

“A Global Perspective on Travel Retail”
Erik Juul-Mortensen
President, Maxxium Global Travel Retail, and
President, Tax Free World Association
Middle East Duty Free Conference, 4 December 2005

Ladies and Gentlemen,

Let me add my welcome to you all and say firstly how delighted TFWA is to be part of this growing and successful conference.

This year’s delegate list is impressive. 161 companies, as Colm mentioned, and I note that with few exceptions, nearly every global supplier from our industry is present.

We are a truly global industry. We are an industry of global brands which serve a highly diverse customer base and a customer base on the move—geographically (they are traveling after all)--but also economically and socially. The challenge of reaching those customers successfully is what I would like to speak about this morning.

“Think Global” is a phrase which could have been invented for our industry. Most of the brands which are members of Tax Free World Association are certainly global brands. They are brands with heritage, pedigree - infer in many cases a certain status – and are certainly aspirational. This lies at the heart of their success in duty-free, where the ability to travel for many years conferred a certain status in itself and created the ideal environment for a traveller to treat him or herself to a great brand – the fact that it was at a special duty-free price was what gave them the “permission”, the excuse, to buy.

The phenomenal growth in travel which we are experiencing - and in few places is travel growing faster than here in the Middle East – is the result of

two key factors which are inextricably linked: increasing economic wealth, and the reduction in the cost of travel.

International brands are impacted by these factors at two different levels.

Increasing economic wealth means that on the domestic markets we see more people able to buy our brands as a matter of course. The growth of a wealthier middle class where status is high on the list has created a growing market for aspirational international brands. One only has to look to countries of Eastern Europe such as Hungary and the Czech Republic to see the rapid change that this has brought about. Greater access to our brands in domestic markets gives us an upside and a downside when we look at duty-free and travel retail. Yes, more customers are aware of our brands and have perhaps already had limited exposure to them, but some of those who previously would ONLY have bought our brands in duty-free, are now looking for something extra from us to convince them to make that extra purchase when they are travelling.

Increasing passenger numbers are bringing an ever more economically diverse customer base through the world's airports. From a small number of extremely affluent travellers in the 1950s, we now see everyone from the super-rich through business travellers, leisure travellers, to migrant workers and backpackers, each with their own budget and with a different propensity to spend. This creates an opportunity but also a challenge for all of us. Over and above the sheer diversity, there is a further factor – some are first time travellers for whom the brands and shopping environments we offer are pure magic, but others are frequent fliers who perhaps see the offer at your airport once or twice a week – and then fly to another airport where they may see a very similar offer. Brands become great brands because of a relentless devotion to delivering consistency. But in my book consistency does not mean a monotone or mediocre delivery of a duty-free offer where price is the single driver, and the stores and brands make little impact on the seasoned traveller. If we are to drive penetration and conversion rates in other parts of the world to the levels seen here in the Middle East, as brands we must work

with retailers to ensure that together we deliver promotions with real impact. And we must appeal to retailers to look at their stores and ask whether they are a bit jaded and tired, in the “pile it high, sell it cheap” mode, or whether they are quality stores which match the best on the High Street – or whether they really do deliver the magic that used to be part of the travel experience and is in my view a hallmark of stores in this region.

And then there is our own internal challenge: not only are we an industry of global brands with increasingly cosmopolitan customers, but globalisation has affected our industry as it has many others. In any given month we read about the acquisition of some brand or portfolio, a strategic move which allows the parent company to achieve greater scale, increase its market share and reach into new, previously untapped markets. We have witnessed a similar trend among global retailers. I believe that as the footprint of the global travel retailers increases, as the leading multinational suppliers in the industry leverage the weight of their portfolios, it will become increasingly challenging to remain “customer focused”.

The other half of the phrase including “think global” is what many believe to be the key to success to keeping a sharp customer focus: “think global, **act local**”.

Thinking globally we bring the best international practices and the best international brands to the region. But this is not enough and it certainly will not guarantee success. Steve Ballmer, CEO of Microsoft, once said, “We can believe that we know where the world should go. But unless we're in touch with our customers, our model of the world can diverge from reality. There's no substitute for innovation, of course, but innovation is no substitute for being in touch, either.”

Nowhere is Think Global, Act Local more pertinent or better applied than here in The Middle East. Here we have, I would argue, a prime example of a region where companies in our industry are taking Think Global, Act Local to

heart. The sheer diversity of travellers has taught the Middle East to embrace a diversity of product and price.

Duty-free stores in the Middle East have proved adept at creating an exciting fusion of international brands, and a range of high-quality, complementary local products.

The result is that the stores in this region each have their own unique character and sense of place which blends skillfully and harmoniously with the great international brands.

The brands have worked hard with the retailers to devise innovative promotions which many markets outside the Middle East would die to have – but sometimes seem hesitant to implement. Think of the excitement and the impact of the Formula 1 campaign in Bahrain, or the Magic Lamp promotion that Nestle is running with Abu Dhabi Duty Free and the Finest Surprise or Millennium Millionaire raffles in Dubai – an idea born locally in Dubai and now admired and emulated in a number of airports across the globe.

[pause]

Keeping pace with our changing consumer base will be one of the greatest challenges facing this industry in the coming decade. Author and businessman Bo Bennett wrote “Not being in tune with your customers is like living in an alternate reality”. Certainly if we do not keep pace we may find ourselves living out an alternate vision of the future. There is much from this region that could and should be applied on a global scale.

It is a fact that penetration rates and conversion rates in this region are amongst the highest in the world, and I believe that the policy of Think Global, Act Local lies at the heart of this success story, allied with a relentless desire and commitment of both the management and teams of the retailers and the brandowners to succeed, backed – last but not least – in the case of airports, by highly forward-thinking and commercially aware airport authorities,

such as the DCA here in Dubai of which His Highness Sheikh Ahmed is the head.

[pause]

Lastly, thinking globally and acting locally also applies to the work that the worldwide duty free industry is undertaking for the long-term benefit of the trade. . .work to prepare the industry for—and in some cases protect it from—the political, economic, social or regulatory developments which seem increasingly to shrink the parameters within which we operate. We have learned over time that a local approach is always important when there is a threat to our business, whether it's working alongside local tourism officials in the face of a pandemic as we did with SARS, or setting out the case for retaining duty-free tobacco to your health ministry. The long-term well-being of duty free and travel retailing depends on our ability to influence lawmakers and regulatory bodies, and strong representation at regional and local levels is the key.

TFWA has actively supported - and in some cases driven forward - the development of regional trade associations. TFWA continues to play an active role in the European Travel Retail Council and in assisting with the formation and early development of the Asia Pacific Travel Retail Association. We were particularly pleased to assist in the formation of MEDFA. These associations, along with the IAADFS, ASUTIL and Frontier in the Americas give the industry powerful representation across the globe, supported by the formation of the Duty Free World Council which will help us to formulate and articulate our strategy and action plan to exploit opportunities and defend our industry at international level.

I would like to thank His Highness Sheikh Ahmed for his patronage, the members of the Board of MEDFA for their expert leadership in this region, our own TFWA members for supporting our activities in the Middle East, and all of you, ladies and gentlemen, global or local, who are contributing to making this region's industry such a success story. I wish you a successful conference.

Thank you.