

TFWA World Exhibition, Cannes 2010

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October 18, 2010

A New Era: Reinventing Duty Free and Travel Retail

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Good Morning Ladies and Gentlemen

And a very warm welcome to the 26<sup>th</sup> TFWA World Exhibition, and the 25<sup>th</sup> here in Cannes.

If 2009 was a year of lost passengers and lost sales, 2010 is turning out to be a different story - a year of returning passengers and returning sales.

The number of brands, retailers, operators and other stakeholders here in Cannes this week is testimony to their continued belief in the future of travel retail and their desire to be part of it.

The title of this morning's conference is: **A new era: reinventing duty free and travel retail.**

Deliberately provocative. But why not?

I believe many of the re-inventions and refinements in our industry over the past 5 years or so were a big part of the reason why, to varying degrees around the world, we weathered the storm of 2009. We'd significantly improved almost everything we do as an industry – from design, marketing, consumer insight, product innovation to constructive collaboration amongst all parties.

So **do** we need to reinvent anything at all going forward? **Yes. We do.**

Whatever we have been doing up until now, however well, will not be enough to ensure future success – and If we plan to be selling in the same way, to the same people in 5 years' time... we might well find ourselves in trouble.

Last month I was privileged to meet a man who left his profession as a marine lawyer to campaign for the protection of the environment. Lewis Gordon Pugh was recognised by the World Economic Forum as a Young Global Leader for his potential to shape the future of the world through his inspiring leadership.

In May this year, he undertook a one kilometre swim across a glacial lake under the summit of Mount Everest to draw attention to the melting of the Himalayan glaciers and the impact on global peace. These glaciers are not just ice. They are a lifeline. They provide a constant water supply to some 2 billion people – nearly a third of the world's population.

The combination of the water temperature (2 degrees C), and the altitude (5,3km) made this one of the most difficult swims he had ever undertaken – more so even than his previous swim across the North Pole. Lewis failed at the first attempt and had to re-evaluate his approach. While his previous exploits and experience told him that facing hypothermia he needed to swim fast, in fact at that altitude the rules had changed. Conserving energy was a must and despite the cold he had to re-evaluate and swim slowly. The two observations with which he concluded his brilliant talk are as relevant to our business today:

- what worked in the past is not necessarily right for the present and the future
- changed circumstances require different strategies and tactics

He reinvented his approach and succeeded!

And so it is for our business.

This industry is, more than most, at the mercy of uncontrollable external forces. Our market is both blessed, and cursed, by its dependence on the international traveller – *blessed* because this exciting cosmopolitan cohort is a retailer's dream; *cursed* because not only is our business at the mercy of the big economic and political developments but also of everything from airline collapses to severe weather conditions – and more recently volcanoes!

In our industry, the only certainty is change.

Despite erupting volcanoes, the bounce-back in 2010 so far has been quite remarkable. Generation's half year figures show that we are up 16.1% on the same period in 2009 - with most regions seeing double growth.

Now clearly Europe's sales were more affected than most because of the ash cloud, and a weaker rebound in passengers, but as a whole, the global duty free and travel retail industry is on course to beat the results achieved in 2008, pre-global economic recession.

So the present is looking rosy. But what about the future?

As business people, we all accept that there is no room for complacency and it is not sufficient just to react. All the macro features that impact on our industry will remain uncertain and unpredictable:

- Global and regional economic performance
- Social trends
- Global health scares and pandemics
- Environmental challenges
- Political and legislative developments
- Technological advances

All are likely to create the necessity for our industry to devise new and inventive responses. But while their **impact** may be unpredictable, that does not prevent us from planning ahead to lessen any potential harm and capitalise on the opportunities they may bring.

A recent IBM CEO survey found that the vast majority of CEOs anticipate ever greater complexity in the future and admitted they doubted their organisation's ability to manage this complexity. And they all agreed on one thing – that **creativity** is key to tackling the challenges ahead.

With this in mind, I look forward to hearing from L'Oréal's CEO Jean-Paul Agon a little later this morning, on how he aims to manage the complexities the future has in store for one of the biggest businesses in our industry and the world's number one cosmetics company.

The last 2 years have been some of the most challenging for our industry - just look at the economic devastation on this diagram.

What lessons have we learned? And how are we planning to manage the longer term fallout that continues to hold back recovery in the Western World, in particular?

In the economies of the developed world, reduction of public sector spending is a top political priority. This **will** have an impact on consumer spending and travel plans. Despite historically low interest rates, uncertainty is holding back investment in business growth. The fear of a double dip recession – Finland is already in one - and regular warnings on US consumer spending are clearly holding back a return to confidence.

