

“The Path Travelled, The Road Ahead”
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Good morning everyone.

Let me take this opportunity to thank Erik and his team and all involved with TFWA over the twenty years since this organisation began. Well done! TFWA has moved from being one of the very best trade shows to something far more influential – by the trade and for the trade - it’s one of the few trade associations that is global, cohesive and stimulates improvements in the industry. And that last point is what I want today’s event to achieve: improvement in this industry.

Now - innovation is a vital part of that change, and I noticed yesterday that the exhibition hall was already fresh with a new fragrance launch. Of course, it’s one we got first at BAA, but it’s now being listed throughout travel retail... it’s called Optimism. It’s an interesting, unisex fragrance; the top note makes you a little light headed at first, but it also puts a smile on your face and a spring in your step. But Optimism is actually just one line from a series. The follow up is a bit less glamorous it’s an every-day, long-lasting fragrance called Commitment. This is a heavier, more active fragrance, with quite an unusual base note – I think it has more than a hint of perspiration to it. I’m a bit concerned that so many operators are eager to sign up to Optimism - but they’re not sure if they’ll take Commitment just yet! But the really good news, the really really good news is that these fragrances are only available as a set of three; the third will be available at a later date, it’s a sweet-smelling fragrance called, of course Success. And no, before you ask, you can’t get it without taking the other two first. So, Optimism, Commitment and Success are my themes for today.

I want to show you why we all have cause for optimism, for a great future for this industry. The foundation for that is the long-term growth pattern of air travel – which looks remarkably promising; and in talking about optimism I’ll include a viewpoint we don’t hear very often - the aircraft manufacturer’s.

My commitment theme is all about the way we work together in partnership and commit ourselves to putting the customer at the forefront of every action we take. And it’s also about the commitment of others – especially airports - in creating the capacity and infrastructure to address that projected traffic growth over the next twenty years. And thirdly; my Success theme is about the results that can be achieved by a fully co-ordinated and shared approach in attacking our commercial opportunities. This industry has the potential to achieve far more success; because the awful truth right now is that the industry is in decline. We have to respond if we’re to reverse that.

Of course, we have some great success stories too - so I’ll give my own retrospective on why I believe BAA has been successful and why that is relevant for today and the industry’s future. But let’s start by taking a video walk back through the years to see the path travelled and the transformation of this industry over more than half a century.

Travel Retail grew from that single counter in Western Ireland you saw on the video to today's 21 billion-dollar global industry. In the first fifty years, moving from one extreme to the other, the industry faced the occasional hiccup - such as the oil crises of the 70s - but it still grew steadily throughout the decades. Double-digit growth was the norm in the 80s and, by the late 90s, it was achieving record sales levels. This industry didn't know it at the time, but we'd never had it so good. Since 1999, the industry has experienced more incidents in 5 years than occurred over the previous fifty. The post-millennium period is a roll call of tragedy and crises - New York, Afghanistan, Iraq, Bali, Madrid, Sars - and we still have to live, and work, with the knowledge that this list will lengthen yet again.

The biggest lesson of the past five years, however, is that the future isn't what we thought it would be. The regular traveller has adapted to this new climate - but have we all done the same? There are opportunities ahead and much cause for optimism for the long term, especially considering the forecasts for traffic growth. But achieving the right result for this industry is dependent on the path we choose to follow for the future.

The old path was simple. In the old days, if traffic grew, so would your business. One seemed to inevitably follow the other. Can we - dare we - still tread that old path? Do we simply wait for traffic to grow again, and hope that sales will rise with it?

What I find most scary about that path is that there are actually people in the industry who still want to tread it. We can't waste the lessons we've learnt in the past five years. Of course, decades of traffic growth were a huge benefit - but I also think it masked weaknesses in our industry. Too often it enabled some airports to persist with an inadequate offer to the customer, and it allowed the semi-competent to survive. So, looking back, the inexorable rise of mass-market travel since the 1960s was both a blessing and, perversely, a hindrance to the industry.

The results achieved - taking the industry over the 20 billion-dollar mark - show just how strongly the commercial opportunities were attacked by some; those who took the harder path. But constantly rising traffic gave too many retailers - and airports - an easy option; it removed the pressure to understand and reach the customer. In some cases, growth actually occurred despite the way the industry operated, not because of it. Far too often, the smell of commitment to the customer simply wasn't there.

Among those who mapped their own path and who did have that commitment were companies like DFS, Heinemann, ARI, Dubai and, of course, BAA. I've seen amazing changes since joining BAA in 1992. In those twelve years, our passenger traffic rose from 80 million to 130 million - that's a superb increase of over 60%. We've been committed to knowing who those people are: we've developed a remarkable customer research programme that has contacted well over a million travellers in the last 4 years - because we know it's not enough to know the size of the crowd; we need to know the faces in that crowd. Our retail space has grown from 45,000m² to over 100,000m² in that same period - and almost all of that has been derived from reconfigurations of existing space.

