

Reality & opportunity in the Middle East: The industry past, present & future

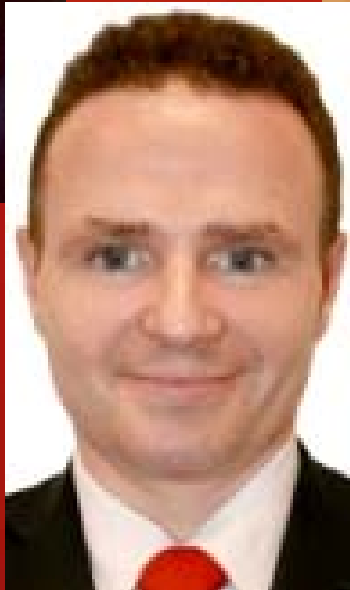
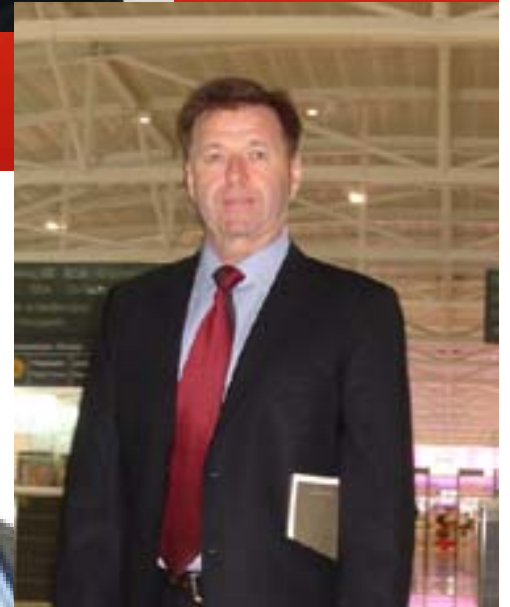
MICHAEL BARRETT

CONFERENCE & RESEARCH MANAGER, TFWA



**THE MIDDLE EAST
DUTY FREE CONFERENCE
CAIRO 28-29 NOVEMBER 2010**

MANAGED BY
TFWA
BY THE TRADE FOR THE TRADE
www.tfwa.com



MEDFA members' views

Dan Cappell, ADAC

- The pioneers
- The explosive expansion
- Long term sustainable growth

MEDFA members' views

Dan Cappell, ADAC

“In simple terms ARI virtually started every Duty Free operation in the region in those days with the exception of Abu Dhabi.”

Dubai Duty Free

1983: US\$ 20 MILLION

2010: US\$ 1,2 BILLION (forecast)



Abu Dhabi Duty Free

1984: US\$ 6 MILLION

Mid 90s: US\$ 80 MILLION

2010: US\$ 157 MILLION (forecast)

AerRianta International Middle East

2010: nearly US\$ 1 BILLION (forecast)

**EGYPT, BAHRAIN, BEIRUT,
KUWAIT, MUSCAT, QATAR, CYPRUS**

MEDFA members' views

John Sutcliffe, ARI-ME

“Today ARI-ME is a network of consistently successful businesses spread around a difficult region, one that is constantly vulnerable to political shifts. What other region in the world... has traded through three major wars in the past decade and a half?”

Source: The Moodie Report

MEDFA OFFICIAL GUIDE 2004

November 2004 MEDFA OFFICIAL GUIDE 2004 Qatar Duty Free By Diana Albiol

Qatar Duty Free: A serious contender

Anyone referring to Qatar Duty Free as the next big thing should think again: the ambitious Doha-based company, which is owned and operated by Qatar Airways, has already arrived – and in style. And with a multi-million dollar investment taking place, Qatar Duty Free is going to become a whole lot bigger yet. Diana Albiol tells the tale of a company going places in a hurry.

Industry attention on the Middle East region has historically focused on 'the big three' – Dubai, Abu Dhabi and Bahrain. But that cast of players is being joined by some ambitious regional counterparts, notably Qatar Duty Free (now bigger in sales than Bahrain) and the extraordinarily ambitious Qatar Duty Free.

Under the direct management of Qatar Airways CEO and chairman Akbar Al Baker, the level of investment taking place at Doha International Airport is on a scale rarely paralleled in this business: the airline is expanding both its fleet and its refurbishment, and planning air space allocation is already under way for a new airport, due to open in 2008.

This level of growth and investment is a reflection of much that is taking place throughout Qatar, which is now viewed as a major business and leisure destination. Growing numbers of high profile sporting events, such as Moto GP and the Asian Games in 2006, Qatar is developing into a high-end destination – and Al Baker and his team are close at hand in tandem with management consultant Aer Rianta International-Middle East.