-How badly will all this impact on consumer spending – especially on discretionary items such as travel next year and even the year after?  
(pause)

-What are our strategies for a travel retail offer relevant to a customer base with less disposable income? (pause)

According to research organisation Euromonitor, there is evidence of a growing tendency amongst cash strapped western travellers, not to cancel their travel, but to dissect every single aspect of their travel expenditure down to the last component part. Cutting costs, and reducing budgets down to the last degree to extract every last ounce of value from their total spend.

The good news is that they **will** be travelling, because that gives us a chance. But we need to be sure that they plan to spend in travel retail. And if they are carefully re-evaluating expenditure, then our offer needs to stand up to the test. It's worth considering whether we need to reinvent what we offer to make sure we benefit rather than lose out in this scenario? Are we ready to adapt to win?

At the TFWA Asia Pacific show in Singapore earlier this year, I talked about a massive shift of economic power and influence from West to East over the next fifteen to twenty years.

We are witnessing a major structural change in the global economy, not just a temporary aberration. Look at almost any statistics for Asia compared with North America and Europe; America and Europe are dwarfed by comparison.

An Asian population of 4 billion versus 1 billion for North America and Europe combined.

The real significance is the percentage of that Asian population that will be middle class with the middle class's disposable income. Today it is 37%; by 2025 it will have doubled to 75%.

Fourteen out of fifteen of the world's fastest growing cities in GDP terms are in India, China and Vietnam. GDP growth will far outstrip that of the USA and Europe over the next ten years.

Air travel in the region will increase more than threefold in the next 20 years placing Asia Pacific in the number one position with around 33% of global air traffic.

Asia's investment in public infrastructure by 2030 will be, at 400 billion dollars. That's more than North America and Europe combined.

So, inevitably, Asia Pacific offers by far the biggest opportunities for travel retail growth. As international businesses, we will need to be ever more sophisticated in how we tailor our strategies to match evermore fragmented market places.

How well do we understand the minds of the Chinese, Indian or Vietnamese consumer?

How well do we understand the regional variations in tastes within the mega-economies of Asia and South Asia and how well prepared are we to reinvent our products and services to match their tastes?

On Wednesday morning, the Asia Pacific workshop will explore in greater details the latest opportunities and consumer trends in this exciting and fast-changing region.

And in all the talk of Asia Pacific we should not ignore the phenomenal growth in the Middle East. Their passenger profiles will change significantly as their leading hub airports attract even greater numbers of international travellers both East and West bound, and as Middle East airlines continue to establish major competitive inroads in long-haul intercontinental markets.

The pace of change in consumerism is nowhere more evident than in technology. The developments that we're already seeing today will ultimately force our industry to embrace new ways of understanding, engaging with and selling to travellers rather than just evolving what we currently do.

The global reach of the internet, the growing use of mobile applications that enable almost every item of information and transaction to take place through a mobile application, provide us with a massive opportunity to reach travellers and sell to them on a 24/7 basis, wherever they are.

With an estimated 4.5 billion mobile phones in circulation globally for a population of 6.8 billion, the mobile phone is becoming the primary internet access device with huge potential for gaining consumer insight, targeting our marketing and completing transactions.

According to research by internet marketing review Emarketer, more than half of US mobile phone users will be mobile internet users by 2013. Not surprisingly, in South East Asia, in the largest and fastest growing online market – Indonesia – has already reached that level with 48% of mobile users connected to the internet; 28% of Indian mobile phone users access the internet through their mobiles.

If you are not communicating with your customers through these devices (*shows mobile phone*) by this time next year, whether you're an airport, an airline, cruise liner, retailer or supplier, then you'll be missing out on a huge opportunity because that's where your customers will **expect** to find you.

Within the airport itself, major changes are happening. Current development means that a networked airport will be able to locate, track and communicate with every single passenger in the airport and locate, track and monitor every bag. Every passenger will be virtually wired into the airport experience, and we need to ensure that their travel retail experience plays an important part in this and that it is not left behind in a world of check -out queues and carrier bags. We cannot expect to flourish if we look and operate like the dinosaurs of retail!

And then of course there is the challenge of meeting our environmental responsibilities, which may well force some of the most far reaching change upon the way our industry operates.

Population growth, wealth growth will create increasing demand for travel, but travel – the lifeblood of our industry - is at the heart of the debate over climate change.

We need to anticipate how we would respond to radical change which might be forced upon us.

