one of the most important industries.

Referring to the “paradigm shift” in the weighting of world economies away from the western economies and the rise of Asia, Brazil and the Middle East, he said that between 2010 and 2012 this region is likely to experience growth at least three times that of USA, Europe and Japan. This year to date has seen 5.4% growth and by the end of the year it will be around 6%. “For us in Egypt 6% is not as impressive as it used to be – our challenge is to achieve 8% in the next three or four years.”

Egypt has been one of the leading countries in the development of tourism and it is going to be an exciting place to do business in the future, he said. Investment is growing at 22% with major businesses choosing to invest in the country and choosing to stay here long term.

Egypt, he concluded, is going to become one of the most exciting countries for duty free in the region as the country's airport infrastructure improves, travel and tourism increase and Egyptian airports become established as hubs.

His colleague **H.E. Zoheir Garranah**, Minister of Tourism charted the development of inbound tourism and the aggressive development plan for airports in Egypt in his address 'Creating opportunities: Investing in Egyptian Tourism'.

Tourist arrivals in 1982 reached almost a million; by 2004 that had risen to 8.1m with tourist receipts of $5.1 bn. In spite of the global financial meltdown in 2008, 12.8m tourists visited Egypt, 12.5m in 2009, and the number so far in 2010 is up 17% already with a 16% rise in receipts to $12.6bn. He pointed to state of the art airports and thousands of hotel rooms under construction and said that the potential of the country is unlimited.

The Egyptian government, he explained, has facilitated the development of tourism, particularly in the Red Sea area, by providing incentives such as free land for hotel construction and income tax exemptions but the infrastructure – roads, electricity, railway, harbours, shops, restaurants, entertainments - is not yet in place. "It is not easy. The challenges we face are very strong but can we do it – yes!".

Some of the most eminent professionals in Egyptian duty free then formed a panel to discuss reality and opportunities in the country, each presenting a snapshot of their area.

Ehsan Ismail Sadek of the Egyptian Holding Company for Airports and Air Navigation, which was established in 2001 to improve the standard of Egyptian airports, said that they now operate 23 airports of which 12 are international. He outlined the expansion of Sharm el Sheikh, Hurghada and Cairo airports and said that the latter now handles 15.2m passengers a year and is very attractive as a transfer airport. It has been styled as an airport city with spacious retail facilities for meeters and greeters as well as passengers.

Joachim von Winning of Cairo Airport Company described the expansion and development of Cairo T2 which will offer greatly improved retail facilities. T3 has already been upgraded he said and T1 will be improved with more retail space and centralised security to improve the passenger flows for a better travel experience. He added that they are trying to build non-aeronautical revenue streams as a proportion of total revenue as they are currently running at 20-30% of the total which is below the industry average.

Reda Metwally, Vice President Duty Free Egyptair, which was set up in 1962 as one of the first duty free companies, then took up the baton. In just a few years Egyptair has increased duty free sales from $50m to $170m and in the next 12 months, with a programme of customer service initiatives, staff development and stock control procedures, is aiming to increase sales by a further 20% to $200m.

Nadia Rashad, Deputy General Manager, Cairo Airport Duty Free explained that they started in T1 in 2004 on the upper level and it has been a challenge to get the passengers to go upstairs to shop. This year they introduced a selection of mono-brand shops in T1 and updated the store concept with distinctive Egyptian pharaoh stripes. Combined growth in sales at T1 and T3 is +42% vs last year.

Sherif Toulan, Business Development Manager, IDF identified growth in the aviation infrastructure and tourism as a whole which present our industry with the opportunity to develop. He homed in on the diversity of the products Egypt has to offer. He suggested that it is now time to focus on religious tourism and expats, who have disposable income but don't have the shops or the goods on which to spend it This requires diversification of tourism. Egypt, he said, has all the facilities for a pleasurable experience for duty free but it is not developing fast enough.

Michael Cashin, Project Director, Egypt Air Duty Free Shops Consultancy, AerRianta International (Middle East) said that customer service levels need to improve dramatically. Next year sales are expected to increase to $200m but the market can take $300m, $400m or even $500m, he said, we just have to address the challenges. The constraints are, for example, lack of expertise in fashion, but the recognition is there at the management level and this will be addressed.

Asked by co-moderator **René Carayol**, CEO Inspired Leaders Network to identify the key challenges, Rashad emphasised that space constraints mean that suppliers cannot have the amount of space they want and also the purchasing power of customers is seriously affected by currency fluctuations.

The panel debated the issue of competition and generally agreed that having multiple concessions not only maximises the output of the available space, but benefits the customers as they get better offers and merchandising and enhances the customer experience.