The passenger profile at Doha International Airport ranges from low-spending overseas workers to high-spending locals and tourists. But while the low-spending customers are more than adequately catered for, the product mix is currently being adapted to offer more luxury brands, and the new retail area will be welcoming new names including Rolex, Clinique, Cartier perfumes and Chaparral fashion.

To be under the same umbrella as the national airline has many benefits for Qatar Duty Free. The airline itself is one of just three five-star rated airlines (source: Skytrax) and is achieving impressive year-on-year growth in fleet size, destinations and passenger numbers. Last year 2.6 million passengers departed Doha onboard Qatar Airways; this year the number will rise to 3.6 million, and by next year 4.5 million is expected to exceed 4.5 million. With another 30% added to Qatar Airways' fleet of aircraft, it is easy to see why duty free prospects look so bullish. By May of next year Qatar Airways will have 42 aircraft and new routes will include Johannesburg, Seychelles, London Gatwick and Osaka, the airlines first Japan route.

Speaking to The Moodie Report, Qatar Duty Free Assistant General Manager Krishna Kumari says that this development is only the beginning and that Al Baker has bold plans for his company. "Between now and 2008, when the new airport is completed, we will be involved in many other duty free areas – such as the military, a deal we are close to signing now," she says. Although unable to confirm any details, Kumari was hopeful that the 'gold mine' that is the American base in Qatar is close to being confirmed. "It will mark the start of another booming division for the company.

For now, though, the entire team is focused on the current departures terminal and the refurbishment taking place. Overall duty free sales are up 41% this year – already an 8% increase over budget – but it's the individual categories that are reaching triple-figure increases and prompting the need for a refurbishment. This development will see barely any increase in total retail space – a nominal 50sq m has been added – and it presents the company with many challenges. "By far the biggest achievement for us this year will be the will increase by half and will incorporate new supplier merchandising from many suppliers, including Nestlé, Mars and Ferrero. More Arabic sweets will also be introduced. However, in line with the increase of luxury brands across the duty free offer, Kumari notes that this is also a growing sub-sector of confectionery. "The luxury side of the confectionery market is certainly on the up. Godiva, for instance, has done very well for us," she tells The Moodie Report.

One category experiencing huge sales increases is electronics, in particular photography. During the period January to August 2004 the electronics category has grown by +34% compared with the same period last year. However, photography achieved an increase of +88% in the same period; and product alone does not create such returns, as Kumari is keen to point out. "Electronics is not just about selling boxes. The staff need to be able to answer many technical questions and enquiries about prices and models, because customers tend to compare cameras but do not realise the differences in specifications between models. I'm very proud to say that we have fantastic electronics staff, and they have boosted sales in the department."

Price remains a sensitive issue within the electronics category but Kumari is pleased to have established a more competitive pricing structure for Qatar Duty Free. "There is a more aggressive price comparison within the region. In order to secure the latest models straight away it is important to have an agreement with the local suppliers and have an aggressive deal with them. The only supplier that we deal with in electronics, besides our local suppliers, is Dufri for Sony items, and they have been extremely good," says Kumari.

The electronics area will increase in size and move to a central location. It will incorporate a new mobile phones area. Although Qatar Duty Free has good deals with the local Nokia supplier, Kumari says this is a category requiring specialist knowledge. "It is a challenging business to manage. The prices fluctuate, and margins drop. At the same time you need to keep up with pricing and the latest models in the local market. It can kill your business," she explains. In the long run Kumari plans to give this category to a concessionaire – the first of several to be outsourced by the company. "We have already made provisions for the mobile category to be in an area that can be concessionaire-operated."

Looking ahead to other categories that may be outsourced, including wine, music and books, Kumari says: "You have to give the business to a specialist or you will have much more liability of stocks and product knowledge. So you should leave it to the expert and get a good minimum business return through a percentage turnover in rental."

increase of +54% in the period from January to August 2004. The confectionery market is certainly on the up"

"We have already achieved what we are working with the rest need to turn it around but creating congestion"

Price remains a sensitive issue within the electronics category but Kumari is pleased to have established a more competitive pricing structure for Qatar Duty Free. "There is a more aggressive price comparison within the region. In order to secure the latest models straight away it is important to have an agreement with the local suppliers and have an aggressive deal with them. The only supplier that we deal with in electronics, besides our local suppliers, is Dufri for Sony items, and they have been extremely good," says Kumari.

The electronics area will increase in size and move to a central location. It will incorporate a new mobile phones area. Although Qatar Duty Free has good deals with the local Nokia supplier, Kumari says this is a category requiring specialist knowledge. "It is a challenging business to manage. The prices fluctuate, and margins drop. At the same time you need to keep up with pricing and the latest models in the local market. It can kill your business," she explains. In the long run Kumari plans to give this category to a concessionaire – the first of several to be outsourced by the company. "We have already made provisions for the mobile category to be in an area that can be concessionaire-operated."

