

MEDFA Dubai: November 2009

Phil Humphreys: Managing Director, Diageo GTME

Ladies and gentlemen it's a great pleasure for me to be here today at MEDFA, closing the conference. Thanks, sincerely, for the invitation.

My part of Diageo's business includes not only our substantial Duty Free business here, and also the domestic markets of the Middle East; so this is a part of the world with which I am becoming increasingly familiar and which I'm really getting to enjoy.

Only a few weeks ago I was here for the Abu Dhabi Formula 1 Grand Prix. As well as being a breathtaking experience, it was also a flawless showcase for an extraordinary city and for its highly impressive tourist infrastructure and transport logistics. It truly is an example of what can be achieved when ambitious goals are set and failure is never considered an option.

Then I visited Abu Dhabi airport's new Terminal 3 for the launch of Johnnie Walker Blue Label's "John Walker" Edition. The quality of shopping experience that DFS and ADAC have created there is genuinely show-stopping.

Then I travelled to Beirut. Not only is the airport Duty Free offering fantastic, but the domestic business – world-class restaurants, bars and

nightclubs - is too. I won't ever forget the Lebanese wedding I attended there very recently!

In Diageo, we see the Middle East as a source of massive untapped potential. Consequently, even during the downturn, we have been increasing our people resource here in Dubai and stretching our own ambitions for what we can achieve here.

Of course the Middle East can't lay claim to having created the Duty Free concept; but it certainly is the place where the idea has been most enthusiastically adopted, adapted and enlarged.

This is the home of Duty Free innovation; of a constant re-defining of the concept of luxury and of best-in-class examples of airport and airline retail. And, of course, of some of the most extraordinary airports in the world.

As a major owner of iconic Duty Free **liquor** brands, you might think I would see the Middle East, with its religious and cultural sensitivities around alcohol, as 'difficult territory'. But nothing could be further from the truth. In my fifteen months in this channel – and particularly in the last few months – I have come to appreciate that this really is a land of opportunity.

Now as the man who has gone on record several times with my ambition to double the size of the liquor category in travel retail, you

will understand that I'm in the market for as much opportunity as I can get!

A couple of months ago, at the "Trinity Forum" conference in Macau, I spoke passionately about the opportunities that could come when the so-called 'trinity' of brand owners, retailers and airport authorities work together more closely to boost Duty Free revenues. I was also able to share some examples of where that tripartite co-operation has already started to bear fruit.

Today I want to take that argument a stage further. Mr President, you exhorted MEDFA this year to embrace "challenging debate".

You also said that the time when these conferences were simply about lots of mutual back-slapping needed to end. You are right.

So if what I said at Macau came across as a rather sugar-coated endorsement of the warm feeling we can all get when we work more closely together, then today I intend to bring a good deal more tension to this concept of three-way partnership because, in simple terms, it isn't yet working. And if we don't get it right soon, it will fail.

In making that argument, that – to quote Paul Griffiths yesterday, "The current model is not working" - I want to start by showing you some pictures of a recent activation that we did around Johnnie Walker Black Label and Formula 1 in Changi Airport, Singapore. It was created – at

short notice – as a result of a remarkable partnership between Diageo, DFS and Changi Airport Authority.

[SLIDE 1]

It was certainly the largest concourse activation that Diageo has ever done, and we at Diageo are enormously proud of it.

There is only one problem. I didn't make a single penny from it.

And the main reason I lost money was because I was the only one paying for all the beautiful stuff on the concourse – Formula 1 replica cars, driving simulators, hostesses, sampling bars etc. So however profound the impact on driving footfall into the store, I was never going to make money because of the cost I had sunk into the hardware on the concourse.

Now this three-way or 'Trinity' model of co-operation is pretty new and I expect that we will all have to learn on the way as we begin to map out these new ways of working. After all, it's really not long ago that we as a brand owner would never have contemplated opening a dialogue directly with an airport authority.

We are absolutely not criticising DFS nor Changi Airport for the decisions we all agreed at the time about how to make this activation happen. As I said, I'm enormously proud of what we achieved and

grateful to them for the way they made this happen in such a short time.

This remains a great case study of WHAT can be achieved. But not of HOW it can be achieved.

Going forward, a model in which only the brand owner bears the financial risk of these kinds of promotions is simply not tenable in the long term.

Indeed we have already turned down one offer of partnership with an airport for just this reason: because the risk-sharing proposition was simply not attractive enough.

But I'm far from giving up on this idea. In fact I'm still incredibly passionate about it. Finding the right commercial model, in which the financial risk is properly shared between the three parties, is a prize well worth pursuing. There is massive upside to be found here and everyone can share it.