A major challenge is how to increase penetration and sales per passenger which in Cashin's view could be doubled or even trebled but he cautioned that margins needed to be tweaked too. Von Winning urged shops to ensure that basic needs like bottled water are priced competitively otherwise there is a perception that duty free shops are expensive.

Even three years ago the facilities in Egypt had not been developed, according to Toulan, but now suppliers can see that there is a long term strategy to increase tourism and develop the market.

Looking for the biggest single opportunity in Egypt, Ismail-Sadek selected the country's international attitude with big investment plans for the future; Rashad focused on the customer experience with cross-marketing, entertainment, clear signage and staff training; Von Winning highlighted the development of a North Africa Star Alliance hub to increase passengers to/from Egypt and also transfers; and Cashin picked arrivals duty free with its generous allowances for purchase within 48 hours of the passenger returning to Egypt.

In the next session **David Huttner**, Senior Vice-President Nyras Ltd looked at 'Airline Development in the Region', both longhaul and the regional market, and kicked off with the upbeat message that the worst is over and passenger demand is up 10.1% year on year according to IATA. The high yield passenger is back, he said, but the underlying issues have not changed and the profitability of airlines is just not there.

The aviation industry is subject to "constant crisis syndrome", where it lurches from one disaster to the next including volcanic dust, swine flu and SARS, which impacts airlines.

There is, he said, real structural change in the airline market with consolidation in Europe and the USA which means that we have to overcome the assumption that every country will have its national carrier. Fuel is also a major issue. The price per barrel increased rapidly from $40 to $80 and there is no sign of this trend stopping.

Pricing and rights approvals have slowed the growth both of legacy carriers and low cost airlines in certain markets with some governments still prioritising flag carriers such as Canada, France, Germany, Iran and also here in North Africa. Although there are liberal skies for regional airports in Egypt, Cairo is still heavily restricted. We have to ask ourselves if holding back growth in the interests of the flag carrier is best from the macro-economic point of view, he said.

There is a fundamental change occurring in the airline market with alliances among airlines, the growth of the destination-indifferent passenger, a combination of niche markets making the hub grow, and an unbuckling of products by airlines. The Gulf region is well positioned as a hub for the growing markets of India and Asia - Delhi is even better placed but regulation prevents development – and Huttner pointed out that some airports are unofficial hubs with passengers picking up their bags and checking in a second time which provides opportunities for retail.

Low cost carriers in the Middle East started 10 years later than elsewhere but their growth has been much faster than in other areas. The potential is there – according to CAPA virtually all the growth since 2001 can be attributed to LCCs – and the real question, said Huttner, is whether legacy carriers should compete with them. BA has let routes that don't feed the hub go to LCCs. Other legacy carriers have responded by launching their own LCC or by charging for elements of their package.

A further negative element is that high fuel prices have obliged airlines to reconsider whether they can continue to offer duty free given the weight of alcohol and trolleys, and the cost of trolleys, loading equipment, catalogues etc. Huttner urged the industry to explore how to sell onboard with delivery on the ground.

Asked by Davitt whether this development is sustainable and who is likely to profit, Huttner said that it is sustainable for those who get it right.

In a presentation intended to highlight ways to drive sales, **Alan O'Neill**, Founder & Managing Director, Kara Change Management took the best practices in downtown retail and attempted to apply them to travel retail.

He compared the motives which make a customer buy to a three-legged stool: product, place and people. The company has to get all three elements right because two out of three is not good enough. How they do that will depend on their own company's DNA, he said.

In terms of product, at the basic level there must be no out-of-stock. Other key elements are exclusivity and newness; price architecture, product mix, gifting opportunities, the mix between concessions and own-bought products.

As regards place, general housekeeping must match the company DNA in terms of standards. Merchandising should match the motivations to purchase of the customer and visual merchandising, navigation and signage must be excellent.

People, the third leg, are immensely important given the eight steps to purchase: appearance, proactive greeting, establish needs, present product, handle objections, close sale, link selling, close greeting. Companies should recruit to fit their brand, O.Neill said, and he emphasised that staff must know what is expected of them through training, targets, incentives and feedback. "There is a strong correlation between great service and cash in the till," he said.

O'Neill explained his basic sales formula: footfall x penetration x conversion x average transaction value = sales. This relies on accurate information from the airport and the airlines and the ability of the retailer to convert using techniques like retail theatre and tastings. “The biggest and most significant driver in conversion is people.” In summary, O’Neill challenged travel retailers to consider whether they were being as creative as downtown retailers, whether they were investing in their people and whether they were ready for change.

The first day of the 2010 MEDFA Conference concluded with a unique opportunity to dine and be entertained in traditional Egyptian style at the foot of the stunning Great Pyramids of Giza as the guests of IDF Trading & Agencies.