Looking ahead to other categories that may be outsourced, including wine, music and books, Kumari says: "You have to give the business to a specialist or you will have much more liability of stocks and product knowledge. So you should leave it to the expert and get a good minimum business return through a percentage turnover in rental."

Qatar Duty Free factfile
 Sales: +213%
 Growth: +151%
 Concessions: +120%
 Profits: +130%

Spend per head
 2003: US\$13
 2004: US\$17
 2004: US\$21-23

Fastest growing categories (January-August 2004)

Qatar Duty Free team is also planning to open in November. Housed within the separate area dedicated to VIPs, the small 150sq m shop will offer a range of high-end luxury items, including Rolex watches.

Back on the ground, the Qatar Duty Free team is also planning to open in November. Housed within the separate area dedicated to VIPs, the small 150sq m shop will offer a range of high-end luxury items, including Rolex watches.

To top off all this development, one final investment is being made in the company's IT system. As present the Qatar Duty Free team is unable to track the nationality of its customers, although all routes are recorded at point of sale. However, Kumari is looking for an IT system which will be able to provide a much more detailed account of all sales and customers. "Databases and information about all sales and customers. We have to look at our investment about customers is crucial and a system which, we hope, will be up and running within 12 months," she says.

With such foresight and ambition, any additional information obtained will only complement the already hugely inspiring retail operation and take Qatar Duty Free to even bigger and better things. Qatar may once have been one to watch – now it is one the industry cannot afford to take its eyes off.

Qatar Airways passenger numbers

Year	Passenger Numbers
2002/03	2.6 million
2003/04	3.6 million
2004/05	4.5 million

