

Speech by TFWA President Erik Juul-Mortensen at the 2011 TFWA World Exhibition conference on Monday 19 September 2011, Cannes.

Ladies and Gentlemen, Honoured Guests

Good Morning

Once again,

I'm honoured and privileged to be here in my capacity as President of TFWA, and on behalf of the TFWA Board and Management Committee, to welcome you all to the 27th TFWA World Exhibition – A Brand New World.

This year we find ourselves in Cannes a month earlier.

While circumstances beyond our control brought about this change of date, we do not underestimate the extra pressure this has put on all our exhibitors to be ready a month earlier.

The important G20, which will take place here in some weeks, will be hugely demanding and on behalf of TFWA I wish the city of Cannes and the mayor every success for the summit.

Each year on this occasion, I talk about the state of the duty free and travel retail industry, by assessing the pertinent macro-economic and geo-political landscape that influences our business so significantly.

This year, I am followed by Kofi Annan and Stephane Garelli; two eminent experts in these fields. They will address the impact of political, social and

economic events on business; and we are fortunate to have Salvatore Ferragamo CEO, Mikeali Norsa, who will provide an **insider** perspective on how leading premium and luxury brands can combine tradition with evolution to face the realities, opportunities and challenges of the future.

Now, let us take a snapshot view of where we are aiming to be in the not-so-distant future and some of the challenges we need to address to ensure growth is maximised.

As an industry we are ever-optimistic and ever-ambitious. Despite the challenges and difficulties of the past couple of years and the continued sluggish economies in many parts of the world we achieved sales in 2010 of 39 billion US\$ and are expecting to reach 44 billion \$ this year.

But that figure is dwarfed by the 64 billion \$ that is currently forecast for 2015. That's an increase of 25 billion over 5 years with a compound annual growth rate of 10.4%.

How are we going to actually achieve that colossal sum?

Well, the Middle East, Asia Pacific and Americas will help drive growth, and Europe and Africa will contribute but less significantly.

Our brands will make their contribution. Perfume and cosmetics, confectionery and luxury goods will all demonstrate double-digit compound annual growth, with wines and spirits not far behind.

And as usual, passenger growth will certainly play its part.

ACI - Airports Council International - projections for the same five year period 2010 to 2015 forecasts an annual average growth in passenger demand of 4.7%. That translates into around one billion extra passengers by 2015. But we're looking at sales growth of 10.4%!

To grow our sales at around twice the rate of passenger growth we will need to grow sales value per passenger and increase penetration.

This will not happen by just doing what we've done in the past five years however well we do it.

Standing in the way, also, are some very familiar Old World challenges to contend with.

The threats presented by the World Health Organisation are still alive and real. **First**, tobacco in particular remains in the firing line. Tobacco is and remains a key category, both in its own right and as an important footfall driver into the shops.

Our trade associations across the world are working together to ensure our voice is heard. I urge you all to support them in their work.

Second, our friends at the World Health Organisation in Geneva are also taking a critical look at the future of liquor and our industry associations have been working hard to address potential threats.

Third, in Europe, we have the one bag rule. Despite efforts across the wider industry, a number of major low cost airlines are still refusing to allow passengers to board with more than one cabin bag unless they pay a charge of 30 €. It's making it impossible for many travellers to buy goods at airport duty free and

travel retail shops and take them on board without paying the fee if they cannot squeeze the goods into the permitted one piece of hand luggage.

With spend per head falling by more than 40 % at some airports where airlines are enforcing a 'one bag' policy, this problem cannot be ignored, and we do not want to see this practise spreading to other regions.

The industry in Europe has undertaken a major government lobbying campaign which is paying dividends.

Spain recently passed legislation making such practices illegal and in the last 2 months over 30 Members of the European Parliament from other countries have written to the Transport Commissioner to demand action.

It is not enough to look at external forces alone to prepare for the future. As well as some of the on-going challenges I have just mentioned, it is vital for industry trade associations to look inwardly and assess whether they are geared up for the future.