The geographical setting of Heathrow, for example, gives us little future possibility of building additional space at the four terminals, which is why T5 is so important to us. That project not only gives us a cutting edge new terminal but, equally important, it relieves some of the pressures felt at Heathrow's other terminals. But this sort of expansion involves enormous projects that demand huge investment commitments: and we have a 30-year plan in developing our airport space. T5 opens in 2008, and we have government go-ahead for additional runways at Stansted, and possibly a third runway for Heathrow - but planning and environmental pressures will be a major time-consuming and costly hurdle.

To help finance those projects, and the development of our existing terminals, we've been committed to making all of our commercial space work much harder. That's been achieved through the way we work, including a commitment to working in partnership with retailers and suppliers to ensure that the customer gets exactly what they want. But it all starts with an openness to the possibilities - and a full understanding of the business. That approach has driven our sales up from 1.5 billion dollars in 1991/2 to 4.2 billion last year.

Of course, BAA has benefited strongly from that historic growth in passenger numbers – but we haven't followed the performance pattern of this industry, particularly through the difficulties of the past 5 years. Certainly, like everyone else, we took a hit from abolition in 99 - but we responded and we've maintained a strong long-term growth pattern.

Look again at BAA's sales chart from 1992 to the present – then compare that to the industry's pattern. If the industry had matched BAA's performance it would be worth over 35 billion dollars today – instead, it's still barely managing to top 20 billion. I'm sure that you all share my disappointment at the opportunities that have been allowed to slip away from this industry – but the mood of optimism is back, and the opportunities are still there.

Yes, Travel Retail has had some exceptional problems – but so has just about every other industry in the world. 9.11 hit every industry in every part of the world. 'Problems', 'pressures' - will always be with us – they're a fact of life, a fact of business. But look at the other side of the coin. We've got millions upon millions of people travelling, and travelling more frequently than ever. But there is no guarantee that travel retail will follow in the slipstream of that rising traffic. These times are different. The customer is different. And because the customer is different, our market is different; it's tougher than ever. So our industry has to develop a different response, take a different path. We need to fully understand every commercial opportunity and we have to maximise our revenue from those opportunities. A market that is viewed as a captive market is an abused market - and it's a wasted market – no-one deserves to reach and retain the 21st century customer with such a simplistic approach.

Well, I started by talking about optimism for the future. Looking at the bright headlines, there will be huge numbers of potential customers to reach, and there's clearly a changing mood in the industry right now. I believe this coming year could be a real watershed for the industry – we've all experienced just how tough things can be, you now have an opportunity to revive the industry and push it into the

twenty-first century. Ask yourself. Are you optimistic and committed enough to make it happen - to be successful over the next twenty years? I mentioned earlier the rising optimism of long-term traffic projections. Someone monitoring that pattern even more closely than us – and we monitor them pretty carefully I can tell you - is the aircraft manufacturer; and I'd like to show you how one of them, Airbus, looks at the picture.

Over the decades since the 1970s there have been short-term impacts that have interrupted the pattern of growth – but even when the shocks have become more frequent over the past few years the pattern still marches onward. The average growth over the past thirty years is around 6% – a remarkable sixfold increase in revenue passenger kilometres since 1971. And long term growth is set to continue.

This is how the traffic pattern could develop over the next twenty years. The forecast from 2002 is an average annual growth rate of 5% - that's an impressive prospect, and it certainly defies the gloom of the past few years. (*aside*: interestingly, these current forecasts hardly vary with the projections made prior to 9.11). – and Airbus are getting ready for that growth. Their new plane – the A380 – is the largest passenger jet ever seen and will be a huge influence on our future.

Airbus forecasts that over the next twenty years, new aircraft orders - including the A380 - will take global seat capacity up from 2 million to 4.5 million. Average seats per departure will rise to 200. There will be a doubling of the number of aircraft departures. And they're betting around 11 billion dollars of investment that they're right. The A380 is a highly significant development. Back in the 70s, the 747 jumbo jet facilitated a travel revolution – the A 380 could do the same over the next twenty years. It's a double-decked aircraft and will carry 5-to-600 passengers - the 747's typical load is around 400. It has a range of 8,000 nautical miles, that's almost 1,000 more than the jumbo. In operation, the A380 offers airlines a 15% improvement in costs. It also supports environmental targets, producing just half the noise energy of the 747. What all those figures add up to is a superb response to meeting the four key drivers of the aircraft industry – growth, congestion, environment, and competitive advantage.

