# KEY ISSUES AND TRENDS

Consolidation, competition and the consumer proposition: those are some of the key issues raised by the CEOs of leading travel retailers, heads of regional associations and editors of the major trade media titles in this special Comment & Analysis section.

In preparing this Handbook we decided it would be useful to feature an opinion section, in which influential and respected figures within the trade could have a forum to express their views on consumer and industry trends, the challenges facing the business and the opportunities ahead.

You'll find a diverse range of those views in the pages ahead, and we thank the contributors for taking the time to put their thoughts in writing.

We hope you find this section of the TFWA Handbook stimulating and enjoyable.

## Contents

# EMBRACING EXCELLENCE

**Philippe Schaus**
**Chairman & CEO**
**DFS Group**

*DFS Group is the world's leading luxury travel retailer*

In times of higher political and macroeconomic uncertainty, customers' shopping patterns and brand preferences do not stay static, and neither do those customers stop travelling. Yet it is harder work to win their attention and loyalty and keep up with their evolving behaviour.

These days customers care keenly about the value proposition stores offer, yet they also want to be seduced and surprised by great marketing activities and fantastic services. Also, intensifying mobile and e-commerce proposals influence their behaviour and expectations.

Key questions arise for retail operators. Can the store which caters to the wine aficionado who wants to buy and drink a US$1,000 bottle of Bordeaux serve equally well a budget-conscious group traveller who needs gifts for co-workers? Can one store offer its conservative, affluent customer classic French beauty treatments while also having the millennials try out the latest trendy eye colour? Can a store be built for lingering and exploration, yet also excel at express service for those in transit?

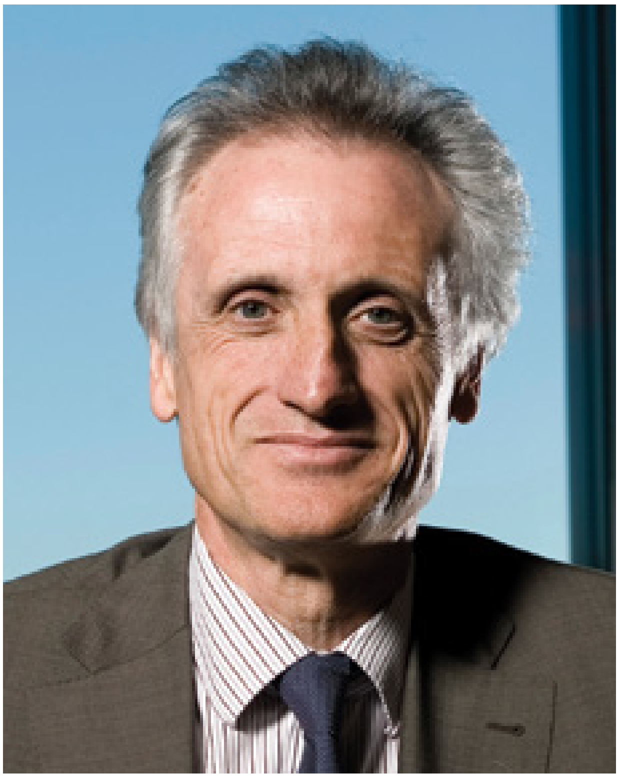
International retailers have to be many things to many people. They need to be guided by customer data and a commitment to innovation. The role of digital in such a strategy cannot be overstated: our customers do more than shop online, they also plan their trips online, compare prices, and research brands and fellow customers' opinions before going into a store to touch and feel a product.

The line between online shopping and 'bricks and mortar' stores is blurring, especially when crossing international borders. Travellers want online platforms offering the convenience of in-store pick-up and the luxury of more time for sightseeing. Our customers also desire authentic, genuine products that are guaranteed to have come through the legitimate channels.

Solving these problems and delivering on these wants and desires is what will delight customers. Doing so within the constraints of the highly regulated, complex and costly duty free operating landscape is a challenge.

At the same time, the travel retail industry is poised to become ever more important for the luxury and travel industries. These are interesting and fun times for us all.

# CONSOLIDATING A FRAGMENTED MARKET



**Julián Díaz**
**CEO**
**Dufry Group**

*Basel-based Dufry Group is a major global travel retailer with a focus on emerging markets and tourism destinations*

The consolidation we have seen in the industry recently will continue over the next three to five years, that much is sure. Whether it continues at the same pace as in recent years remains to be seen.

There is still plenty of room for further consolidation in the business, and over the next five years consolidation will lead to larger and more efficient operators. In general operators want to become larger and stronger organisations, as this delivers better returns on investment; and this is a process that Dufry has clearly led in recent years. In line with its profitable growth strategy Dufry will continue to seek opportunities as far as these generate synergies and value for the shareholders.

The focus for Dufry over the next one to two years is clearly on the integration of Nuance. Parallel with this, however, we will continue to develop the current business and drive organic growth. Our strategy remains firmly to grow through like-for-like growth, new concessions and acquisitions.

With a 15% share of the market, Dufry is the leading travel retailer today. In terms of size we have a significant advantage over our main competitors, which have a market share of between 2% and 8%. Further consolidation in travel retail is a law of the market, because such transactions can create value. Dufry has been the clear leader in this process; and if one day we attain 20% market share, or even more, we will only be successful as long as profitability is delivered as well.

