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**“Getting Inflight Sales Right”**  
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Ladies and gentlemen, good morning and on behalf of Emirates Duty Free Services welcome to the beautiful city of Dubai. The subject of my presentation today is entitled: GETTING INFLIGHT SALES RIGHT.

As it is very near the coffee break, I would like to start today's presentation with the conclusion:

The inflight duty free business has possibly never been in better health than it is today. As an industry we have more opportunities presenting themselves to us than at any time in our history. Our major problem is to change our own mindset and embrace the opportunities that we have available to us, which range from simple concepts and ideas to changing completely how we fundamentally do business. The days when you could sell a passenger a \$40 piece of jewellery when they were bored, three quarters of the way through a flight, are over. Nowadays, the passenger is a more sophisticated animal than ever before and this same passenger demands more.

**MORE ATTENTION—MORE PRODUCT—MORE VARIETY—MORE ENTERTAINMENT—MORE TIME.**

I was going to start today's presentation with a barrage of statistics about the reported imminent demise of the inflight sales sector and the decline in sales, and then I was going to follow up with an overview of the current state of the industry highlighting the problems being faced by companies such as United and the previous well-documented problems of Sabena and Swissair – but to be quite frank with you these have all been documented in great detail. So I would prefer to concentrate on the positive aspects of our business and look at what we do at Emirates and examine how we view our business.

First and foremost we view our business from a retailer's perspective – and even though we publish our own brochures we are not brochure publishers in that our main business is selling product – not pages. I feel the market is changing but too many airlines pay scant regard to selling product and almost view the brochure as their main source of income from duty free sales. This attitude is fundamentally flawed in that by doing this we pay a terrible disservice to our passengers, and our onboard pricing invariably ends up uncompetitive – some airlines are in danger of selling dissatisfaction to the consumer. This view taken by some airlines also isolates suppliers who invariably hike up our prices to cover exorbitant listing fees and this is then passed on to the consumer. We should never lose sight of the fact that first and foremost we are retailers and our principal aim is to achieve volume sales onboard. The brochure is our main marketing tool and yes it is OK to make a profit from its publication – but we shouldn't view it as our main profit centre.

Also gone are the days when you could run a brochure for a complete year. At Emirates we change about 25–30% of our products at each brochure change. This enables us to keep the brochure looking fresh and retains the passenger's interest. Don't ever forget that the Duty Free magazine has a bigger readership than most inflight magazines. On average, on a flight over 4 hours, a passenger will look at the brochure at least 4 times.

This brings us onto a very important subject – What is the actual motivation for a passenger to buy? And here's the rub: the brochure helps, the onboard promotions help, the air show helps, the product helps, but at the end of the day we need to look at the basics and identify why our passengers buy onboard. I have my own theory on this and I have basically segregated our 'buyers' into a few basic categories:

There are two models which I would like to look at. The first is a passenger who travels onboard an airline which offers duty free sales onboard but really does nothing to promote that offer. This passenger buys for maybe 3 reasons, which could be:

1. Panic buyers
2. Impulse buyers
3. Bored buyers

This type of retailing is passive, it is selling product in spite of themselves not because of themselves. It is achieving revenue because the passenger has nowhere else to go. It is the "last chance saloon" of sales. And if we want to be successful, we need to radically change this approach.

We need to step back from this and put in place a marketing campaign that reaches out to our passengers, even before they enter the aircraft. The passenger has to be convinced that buying onboard is an attractive option.

So, how can we achieve this?

We as retailers must look at communicating with the passenger through our web site, by using direct mail, by highlighting value offers onboard, by using the check in facilities to communicate a duty free offer to passengers. Another method which we should be developing is linking up with our customer loyalty programmes to reach out to our passengers. Information is power, by giving our passengers information this might just help in getting them to buy into the onboard offer. By using some or one or all of these communication tools we have suddenly taken the first group of panic buying, bored, impulse purchasers and turned them into informed purchasers. And this is the passenger that we want to be selling to, as you have much more chance of retaining their loyalty and making them a repeat purchaser. Ladies and gentlemen, we are in a unique situation in the airline environment in that we know already who our passengers are, where they are coming from, where they are going and how long we will have the pleasure of their company. This is information which we should be using to our advantage. Also, let's not forget that once the passengers are onboard, we should also be communicating with them via the TV, the air show and onboard announcements and by using the inflight magazine.