Source: Qatar Airways, The Moodie Report

The Moodie Report

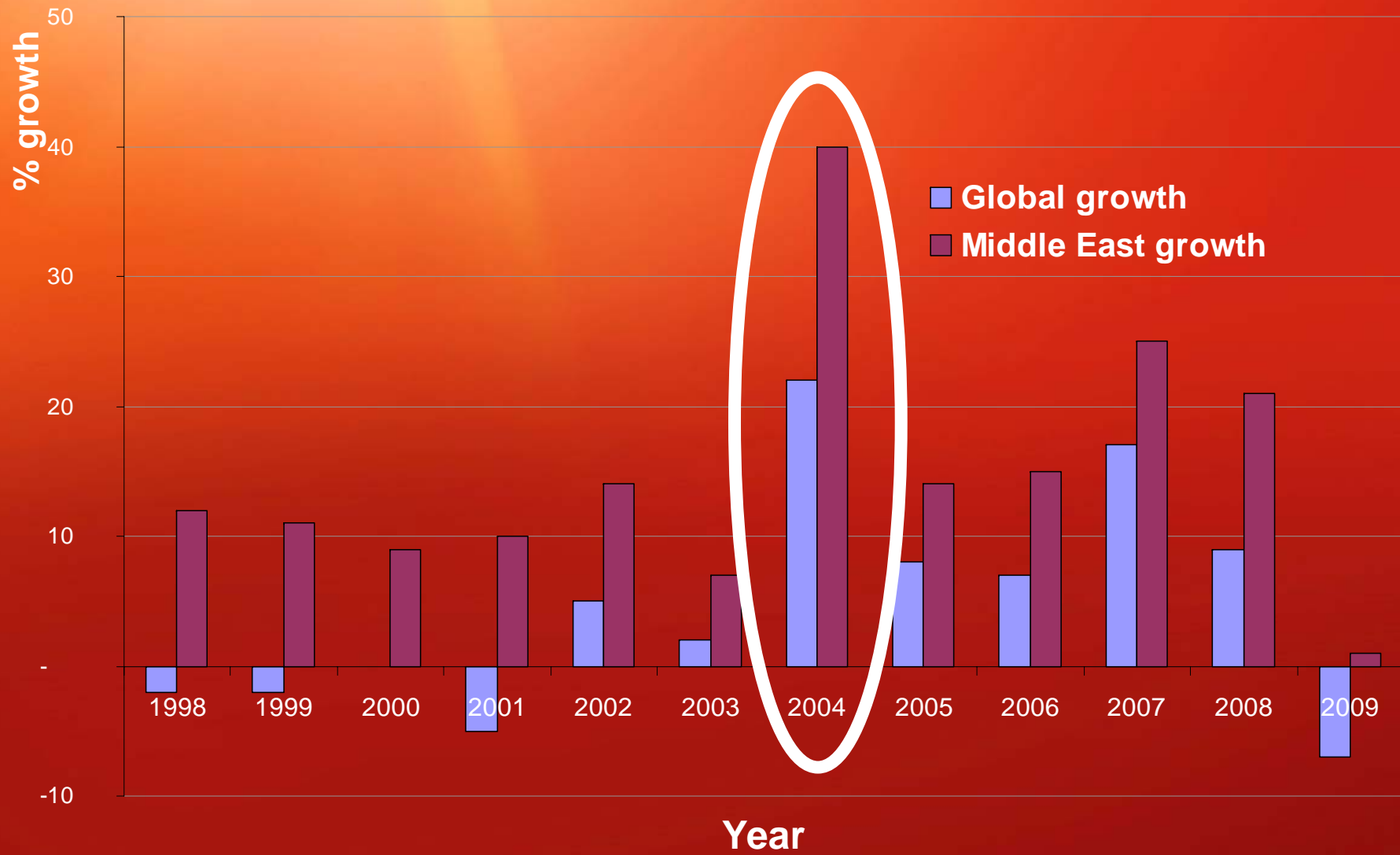
November 2004

Qatar Duty Free

37

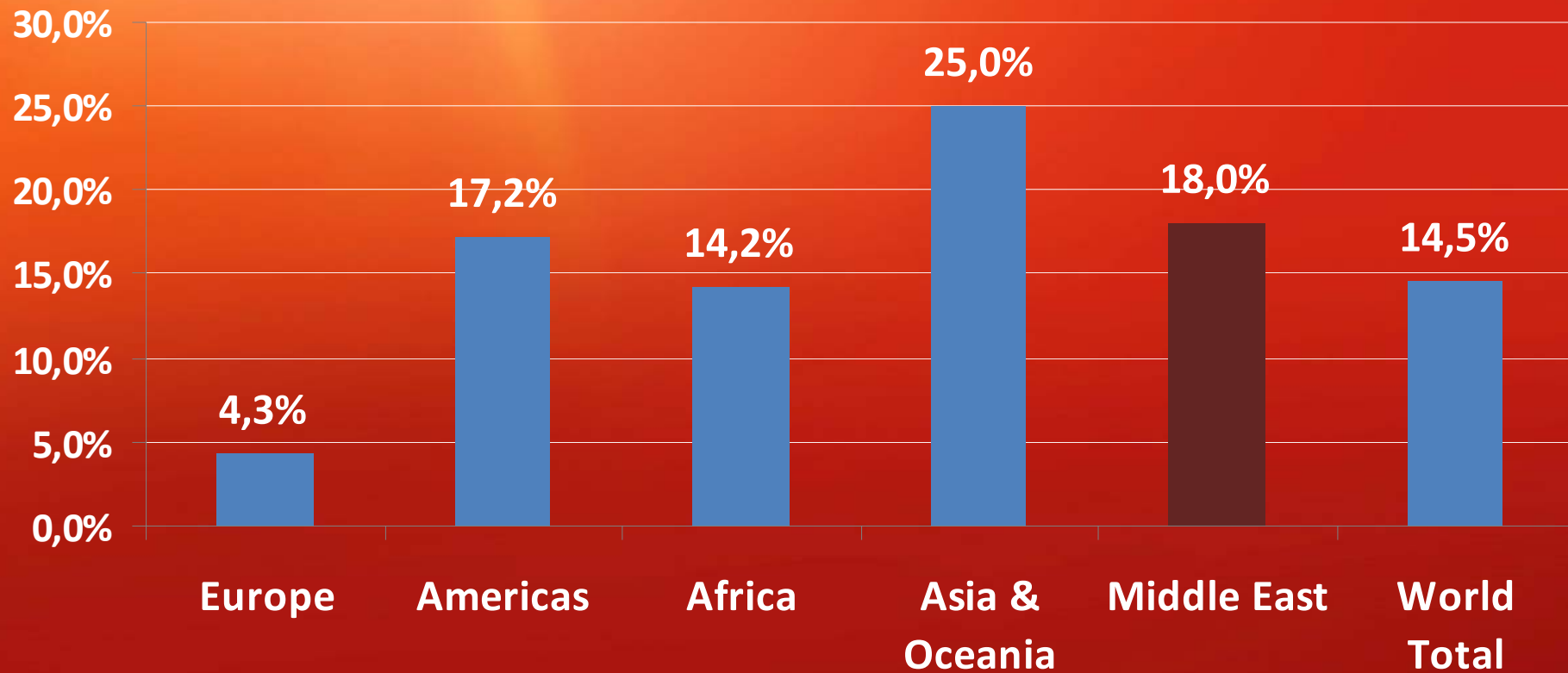
39

Middle East vs Global Growth



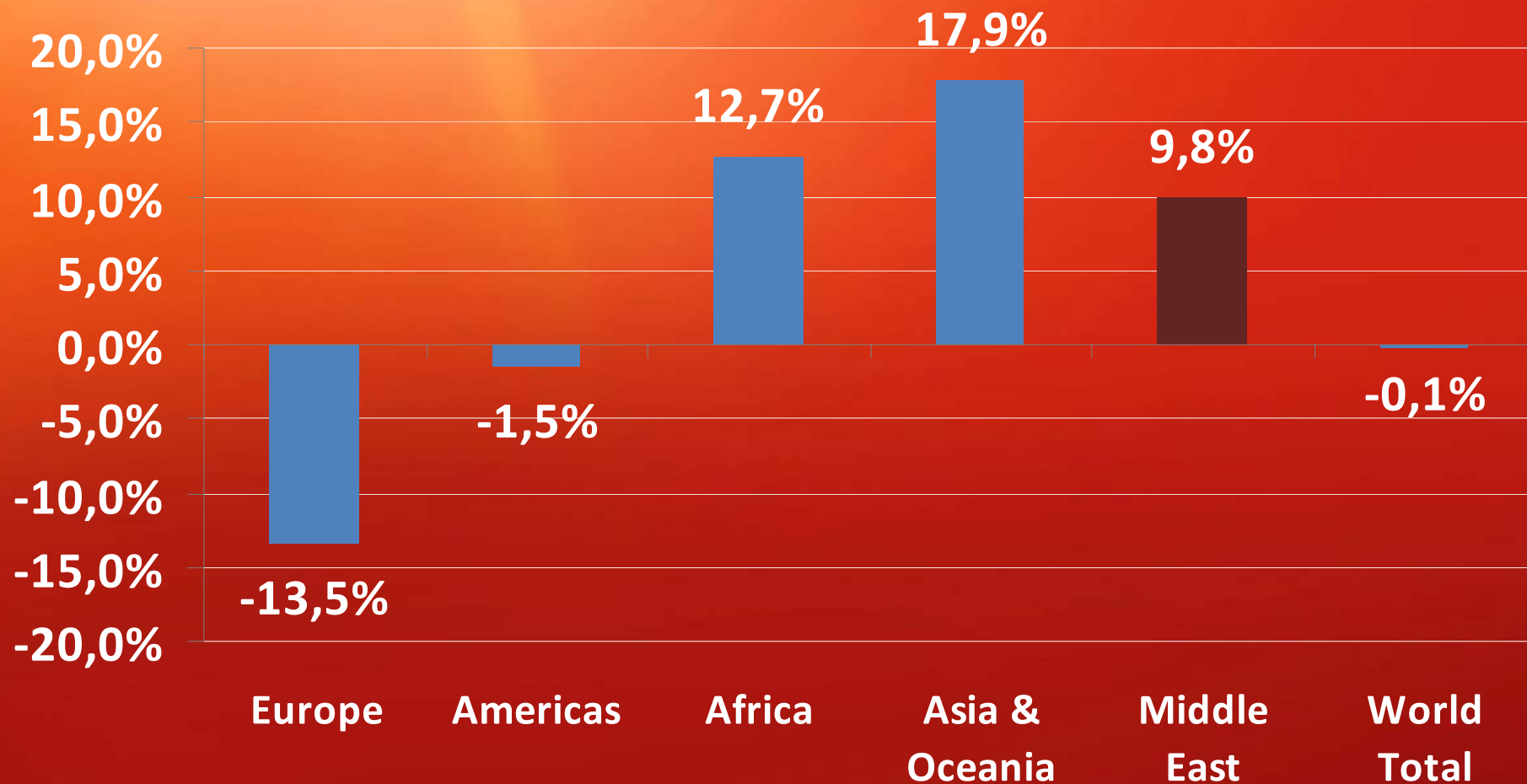
Source: Generation Research, Sweden

YTD September 2010 vs YTD September 2009



Source: Generation Research, Sweden

YTD September 2010 vs YTD September 2008



Source: Generation Research, Sweden

**The secret of success in the
Middle East...**

The power of partnership

MEDFA members' views

Sean Staunton, Dubai Duty Free

“The marketing of Dubai Duty Free as a brand as well as marketing Dubai International Airport and Dubai itself have been strong components in this success.”

MEDFA members' views

Steve O'Connor, Bahrain Duty Free

“Dubai, Abu Dhabi and Qatar are now in direct competition with each other, this is driving growth and innovation...”