This plane is great news for the airports. At BAA, it's effectively creating extra capacity for us at Heathrow; the world's busiest and most congested international airport and one that faces intense pressures on capacity. It lands there in 2006 and – within ten years - 1 in 8 of the airport's flights will be the A380. The size of the aircraft effectively enables us to raise Heathrow's capacity, including T5, to well in excess of 90 million passengers. But that can't happen without a lot of preparation work on our terminals.

To accommodate the plane we've had to widen and strengthen our runways and taxiways to support its size and weight (560-tonnes). Access to and from the aircraft will be with 'du-da's' – double upper-deck access to the aircraft. That creates a dramatic increase in passenger flow. For Heathrow it could mean an additional 2000 passengers at peak hours through the airport's facilities – that's a capacity increase of around 15%. That has implications right across our operation: the size of the piers, number of seats, toilets, escalators, baggage flow, Customs, Immigration, as well as more shops, restaurants and car parks – you name it, it has to be increased

to cope. To do that, BAA and other airport companies have to plan well ahead and invest heavily - and don't forget, you will all be gaining benefits from this type of development, so please bear that in mind when you're negotiating your contracts with each other! So, the manufacturers are building the planes – who's buying them? Well, many of the major airlines seem to have difficulties at the moment (Delta, United, US Airways, Alitalia etc) - they've suffered most from the series of crises we've all faced, but many are still struggling badly. The aircraft order books, however, show that other carriers are thriving and planning for a very busy future, especially the airlines in the Middle East and Asia/Pacific – in fact the first A380 passenger flight will be with Singapore Airlines (to Heathrow, of course).

And the low cost carriers are still getting busier too. They're set to continue as a radical, expanding presence – certainly at BAA they've been our biggest boost over the past five years and, as they continue to grow, they'll continue to support greater opportunities around the world. Asia's first low cost carriers began flying just a couple of years ago; and the region now has around 20 carriers operating or in preparation.

The low cost carriers have faced the same increases in security costs, and the same threat to passenger confidence - but their market has generally remained buoyant. Why? Because they listened to the customer and took a different path. The big old scheduled airlines have suffered far more exposure – but the good ones have learnt from the low cost model; they've realised that they have to do more to understand their customer and do more to respond to their demands. So the entire airline sector continues to evolve new strategies, new thinking beyond the obvious – but, again, it's usually the low cost carriers who are driving the change, forcing a response from the scheduled carriers.

Look at some of the latest proposals: they're now looking at persuading passengers to travel without hold baggage. Sounds ridiculous? Well so did their idea a decade ago to not provide a free sandwich! The whole airline sector is constantly changing, and faster than ever.

Big new planes, low cost carriers and an adapting airline industry will drive passenger numbers – so airports and governments must respond to ensure that the capacity is in place to cope with that traffic growth. It's happening. Across the world, there are scores of major projects planned or already underway. And this level of investment in new capacity doesn't come cheap.

At BAA, we have 9 billion dollars invested in creating T5 and the development of our existing Heathrow terminals to ensure that they track the quality of the T5 experience. These are huge long term investments. And don't forget, airports are facing much higher costs in processing passengers – security processing times and costs have soared. And it's not all post-9.11, it's gone on for a decade. Since 1988's Lockerbie disaster we've had to introduce central search at all BAA's airports, 100% hold baggage screening, and additional passenger screening – our security costs are probably 10 times higher per passenger than 20 years ago. And, out with BAA, every airport is in the middle of all these cost pressures, and many non-BAA airports are actually facing falling returns from their commercial activities. The headline figures

for revenue may just about look OK, but the pattern of profits per passenger seems to be declining for many of them.

I realise I'm talking a lot about the airport's position; you might be wondering, why should all this concern you? Why? - because it offers you opportunities. What all these pressures add up to is that every airport needs to be maximising absolutely every commercial opportunity it has. At BAA non-aeronautical revenue overtook aeronautical revenue ten years ago – and this pattern is certainly spreading. Those pressures faced by airports on capacity and their need for revenue are constantly rising. You can help that process by showing that you understand the two key drivers of the business: the customer and the working strategies used to reach them – because that knowledge – combined with commitment - is what will deliver the revenue all airports desperately need.

The partnership must be based around an agreement to share ideas, planning, data, investment, risk and reward. Each party needs to enter into this with a genuine understanding of the business of their partners. If you're signing up to deals with businesses you don't fully understand then you simply can't be getting the right deal. And I'm not blaming retailers for all the problems – although some of them have a lot to answer for. Let me be clear: the big guys are the parties most at fault here. I think many suppliers are keen to see change – but all too often they're only really involving themselves at an operational level. On a contractual level they need to put their heads above the parapet and deal directly with airports. The big brand owner and the big real estate owner are the big players in the trinity – they have to take the big responsibility. By deepening your awareness of other people's business you gain a stronger understanding of the opportunities and how to reach them. Too many airports have been similarly short-sighted in their approach to commercial opportunities - and I'm not just talking about retail operations.