At TFWA we have been doing just that. We too have to be ready to play **our** part in our brand new world.

Earlier this year TFWA undertook a comprehensive strategic review of all aspects of the association and its operations. We sought the views and opinions of our members as well as those of a wide cross section of other interested groups and representatives from around the global industry.

Their response clearly revealed expectations on a wider scale to deal with some of the issues, challenges and opportunities the industry faces. The TFWA

Management Committee agreed to look at several specific areas to further develop and enhance the events and the services the association provides for its members and the industry.

We plan over the next couple of months, to consult other trade industry associations with a view to determining how best to move forward.

But recognising and facing up to threats, making the most of passenger growth, and ensuring that associations, such as TFWA, are in the best shape to make their contribution to success are just the minimum requirements if we are going to hit 64 billion \$ in 2015.

This year, I have decided to devote the remainder of my address to an area that I consider to be one of the most influential in the future development and performance of our industry.

Let me start with this video.

VIDEO

I think this demonstrates the relentless and unstoppable advance of technology, one of the most powerful dynamics in creating a brand new world for our industry.

Technology that interacts in real time with real people, that connects with them through social media.

The examples you saw in that video, such as 3D holograms, social media integration and quick response scanning, they are not science fiction. They're happening for real, right now.

If we, in our industry, want to be as leading edge and innovative as we like to claim, then we all - brands, retailers and landlords - need to be embracing and exploiting these same developments to connect and engage with our customers in the brand new ways that they are now coming to expect.

Our new generation of consumers is forcing change upon us.

In the old days, engaging with customers was all about selling the three P's – product, price, promotion. And the retailer or brand with the biggest budget could often win 'Share of Voice' simply by being able to shout loudest at a passive audience that listened, or watched, or read. '

Today, social media - facebook, youtube, twitter, blogs - has totally changed the rules of engagement. Marketing today is not about indoctrination of consumers; it's about gaining advocacy. It's about getting consumers to do your shouting and marketing for you.

The preferred media of choice for today and the foreseeable future is the internet – especially when delivered through smart phones and tablet PCs. By the end of this year, global sales of smart phones will be greater than those of PCs! And the use of mobile technology to search, share and communicate will span all generations, not just youngsters and techies.

By 2015, in the US alone, it is forecast that 150 million consumers, 46% of the population, are expected to use a smart phone. And one third will be 65 years or older!

New generations are no longer citizens, they are NETIZENS... a ridiculous word, but it's true. Research shows that today's young adolescents use up to five

channels at any time: speaking on skype, surfing the internet on a PC; texting friends, posting on Facebook and watching TV in the background.

The way is open now to huge social media audiences thanks to 640 million Facebook members, and 200 million Twitter accounts. It's an obsessive part of life for many, with Twitter users sending over 95 million daily tweets and 50% of active Facebook users logging on every single day.

What does this all mean for us? Well, it creates the opportunity to generate the modern equivalent of word of mouth endorsement to be circulated globally in an instant. Look no further than the London riots in August to see the power of this connectivity – total meltdown of society in a matter of hours, through social media and smart phones.

We have our best opportunity yet, to reach and influence our potential customers before they arrive at their travel retail location – be it aeroplane, airport, cruise ship, ferry, border store or downtown duty free shop.

And those duty free retailers already using e-tools to communicate with passengers ahead of their journey and long before they see the shop window or on-board brochure will tell you that the average transaction value on planned purchase can be up to **five times** that of the impulse purchaser influenced by the shop window and merchandise displays.

Travellers are already using smart phones to fulfil many of the functions associated with travel, led by Airlines.

Travellers can book a ticket and pay for it, check-in, get instant flight updates, pass through security and board, all on their smart phones.

Currently nearly 22% of passengers check in on the web. By 2013, that figure will be 35%, and by next year, 74% of airlines will have enabled online check in via mobile, and 71% will be sending bar-coded boarding passes to phones.

The next evolution for Airlines is not far away. By 2014, 69% of airlines plan to sell tickets via social networks.