Opening the second day of the Conference, **Soma Rao,** CFA, Managing Director, Head of EMEA Fixed Income, Currencies & Commodities, J.P. Morgan gave a detailed review of the ‘Currency concerns & future solutions’ facing the global industry.

Commenting on the recovery of the US following recession he said that, unlike the great crash in 1927 when there was a 25% drop in growth which was met with a 7% stimulus, following this recession the US has seen a 4% drop in growth and 18% stimulus. The US authorities have been very quick to come forward with strong support. In Europe the core European countries are recovering more quickly than the peripheral countries from the downturn and there is an overall target of 1.8% growth in 2011.

The developed G4 countries are using quantitative easing (purchase of debt by the Federal Reserve to bring back inflation) and control of interest rates to support growth. “The chance of getting a soft landing and bringing down inflation is reasonable,” he said. The strength of the euro against the dollar is likely to be 1.45 but if the dollar starts to come back it will return to around 1.20.

Asked whether the failure of the Irish economy will bring down the Eurozone, Rao said that the core European economies were strongly committed to the euro but the biggest concern was that the economic problems may extend to the larger economies like Spain and Italy.

In the Middle East where currencies are linked to the dollar the key concern is how inflationary that link will be. Currently MENA economies are enjoying 5-7% growth compared with 2-2.5% growth in the US. Finally he said that in his view double dip recession was not likely.

Keith Spinks, Secretary General of ETRC, summarised other issues of concern to the duty free industry which require a co-ordinated industry response, namely WHO action on tobacco and alcohol, government action on tobacco sales, individual airlines’ one bag policy and security issues such as LAGs.

Unfounded allegations regarding illicit trading, price and tax distortion are being used by the anti-tobacco lobby in an attempt to have duty free sales of tobacco banned by the WHO. Spinks issued a serious warning of campaign fatigue which would sap the industry’s ability to combat such threats. “We have been fighting this for ten years and we may need to do so for another ten years,” he said. It will be another 15 months before the next round of tobacco negotiations and “we need to maintain impact”

Spinks identified some of the current issues: the growing number of countries targeting tobacco as part of a national tobacco programme; blanket display bans on tobacco and tobacco advertising; the relaxation of LAGs restrictions next year which will necessitate excellent communication. Potentially the most serious, he said, is the one-bag policy being adopted by an increasing number of airlines which is seriously damaging our business and although mainly in Europe at the moment could become a global situation.

He pointed to Espace Voyageur in France which has a discrete set of trading rules for passengers which could have application elsewhere to overcome restrictions on tobacco.

“Partnerships are the only way forward. Duty free is at the heart of international business and we have to defend it.” The industry needs a concerted effort to keep minds focused and maintain the integrity of the business, he concluded.

Michael Barrett, Conferences and Research Manager TFWA, provided the delegates with a very detailed round-up of the historical background and current growth of the duty free industry in the Middle East.

Quoting experts in the regional industry he attributed the excellent growth to a move towards a partnership model with multiple concessionaires, key airports established as hubs such as Dubai, marketing of duty free as a brand, competition between the hubs of Dubai, Abu Dhabi and Qatar, and more competitive tendering which ensures a genuine commercial offer.

The secret of future success in the Middle East will be the customer experience which relies on in-depth knowledge of your passenger, more engagement with the customer and an innovative approach.

TFWA/Horizon Research has charted the spending behaviours of passengers in the Middle East and found that 31% prefer shopping in duty free than elsewhere and 88% prefer a fixed price store. “Collectively duty free has brand name reliability which is something airport retailers and suppliers can use,” he said.

They found also that 54% plan their purchase and this should be leveraged. The region is well positioned to capitalise on the shift in power from west to east but you have to know your customer and communicate with him before he travels so he knows what the offer is.

Moving on to ‘Tomorrow’s Technology Today’, **Michael Ibbitson**, VP Information and Communication Systems, ADAC described how Abu Dhabi airport is using IT to meet passenger expectations and improve revenue.

In 2008 ADAC decided to centralise IT across the airport to harmonise operating systems, automate check-in with bar coded boarding passes, and provide enhanced services to passengers including free WiFi and free internet kiosks.

The result has been passenger recognition that the service level has improved and increased dwell time in the retail areas which has boosted revenues.

The project has driven other developments such as making the airport website the place to find out and engage with airport services; providing wayfinding via hand held devices and touch-screens, offering online services such as parking, hotels and duty free offers.

On the question of loyalty schemes he said that travellers are not loyal to airports because they are not focused on your location but on their destination. Another problem is the scale – an airport could partner with airlines (but they are protective of their data) or with retail and food & beverage suppliers but that would require agreement across all airports and all shops in their chain.