MEDFA members' views

Steve O'Connor, Bahrain Duty Free

“Tendering will become more competitive at airports where a genuine commercial offer is required by the airport...”

MEDFA members' views

Steve O'Connor, Bahrain Duty Free

“Technology, innovation...

and a better customer experience.”

MEDFA members' views

Tarek Hamila, Hamila Duty Free

- **Enfidha Airport**
 - **7 million capacity today**
 - **30 million capacity long-term**
- **One million cruise passengers to Tunisia**

Present performance

- **Muscat: + 28%**
- **2014: new terminal**

- **Amman: + 14,8%**
- **Terminal expansion & new terminal construction**

Future growth for the Middle East

- **Aggressive airport & airline expansion**
- **The decline of European hubs**
- **Low cost sector development**
- **Economic growth : Middle East and Asia**

Aviation in the Gulf

Rulers of the new silk road

The ambitions of the three Gulf-based “super-connecting” airlines are bad news for competitors but good news for passengers

Jun 3rd 2010 | DUBAI



Dubai International

THE view from Tim Clark's office in Emirates' new headquarters should strike fear into the hearts of rival airline bosses in Europe and America. Across the way is Dubai Airport's

Paul Griffiths, Dubai Airports

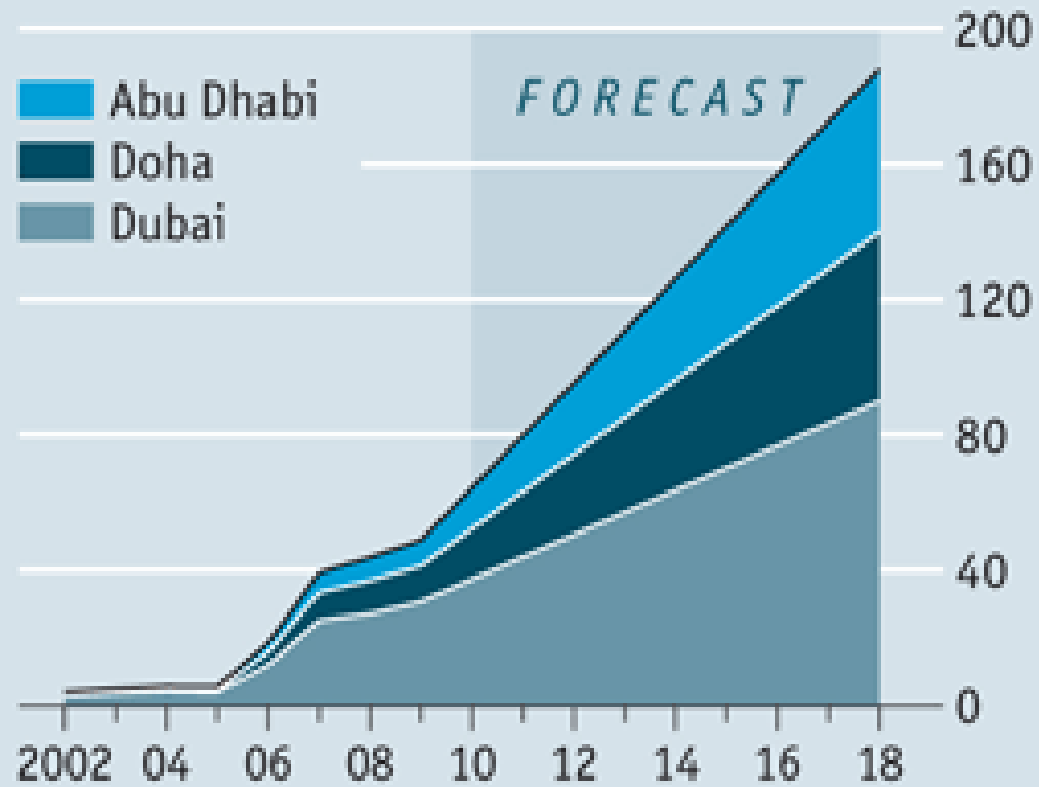
"Dubai's aviation industry is thriving due to its liberal aviation policies, tax free environment, geo-centric location as well as its willingness to invest in top-flight infrastructure ... **It is a formula that clearly works...** The challenge going forward is to ensure we have ample capacity in place to accommodate traffic growth."