A recent ACI Europe study into airports use of social media revealed that 64% of European passengers engage in social media activity.

Of them, 70% use Twitter and 82% have a Facebook account. By comparison, just over 40% of ACI Europe airport members were represented on-line with a social media presence. This industry has to catch up.

Airports are using mobile technology and social media mainly for operational reasons so far – passenger services, crisis handling, general information and to personalise their relationships – yet it offers a great opportunity for promoting commercial services including retail.

Some airports and their retailers have used the airport itself to great effect as a venue for new marketing – we have seen how flashmobs can be stage-managed to create apparently spontaneous events which are also filmed, and seen by literally millions of viewers on YouTube.

The Heathrow T5 flashmob has been viewed more than 9 million times on YouTube. Beirut Duty Free's flashmob dance has received over 1.4 million views. And Changi airports flashmob has had more than 300 thousand viewers.

Let`s take a quick look at a couple of them. **FLASHMOB VIDEOS**

As these examples show, airports are places where creativity, emotion and great branding can lead to extremely rapid viral communication with passengers.

Many of the brands represented here today are really embracing technology and social media to connect with their customers in domestic markets. But the creativity appears to stop at border control - there is so far only little evidence of the same level of innovation from brands in duty-free and travel retail, in partnership with retailers and landlords.

Examples such as RayBan's Never-Hide Campaigns encouraged customers to send photos of themselves wearing their product - which is then showcased online in a global brand community.

And you can feel the love between the consumer and brand! There is nothing, nothing, to stop us from doing this in travel retail. In-store technology is evolving rapidly. What consumers begin to see in their domestic retail experience they expect to see in the travel retail environment as well.

Interactive digital signage, touch screen and directories, that recognise the passing passenger and can connect with their smart phone to tell them about offers and direct them to the participating store, is not just a dream but a reality that will become more and more familiar to us all.

This digital communication is also a great platform to educate consumers about our brands and retail offer as these examples from Heathrow, Amsterdam and Antalya illustrate.

A failure to collaborate on passenger information sharing is still holding back our industry. We all know how much airports and their retail partners would benefit from knowing in advance exactly who is either departing from or landing at their terminals and walking through their retail areas.

Now, with the advent of smart phones, social media and mobile applications, perhaps we have a chance to go direct to the travellers ourselves. Especially when there is an incentive involved, we can create our own viral effect.

We know that consumers use social media networks to tell their peers where they are, the store they're in, or the restaurant, recommending what to see and do or eat, and tipping on what the best deals are.

It is up to us as an industry to capture that behaviour and ensure we can collectively provide travelling consumers with incentives to shop so they tell us for example when they are near a duty free location. A recent study in the US found that 60% of social network users were at least somewhat likely to take action based on what a friend posted about a product, service, company or brand, on a social media site.

It's absolutely appropriate that the topic of technology gets the coverage it's getting this morning – it **can** and **will** have a huge impact on the future of our industry.

Ladies & Gentlemen

It seems to me we have arrived at a kind of watershed moment in the evolution

of our industry.

Today's technology is changing things almost overnight, affecting us almost instantly. We no longer have the luxury of time to question whether the new world of communications and marketing, through smart phones and social media, is good or bad, or if our industry should adopt it.

We have no choice!

In a brand new world, technology gives us a fabulous new approach to maximising the three timeless, unchanging dynamics that drive our business:

- growing passenger numbers
- a universal consumer desire for self-indulgence, reward or gifting
- and an underlying love for our brands and brand values.

And it gives us a way of getting closer to our customers than we could ever have dreamt of even five years ago!

Today we can connect with this vast market not just physically at the duty free and travel retail locations but also, virtually, and even more intimately.

Like all great inventions, one day we'll all look back and wonder how we ever did without it! It's an opportunity that we absolutely must not waste.

Thank you for your attention, ladies and gentlemen, and I wish you every success this week **in**, I hope, the first step towards a Brand New World for our industry.

Thank you.