Category activation, on-concourse, at scale, remains central to delivering our ambition of doubling the liquor category.

SLIDE

Why? Because today, on average in travel retail across the world, only 1 in 5 travellers visit liquor stores and only one in 10 buy from them. Yet 6 out of every 10 non-shoppers say they *would* buy.

Even if the figures would look somewhat better in the Middle East region, is there *anyone* in this room who feels genuinely satisfied with those figures and what they say about the quality of our offer – our brands, our shops and our airports?

BUILD SLIDE

The opportunity of driving footfall remains amazing and here's the brilliant thing: we only need to persuade a small portion of current non-shoppers into the shops to double the category.

Look at the numbers... half of all passengers: would buy if the retail offer was right BUT right now choose not to!

For many of the non-shoppers: alcohol rejecters or those stressed by schedules, timings, gate numbers, LAGs, baggage, security their mind is closed to the idea of shopping.

But for others it's not closed, but they're just not motivated to visit. They are simply not being drawn in with the current offer and the current communication. Our research shows, however, that the minds (and wallets) of these travellers are not rigidly closed.

SLIDE

Diageo's non-shopper research shows that the key reason for not shopping is that passengers see more value in visiting other locations in the airport as they don't understand the retail offer or believe that the shopping experience warrants it. We call this group 'The Dismissed' and they represent 51% of the potential shoppers. A second key group 'The Disconnected' are confused by rules and don't understand the real value available there. This group represents a further 27% of non-shoppers.

Creating new, compelling conversations with these consumers is the key that will unlock the transformation of the category.

So let's just look quickly at the sales opportunity here. I want to keep this simple so I haven't included in these figures any growth from premiumisation, even though I confidently expect half of the future category growth to come from that source.

Premiumisation, what we call "Buy Better Drink Better" strategy, is a cornerstone of Diageo's strategy and innovation plans - consider our recent launch in Abu Dhabi of The John Walker at \$3000 a bottle if you have any doubts about our intent here. Yes Rene - we have definitely checked in for the "flight to quality"!

So just look at the scale of the opportunity - excluding premiumisation - and just how possible massive retail growth is.

SLIDE

As I said, talking effectively to these consumers is what will make the difference in transforming the category. So what's holding us back from communicating effectively with these target groups now? Simple: the cost to reach them in this channel is high and that the burden of cost is not currently shared!

Take a look again at domestic markets and you'll see brands and retailers partnering to surround the shopper on the journey to their stores. 360-degree marketing is very real and is really making the difference: TV ads connect with outdoor & digital media, poster sites are selected near stores, experiential events and sampling happens in the car parks, the communication message is built at front of store, then taken throughout the store through floor media to highly visual gondola end displays right to the point of purchase. The model works and it works well.

However, the way we currently divide margin between supplier, retailer and airport landlord is very different to the way this is done in domestic markets. So we need to behave differently in the way we invest in driving retail category sales.

Let me be clear: I am not proposing a re-alignment of margin but I do argue that the potential profit pool for us would be very much bigger if we all invested behind shifting shopper behaviour – far bigger than current income from selling media spaces.

Yes, part of our vision is to execute bigger and better promotions: to execute in such a way that we hit the tipping point where passenger behaviour changes.

Yes, like many others brand owners, we do see Travel Retail as a shop window to the world for our brands. What we've made clear before is that we will continue to invest, even through the down turn to power our way through it, but in future we will prioritise investment to those who share our category-busting ambitions.

The biggest possibility I can see is that we partner to *surround* passengers in a way we've never done before, with communication of the travel retail offer at all relevant key touch points in their journey to engage and inspire them to visit the shop.

Doubling the value of the liquor category - to \$12bn annually - is a huge ambition. To achieve it we will all need to think and behave differently. But there are many compelling reasons to believe that we can pull this off, and it is my experiences here, in the Middle East, which give me the greatest belief.

Take Beirut where, earlier this summer, we partnered with Beirut Duty Free as part of a huge promotion designed to capitalise on the return to Lebanon of thousands of Lebanese ex-pats who wanted to vote in the country's General Election. Activity in the store was supported by major above- and below-the-line advertising and promotion.

As a result, we increased footfall by 7 percentage points and this, together with significantly higher passenger numbers, led to a doubling of absolute footfall and a sales increase of 97%.

SLIDE

Take Dubai Duty Free, now the world's number one Duty Free retail location. For the past nine months we have been activating at scale in Dubai with Dubai Duty Free. Our 'Summer Spirits' campaign saw us on the concourse for the first time ever, in the shape of this rather splendid VW Camper Van called "Lola".