Source: Dubai Airports

Changing places

2

Capacity at Gulf hubs, passengers, m



Sources: Air Transport Intelligence; airports' forecasts

the travel retail
BUSINESS
the international business magazine for duty free

October 2010
Volume 13, Issue 10

Schiphol
repositions
new retail
offer

**SPECIAL
TOKYO
NARITA
RETAIL
REPORT**

Brazil drives
LATAM
sales

GuestLogix raises
the inflight bar

Akbar Al-Baker

Qatar Airways aims for 'second to none' page 18

ALSO INSIDE:

ABU DHABI SPECIAL | AELIA | LIMA AIRPORT | INTERBAIRES | WDF
INFLIGHT 'SHRINKAGE' | INDIAN MARKET | COCHIN | ASUTIL 2010
RÉMY MARTIN | MISAKI | HERSHEY | BEAM GLOBAL | DIAGEO GTME
SAGATIBA | OSAKA | HANEDA | ISPYPLUS EVENT | GLEN GRANT



Akbar Al Baker, CEO Qatar Airways

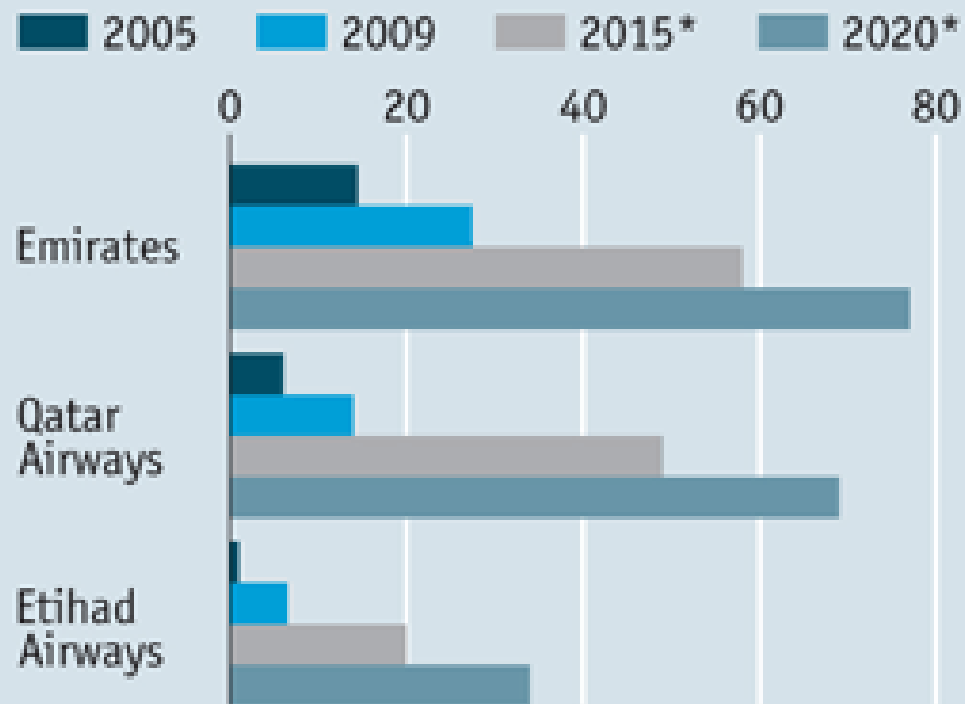
“No, I don't think so... western airports are not growing anymore... There is a shortfall of nearly one billion passengers in airport capacity around the world, so we are taking a small part of it.”

Source: The Travel Retail Business

Come fly with us

3

Passengers carried by airline, m



Sources: Air Transport Intelligence; airlines' forecasts

*Forecast

Future growth for the Middle East

- **Aggressive airport & airline expansion**
- **The decline of European hubs**
- **Low cost sector development**
- **Economic growth : Middle East and Asia**

The decline of Europe's hubs

I-94 5+ year travel data	2005	2006	2007	2008	2009	Q1 2010
Regions	% +/-	% +/-	% +/-	% +/-	% +/-	% +/-
Europe	3%	4%	3.3%	-6.2%	-4.2%	-6.7%
Asia	10%	8%	8.2%	-1.6%	-4.1%	9.0%
Middle East	13%	-14%	24.9%	45.2%	40.9%	35.2%
Africa	1%	-18%	23.7%	55.8%	24.8%	18.0%
Total Overseas	5%	5%	4.3%	-1.4%	-1.6%	1.7%

Source: CAPA / US Government Statistics

Future growth for the Middle East

- Aggressive airport & airline expansion
- The decline of European hubs
- **Low cost sector development**
- Economic growth : Middle East and Asia

Future growth for the Middle East

- Aggressive airport & airline expansion
- The decline of European hubs
- Low cost sector development
- Economic growth : Middle East and Asia

Future growth for the Middle East

- **Living standards in India and China...**
- **Business travel doubling year on year**
- **Indian airports passengers : 450 million by 2020**

Future growth for the Middle East

China domestic passenger trips...

2009: 230 MILLION

2013: 450-500 MILLION

2030: 1,5 BILLION

The secret of **FUTURE** success in the Middle East...