For example, how well do most airport managers truly understand the business of car hire, or bureau de change, or hotel rooms? These are all highly relevant to the airport setting; they are all opportunities to improve revenue; why are they viewed so differently from selling a bottle of fragrance or a carton of cigarettes? Of course, every partnership is going to be different, but there are a number of core strands that bind the thing together.

But what does it actually mean to work in partnership? The airport is where the rubber hits the tarmac. For me, it means this: Don't sign and walk away. The job's not over when, as a supplier, you support a bid; as a retailer you put in a bid; or as a landlord, you accept a bid. Your work together is only just beginning. Actively and consistently manage your contracts – make sure things happen the way you planned, the way you all agreed was the best way forward. Constantly research your shared customer – and not just the most obvious targets. They're evolving all the time so you've gotta track the changes and ensure you're making the right offer to the right people at the right time. The pickings get harder as you move down your list of target profiles – but it's reaching the tougher targets, the less obvious spenders, that could make all the difference to your bottom line. Never forget that you're in competition. The High Street, the malls, online operators are all responding by offering everything from huge discounts to great experiences. And it's no longer about simply making a

sale; you've got to add more, more service, more theatre, more excitement, more originality in the offer.

If your view is that the traveller is captive – they're here for two hours so they'll buy something – then you're in trouble. And lastly – this might sound simplistic but it happens - if you have bothered to create a great offer tell the customer about it! And use real marketing expertise, third-party specialists and modern technology to reach the smart customer.

The issues I've just covered are all part of a true partnership approach, and I've got a good example to show you how those ideas are realistic and being put into action - at BAA, of course. This is our latest opening at T4, at Heathrow, the complete customer experience store - a new approach to the duty free store. The whole project has been shared between World Duty Free and our key liquor suppliers, right from inception. They've shared research, ideas, designs, investment and they've created something that gives the liquor customer a unique experience they simply won't find elsewhere. And the project is designed to drive up the whole category, not just the key partner brands involved.

What I've learnt from this partnership approach is that win-lose deals don't maximise the opportunity, not even for the winner. We need to find more routes like this one to breaking that pattern. And that attitude also applies to creating a more cohesive approach in giving the industry a voice. The progress of the Duty Free World Council is a promising development – but, just like your business deals, it needs your input and it needs to be consistent, long-term input and support.

Let me finish today with some personal lessons I've learnt from my twelve years in this terrific industry. Listen! Listen to your customer - you listen with your ears, not with your mouth - whether they're travellers, retailers, suppliers or airport managers – listen to your customer. Everything I've learnt in this business has come from these people. Secondly, always bear in mind that there isn't just one unwavering road ahead - there is more than one route to success. Set your own path - and don't be afraid to take the road less travelled. That may well mean avoiding the well-trodden path set by the competition. To be successful you've got to differentiate the offer, innovate with promotions, sprinkle extra magic and make travel retail a unique experience, and not simply follow in the footsteps of trends the high street already has covered. My third and - you'll be glad to hear - final lesson for today, is this: Don't fly solo. You can't maximise the opportunities by yourself – you need that trinity of airport, retailer and supplier to give the customer what they want. More and more of you are talking about this way of working – but there is still too much focus on the symptoms, not the cause. It's time to move this on. It is happening: by a sort of osmosis we're gradually re-enforcing the message. But too often you're still looking from a biased perspective. That's a naturally defensive approach, but the quality of the argument is making it clearer by the day; a partnership approach, a trinity approach – whatever you want to call it – is a sharing of the debate, the commitment and the rewards. It's valid, it works and you have to use it – don't fly solo!

Look at the set up you've got: millions of travellers in a growth pattern that will take global traffic to unprecedented levels in the next twenty years. In the terminals you have an amazing concentration of the world's most affluent consumers meeting the

world's leading brands – it's an absolutely unique scenario – no mall, no High Street, no industry in the world has a set up like this! And I bet none of them would squander it if they did. Do you deserve this industry? Are you fighting tooth and nail to make it better? Your industry should be thriving and your customers deserve the very best. It's time this became a truly 21st century industry. Let me leave you with a reminder of the most exciting and promising launch travel retail has ever seen: Optimism, Commitment and Success. I hope that you all have the optimism to take up the challenge; I hope you also have the will to give it your full commitment: and I promise you that if you put your heads together you will be successful. It's your industry. It's your responsibility. It's your opportunity. Take it. Thank you for listening – and thank you for the remarkable experience of the past twelve years.