At the end of the day we as retailers cannot compete against an airport store that is all singing and dancing with over 20,000 SKUs, when an average airline offer is 150 items. The passenger who visits the airport store has made a decision to become a customer by entering the retail environment of an airport shop. The same passenger who sits onboard an aircraft has been suddenly transformed into an airline passenger and turned off his/her purchasing mode.

So the question is HOW DO WE CONVERT THIS GROUP OF PEOPLE INTO PURCHASERS?

It constantly amazes me when I travel how similar the product offer is onboard so many airlines. It's almost as if one buyer sits and controls all of the airline programmes in the world and puts the same products on each. Therefore it's essential that as operators we have the common sense to try and differentiate our programmes by taking informed risks and selling products which are unique to our own airline. At Emirates we have attempted to create an assortment which is different from other operators, we have achieved this for example by:

1. Creating our own brands. For example, the NOVA pearls watch gift set – which is consistently within our top five best sellers.
2. By rebranding existing items, for instance the ROBERTO PAGGIO range of product which we currently have onboard – and for your information this range of 5 items is anticipated to achieve over US\$1 million in revenue in its first year on sale.
3. Logo merchandise. We all sell it, we all make a considerable profit from it – but don't you think as an industry we could improve upon the offer that we currently give our passenger? Model aircraft, souvenir watches and logo pen sets are great, and contribute good bread and butter revenue to our bottom line, BUT, shouldn't we really be more innovative than this?

Another key area that enables us to convert passengers into buyers is of course the actual presentation of our onboard brochure. We touched on the brochure as a profit centre earlier but it never fails to amaze me that some operators while demanding huge listing fees invest nothing in their brochure design and layout. The brochure is OUR MAIN MARKETING TOOL and needs investment. Passengers are becoming more sophisticated and world weary and need to be stimulated – the days of cut and paste photography are gone – or should be gone because so many operators use cut and paste to lower the production costs of the brochure.

This in my mind is a false economy – it does no justice to the product and will only inhibit sales onboard. But by far the biggest mistake that is made is showing a product which is basically a thumbnail visual which communicates nothing to the passenger – in this case big is indeed beautiful.

Equally bad are some of the, and I can only call them DEMANDS, that we as operators receive from suppliers with regards to the brochure visuals. I would like to read to you a small extract from a letter which I received from a supplier with regards to putting product in our brochure:

Dear Mr. Sime,

Blah, blah, blah...Be so kind as to make sure that:

- The photos are made on a white background
- No other additional colour is allowed in the background
- The white background must be off white without showing any structure
- It is not allowed to show the jewellery on a mannequin
- It is not allowed to show the jewellery on any part of the body, as for example, on the hand
- Only one product per photo is allowed

These are only 6 of the 18 demands listed by this particular supplier with regards to product placement in the brochure. Ladies and gentlemen, these types of demands are outrageous and only serve to alienate operators. Needless to say, we do not carry this product any longer as part of our onboard sales programme.

At Emirates we have a brochure which stretches to 100 pages with clear visuals, shot on individual backdrops, hopefully showing the product to its best advantage. This communicates a very clear message to the passenger and hopefully converts them into buyers. Additionally, during each brochure cycle to enable us to keep the brochure looking fresh we change the covers of the brochure thereby enabling us to keep the appearance of the magazine fresh to our passengers. Therefore even though a brochure is onboard for 4 months the passengers see 2 separate front covers and 2 separate back covers – and the content remains the same. We have proved that by doing this we retain the passenger's interest and actually get them to pick up the brochure which is the first step in converting a passenger into a purchaser.

We have to be able to step outside of the comfort zone – take risks – develop new product -- you never know, the passenger might enjoy it.