- An improved customer experience
- More engagement with the customer
- A new innovative approach to the customer

Middle East duty free shopper facts

TFWA / Horizon Middle East Consumer Research

- 31% prefer to shop in duty free than elsewhere
- 88% prefer 'fixed price' stores
- Quest for authentic goods

Middle East duty free shopper facts

TFWA / Horizon Middle East Consumer Research

« Collectively, duty-free has brand name reliability. »

Source: DFNI Magazine

Middle East duty free shopper facts

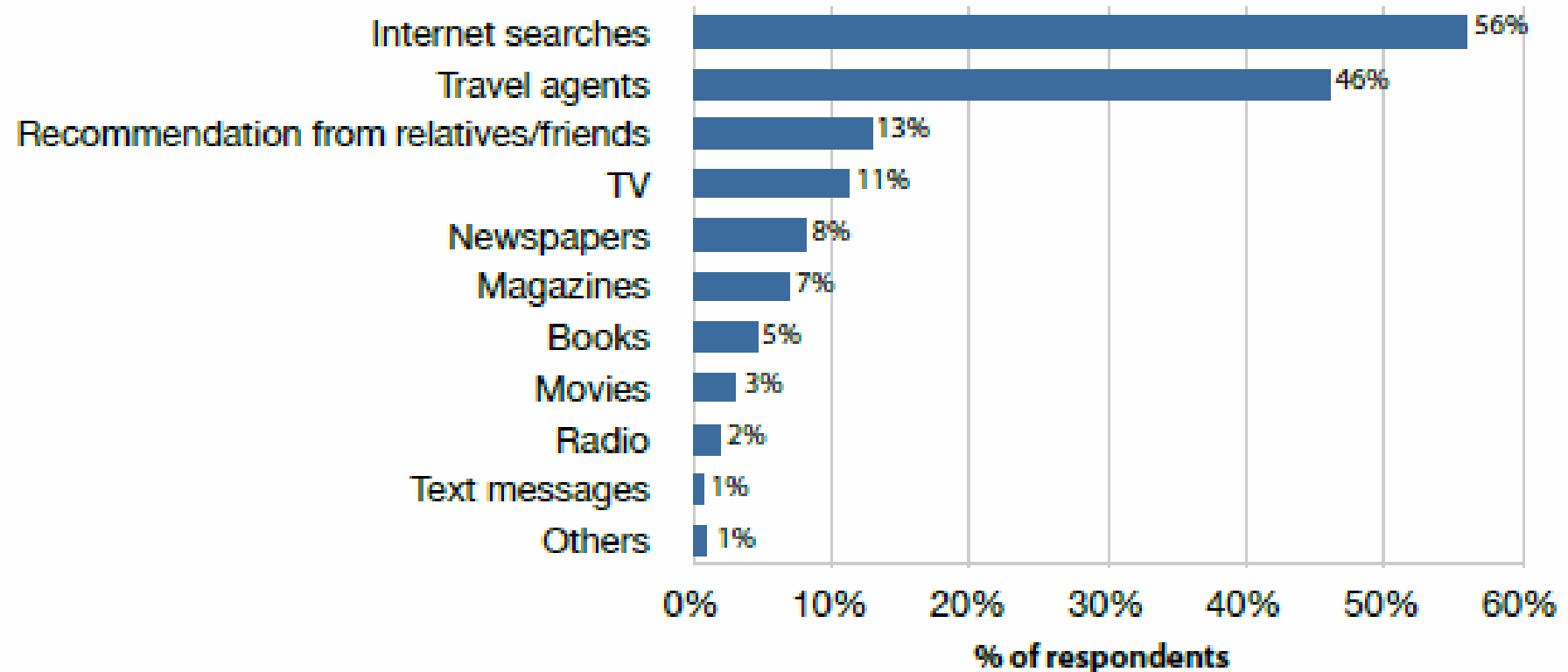
TFWA / Horizon Middle East Consumer Research

- 41% to spend more on “best bargains”
- 31% to spend more on exclusives
- 54 % plan their purchases prior to departure

Source: DFNI Magazine

Chinese outbound travellers online

Main Destination Information Sources



Source: PATA 2009 Outbound Tourism Yearbook

In conclusion...

The Power of Knowledge

- Know your consumers
- Their desires and expectations
- Tell them before they travel

**“Don’t open a shop if you cannot smile.”
Chinese proverb.**

Thank you



**THE MIDDLE EAST
DUTY FREE CONFERENCE
CAIRO 28-29 NOVEMBER 2010**

MANAGED BY
TFWA
BY THE TRADE FOR THE TRADE
www.tfwa.com