Looking head Abu Dhabi plans a new website in 2011 and new applications for handheld devices which they see as the way forward including a self service boarding trial.

Christina Cassotis SH&E VP Leader Airport Services took the question of using technology to improve customer service at airports a step further by describing how applications for mobile devices can enable the airport to interact with the passenger in real time to enhance his journey before departure and through the airport.

“Communicating your airport’s service and offering is key to customer service and loyalty,” she said. The aim is to give the passengers control over their experience at the airport and extend the tether to the gate by giving them information so that they can find what they want in the retail areas. By reducing “gate-hugging” the airport boosts retail spending.

Her co-presenter **Sally Covington,** Denver Airport Executive VP outlined how that technology had been applied in Denver Airport. Their enhanced website provides all the necessary pre-flight information including wait times, weather, parking. Once in the airport a seamless transition using handheld devices provides gate locations, concessions at the gate, and information appropriate to the passenger’s actual destination and also relevant promotions that might interest him in a non-intrusive way.

Cassotis said that she did in fact believe that customer loyalty was valid at airports up until the point where there was a drastic cut in fare. “How and when the airport and its operators communicate with the passenger will drive satisfaction and spending,” she said.

Covington added that the key was to be “high tech and high touch” using people to take the technical process and make it human.

In a regional focus on ‘Destination South Africa’, **Selwyn Grimsley**, CEO Tourvest Duty Free gave a colourful résumé of the 2010 FIFA World Cup legacy. The football tournament provided massive exposure for South Africa, 373,000 inbound tourists generated revenue, and $4.18bn was spent on construction projects 60% of which have long term value.

Duty free and travel retail at OR Tambo International Airport, Johannesburg in the months of June and July 2010 increased by 29% on the previous year and spend per head +12% in those two months. The retail stores at Johannesburg operated by Big 5 showed a +90% rise in sales of destination products especially cuddly toys and vuvuzelas.

Despite being told they were not FIFA-accredited for inflight just before the tournament, Tourvest Inflight recorded a +46% increase in sales in June/July compared with May 2010. However, one of the most successful areas was Tourvest Activation Management, offering hospitality and hotel packages, which was so successful that it will operate the service at future events.

The country is already starting to see the halo effect with repeat visitors returning in August and September, said Grimsley, and there has been not only infrastructure development and a sustainable increase in jobs but an “amazing boost in national pride”.

Dr Peter Mohn, Partner and Co-founder of MINDSET, elaborated on how South Africa could understand and woo the airport shoppers to provide lasting commercial benefit using recent research conducted at Johannesburg and Cape Town airports.

Each individual has different needs, he said, so it is important to understand their motivation for shopping. He found that the reasons for entering the duty free shops were to stock up, to browse, to purchase souvenirs, to find premium products at good prices, to kill time, to find products not available at home, and to buy gifts in that order. The most common reasons not to enter the shop was that they didn’t need anything, extra to carry, nothing of interest, high prices, boring products, no time, no money.

He also identified categories of shoppers: the addicted, the aversive, deal hunters, time killers, and the adventurous, and urged retailers and suppliers to encourage shopping by catering to each of these categories with a variety of products, well placed promotions, limited editions and exclusives, offers tailored to outbound/ inbound passengers and, above all, the right staff.

“To avoid burning your fingers,” he said, “make sure you understand your customers.”

René Carayol summed up the MEDFA Conference with some observations of his own about the importance of establishing a powerful brand and oxygenating it regularly to ensure that it continues to satisfy the customers. “I am not convinced by the argument that if it isn’t broken you don’t fix it,” he said.

He reiterated the importance of good customer service and said that when the service equation is right the price becomes secondary. “The future is hard to predict,” he concluded, “but complacency is not an option.”

The MEDFA Conference was closed by Anthony Chalhoub who thanked the speakers, the sponsors, the partners and the organisers TFWA.

Ends

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The Platinum sponsors of the MEDFA Conference were Dubai Duty Free, Imperial Tobacco, BDF/ARIME, Puig Travel Retail and Patron Spirits. The Gold sponsors were Hersheys, Beiersdorf Nivea, Egypt Free Shop Co. and Philip Morris. Silver sponsors: ADAC, Perfetti and Dona Jimena. Portfolio sponsor: Travel Retail & Duty Free Markets magazine; moderator outfits provided by Hamila Distribution and other sponsors including Bardinet, Kraft and Brown Forman.

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The media partners for the event were DFNI, Decision Makers, Frontier/Brands, Gulf Africa Duty Free, The Moodie Report, Travel Retail & Duty Free Markets, Travel Retail Business and Travel Retailer International.

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