More recently, our activation of the 100th anniversary of Johnnie Walker Black Label, culminating in this SLIDE activation around Formula 1 – including our innovative *Join The Pact* anti drink-driving campaign, has driven Black Label to become one of the most iconic and successful of products across all of Dubai Duty Free's categories.

I also see huge possibility in the Maghreb and many other parts of the region. Egypt and Morocco , to name just two, are markets where we can - and will - take duty free much, much further.

And, most recently, take our work in Abu Dhabi, **SLIDE** with DFS and ADAC where we have transformed our retail offering in-store – as part of a fabulous overall retail offering - and launched The John Walker ultra-premium Scotch that I mentioned earlier.

From each of these activations – and others around the world – we have learned important lessons.

The first is the importance of brilliant execution of retail theatre. Creating something new, special and amazing that will engage and then divert passengers into the shop. Rene Carayol expressed it brilliantly yesterday when he said that it's experiences and not infrastructure that will entice travellers to buy.

The second is the power of genuine three-way partnerships between retailers, brand owners and airports based on shared strategic intent, shopper insights derived from research, shared investment and finally course-correction where necessary as a result of consistent measurement and evaluation.

And despite the current problem with risk sharing that I've identified, I remain totally committed to category activations, at scale, delivered

through these three-way partnership with retailers and airports; and the Middle East remains front and centre in my plans.

One of the reasons why this region is critical, is because the people we work with here have shown great openness and vision and share our commitment to creating a bigger and better future for duty free.

One of those people is Dan Cappell from ADAC. Dan and I only really met in Macau in September, yet in just two months we have really opened up lots of new possibilities and I think it would be great if we could now ask Dan to come and join me to say some more about this great opportunity from his point of view. **SLIDE**

DAN CAPPELL

Thanks Dan. **SLIDE**

So, there is a massive opportunity for travel retail around doubling the liquor category. The way to do it is to drive footfall into the stores; and the way to do that is for brand owners, retailers and airports to work closely together: creating a larger pie for everyone instead of diverting our energies into arguing over our relative share of a pie that isn't currently growing.

But we must act soon. The “challenge to reinvent ourselves” demands our immediate attention.

The global economic downturn has forced us all to challenge our orthodoxies and think the unthinkable.

I am quite clear: the new world of relationships between brand owners, retailers and airport authorities would simply not have come about without the stimulus of the economic downturn.

If we wait too long to forge a new business model that can drive many more passengers into stores then there is a real and very present danger that we will all revert back to business as usual. The lure of ‘business as usual’ will undermine the desire to create something new.

Over the coming months, we will be rolling out more, big on-concourse promotional activities focused on big brands driving big categories. 2009 was just a taster: next year will be really big and I am actively seeking partners.

In Formula 1, to take just one example, it is only a few months until Bahrain kicks off a season in which our partners – Vodafone McLaren Mercedes – will field a team consisting of the current world champion and immediate past world champion for the first time in F1 history: and they’re both Brits!

As we forge these partnerships, what I promise to bring to the table, apart from enthusiasm and determination, is:

- A portfolio of leading brands, including Travel Retail exclusives.
- Sustained innovation in products and packaging, targeted to meet the travel retail opportunity.
- Exceptional promotions backed with an intent and investment to create the biggest ever activations.
- Fresh relationship marketing with consumers including pre-departure communications targeted at increasing footfall. Smarter and deeper shopper understanding.
- And, ultimately, a bigger and better set of plans that are centred on driving the category.

In return, from airport authorities, I will be demanding access:

- access to your passenger database to support the creation of specific, targeted communications pre-departure;
- full and free access to concourse and current white space for messaging to deliver the necessary passenger communication;
- free access to the airport's promoters and store staff to drive shopper engagement.
- And, where appropriate, early involvement in the design of new or refurbished retail areas to ensure we build-in the maximum opportunities to generate revenue,

From retailers, I will be demanding, first, that you share your shopper insight, to open-up access to category depletions data to enable the

industry to step-change the quality of its continuous data and so to enable brand owners to shine their light on key opportunities.

Second, that you invest behind an innovative, exciting and engaging retail experience with exceptional theatre, in-store service and support.

Third, that you partner with brand owners to deliver a consistently strong value message supported by original and engaging promotions - delivering a retail experience that stands apart from the domestic channel.

And from all prospective partners, I demand your passion and your creative genius to make our ideas even bigger.

So, let me finish by bringing to life the world I want to see in Travel Retail. Amazing travel experiences, and amazing shopping experiences, informed by shopper understanding and enabled by technology. Travel Retail as a grand consumer stage. The shopping experience *is* the travel experience.

This isn't a vision of some distant future. This is our tomorrow. In fact it could be our *today* if we want it, and we act accordingly. The possibility is enormous.

VIDEO

SLIDE

Thank you.