OK, let's make the assumption that we communicate well with our passengers before the flight – that you have a fantastic onboard brochure and that sales are great. What else can we do to improve the business?

And this brings me onto the subject of, the S word...SUPPLIERS.

As a matter of interest, how many people in this room are suppliers?

Thank you. I'm going to do something very unusual for an operator. I'm going to speak in your defense. Unfortunately, I'm also going to tell you that you should stop treating airlines like children.

I have had the pleasure of being a duty free retailer for the past 17 years and it is a tragedy that in all of that time the fundamental relationship between operator and airline has hardly changed.

Traditionally, I feel that the supplier has come to the airline to do a presentation. They have already loaded the price to take care of the perceived outrageous demands of the airline, you all know the ones: 200 days of credit; sale or return, stock returned in any condition and massive listing fees. The airline on the other hand, has prepared for this presentation by asking for better credit terms, more in listing fees, and "oh, and can we have an extra 90 days of credit—you know how it is just now the state of the industry, the economy, house prices."

This scenario only leads to loaded prices, which are passed onto the consumer, which further dents our creditability with passengers as we are perceived as not having a value offer. I have said it before and I will say it again, we cannot and should not continue with this type of relationship as invariably everyone wins, eventually, except the consumer. Ladies and gentlemen, short term actions only give you short term results and the whole cycle just starts again at the next listing period.

So, how can we break the cycle?

Firstly, I feel that we must be able to develop an open relationship with our suppliers. This relationship—call it what you will—supplier partnerships, supplier initiatives—should be used to work with our supply chain to develop and maximise business in the best interests of both the supplier and the operators. Operators should work closely with suppliers to devise cabin crew incentives that are relevant and measurable. From

the operator's side, we should be willing to invest in these incentives whether it's time, effort, training or money—too often have we seen incentives implemented which only reward crew and do not have a significant impact on sales volumes. We need to create a win-win situation. For instance, at Emirates we always agree with suppliers that sale or return exists, but we will monitor our purchasing and that this policy will reduce the supplier's exposure. I am sure that we have all heard the horror stories of airlines having an opening order of 1000 pieces and a year later wanting to return 5000 pieces to the supplier due to mismanagement and bad purchasing decisions, and all this 6 months after the item has been delisted.

Secondly, and I mentioned it earlier, probably the biggest obstacle to sensible negotiations is unrealistic demands on suppliers from operators with regards to listing fees. I for one would like to see listing fees abolished and a more sensible scenario put in place whereby we as operators develop our business in line with our suppliers where our business is driven by volume achieved. But, please gentlemen don't be queuing at my door tomorrow morning offering me a retrospective discount programme, paid in arrears, and only when there is a blue moon in the sky...this doesn't work!! What I would like to see is a significant increase in my margins. No listing fees and an incentive for us to move product in volume. Suppliers, the choice is yours!!

I was very interested to learn from John Sutcliffe's presentation yesterday that MEDFA will eventually open up to suppliers and similarly from Paul Topping that the Indian Duty Free Association was already open to suppliers. I'm sure that this concept will be embraced with open arms by the TFWA with regards to operators, as this should lead to real transparency within our industry between operators and suppliers.

I was also interested in listening to the discussions yesterday on pricing in the Middle East. I would just like to highlight to our suppliers that we are duty free, not profit free. You as suppliers should be rewarding us with increased margins as this will enable us to invest in our infrastructure, which will lead to increased sales and more profits for all of us.

I was also interested to note from yesterday, in a comprehensive response from Ray Martin the logic behind suppliers having different pricing policies in different geographical regions. Well, that makes me for one feel better, knowing that suppliers fix pricing all over the world. At the end of the day, the product cost of an item, which ends up in Europe is the same as the cost of any item which ends up here in Dubai. When then do we as operators in this region have to pay significantly more for that item?

The whole subject of supplier/operator relationships is a mind field and as I said before we need to seriously revisit this scenario. I would like to see the day come when we can work our pricing from cost up and not from retail down. We should be in a position whereby we go open book with our suppliers and they should offer us the same in return.

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