History has taught us that if this industry is to be invited to play a part in any debate on its future, it needs to show that it is already taking its responsibilities seriously, which means here and now at the very least seeking continuous reduction of our environmental footprint.

We will hear more on the subject of the environment later in this morning's programme from Lord Alan Watson, the Chairman of Havas Media UK.

(Pause)

All these challenges and developments - economic uncertainty, shifts in global power and wealth, technological innovation and environmental responsibility - are profoundly affecting consumer behaviour in ways that will have a direct influence on our industry.

There are many ways in which we can focus on reinventing and re-branding ourselves as an industry to be more in line with the consumer mindset of the future. Today, we have a branding expert, Martin Lindstrom, who will explore, in detail that I cannot possibly hope to, just how complex the consumer mind is and how it influences their response to retail.

The future is on its way, Ladies & Gentlemen, and I am conscious that I have been speculating about long term “big picture” developments but I make no apologies for this. For me that is what this conference is all about. A chance to stand back from focusing on today and tomorrow and give just a little time to looking further ahead – because tomorrow’s dots on the horizon will one day loom large and we’re either ready for them or we’re not.

Tax Free World Association has been re-assessing its future too. It has been a regular feature of our responsibility to you all – by the trade, for the trade – to ensure that the Association offers you the best opportunity to meet and grow our businesses to mutual benefit, and ultimately to provide the international traveller with a shopping experience which rewards them and all of us.

So over the past 12 months or more the Association has been considering how best to secure its future and is seeking its members approval at an Extraordinary General Meeting on Thursday, for changes which will allow this Association to continue to meet the needs of its members, and the industry, in the next decade.

The changes include opening up the possibility for the Association to source its President not only from the elected members of the Management Committee – as is the case now – but in the future also from the wider industry. With the change the Association will be provided with the possibility of choice to secure the best candidate matching the Association’s and the industry’s requirements. It will also bring the Association in line with many other not-for profit associations which have already made this change.

(PAUSE)

Before I close, I would like to share with you some moving images of change that has been achieved through the TFWA Care programme - funded through the Association's income.

TFWA Care projects are chosen for their ability to make a stand-alone tangible difference. Each has a start and a finish.

TFWA Care has enabled three school projects in remote parts of India to be initiated, and the project you see here is a skills centre which TFWA Care has developed to enable young people in this remote village to learn a skill with which they can earn a living in their own community. In the space of a few months it has transformed the lives of over 30 young people. There are more projects such as this one planned.

This year was also marked by the industry's massive and generous support for Hand in Hand for Haiti, set up in the wake of the tragic earthquake. The response from companies and individual donors resulted in the largest collective fund-raising effort in the travel retail industry's history.

With the preschool and kindergarten due to open early 2011, TFWA is lending its support this week to Women in Travel – a dynamic and persuasive group of female executives in this industry, who aim to raise €15,000 through a prize draw tomorrow. Many brands have already generously supported this initiative with fabulous prizes and you are all invited – men and women – to buy tickets for the draw.

PAUSE

- A New Era! (Pause)
- Reinventing duty free and travel retail (pause).

“Will duty free as we know it today still be here in the same way in 10 years time?

I hope not!

This industry has never stood still. It is renowned for its innovation. Firstly we need to secure our future by strengthening the industry’s ability to respond successfully to external factors. If we don’t anticipate and start thinking about how we can shape our future ourselves, others will do it for us.

The industry associations will be hosting a meeting on Wednesday to discuss how as an industry we can address the most pressing issues and all visitors and exhibitors are welcome to attend that meeting.

And secondly, we need to harness the capabilities of the many strong and visionary companies and individuals in this industry to continue to drive the industry forward.

We have some huge positives on our side and only last week Generation Research forecast global duty free sales to double by 2020.

But to achieve that remarkable feat, we will have to adapt and re-invent.

- Reinvent how we communicate and how we transact with our customers.
- Adapt our merchandise and retail experience to match emerging tastes and cultural preferences and interests.

The technology is there for us to exploit, and so is the power of our own ingenuity, our creativity and our imaginations. **Now that’s a great combination!**

Let me finish where I began, by repeating Lewis Gordon Pugh’s observations:

- what worked in the past is not necessarily right for the present and the future

- changed circumstances require different strategies and tactics

And so it is for our business....or with the words of Charles Darwin: It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

Ladies and Gentlemen, I hope you enjoy the rest of this morning's conference and I wish you a successful and inventive week at this year's TFWA World Exhibition.

Thank You very much for your attention.