It has been a major target of ours to create critical mass in order to protect and improve the profitability of the company, but we cannot look at Dufry in isolation. We also consider supplier concerns that consolidation could change the dynamics of our relationship with them. Therefore we want to generate value for all of travel retail's stakeholders, because if this does not happen it will not be a sustainable business.

# THE HUMAN TOUCH

**Gunnar Heinemann**
**Co-Owner**
**Gebr Heinemann**

*Gebr Heinemann is a leading family-owned travel retailer and distributor, based in Hamburg, Germany*

First of all I think the market has evolved into something much more professional. Airport retailing, certainly, has become much more professional over the years, with bigger and more elegant shops, better design, greater customer focus and a wider product range. In many cases airport retailers do not have to hide from high street operators.

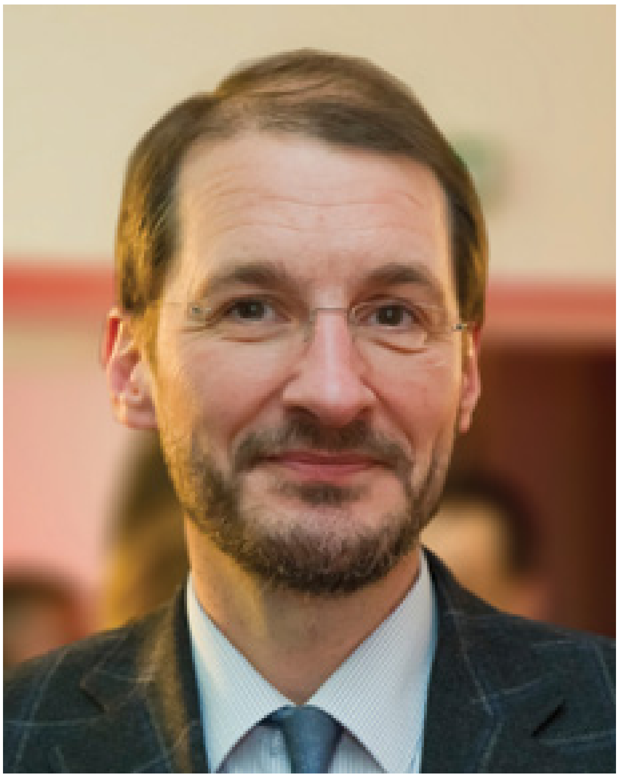
At present our market is characterised by technical challenges and consolidations, and that pattern will undoubtedly intensify in future. At Gebr Heinemann, though, we believe that size is not the only critical competitive factor. Moreover we believe that the companies that will be successful, and remain so, will be those that can meet the technical challenges and move forward – and especially if they remain focused on the customer.

We are convinced that a capacity for innovation, a sound financial footing, and maximum proximity to customers – in other words, the customer-focused approach – will prove more important to this market than mere size. Creativity, individualisation and multiple services that are comprehensive and as personal as possible are the attributes that customers will demand of us. Only companies which respond to that need will be successful in this market in the long term.

The human touch has always been central to our performance, and even today we strive to bring Hanseatic courtesy to the fast-moving travel retail industry. Everyone has to fight for customers these days: we have the domestic market and e-commerce, and there are many other places for customers to shop, in town centres or at other airports at their destination. Because of these challenges and the growth in competition, I think the market has developed extremely well – today's duty free shops are well operated and employ eye-catching design features. We can follow the trends, and we will.

As far as a customer-focused attitude is concerned, we at Gebr Heinemann strive to be fast movers – not slow followers.

# ADAPTING TO NEW FORCES IN A FAST-CHANGING WORLD



**Dag Rasmussen**
**Chairman and CEO**
**Lagardère Services**

*Lagardère Services is a division of Lagardère Group and one of the leading travel retailers in the world*

At LS travel retail we believe that the market is facing four major trends: consolidation, globalisation, sophistication and convergence.

We are taking an active part in the consolidation process, which is fuelled by the value of relative scale in travel retail. However, the consumer's interest is and should be our main driving force in this process, which is also how we can grow the satisfaction of our landlords and our brand partners. We believe wholeheartedly in the concept of the Trinity.

Emerging countries have contributed hugely to recent growth worldwide, driving the industry's globalisation. However this trend is slowing down these days because of the widely commented current international context: new regulations in China, depreciations of several currencies, unstable politico-economic situation in Ukraine, Russia and elsewhere, plus other factors.

Suppliers keep increasing their prices while airports have not been decreasing rents, so the historical promise of value for money in duty free can be considerably tougher to attain than it used to be. As a result our value proposition needs to be more sophisticated and go beyond simply price. This means more marketing, more customer service, more gifting, more travel retail exclusives... Our retail offer should also surprise the customers regularly with new product ranges, new brands and new merchandising.

Finally, blurring the distinction between categories (e.g. food service and convenience retail) will lead to more bundled offers, in order to deliver more sophisticated and bespoke retail to travellers and better serve landlords' objectives. This probably requires more common work with landlords in the retail planning process.

# ENTERING A NEW ERA

**José María Palencia Saucedo**
**CEO**
**World Duty Free Group**

*World Duty Free Group is one of the world's leading airport retailers, with operations on four continents*

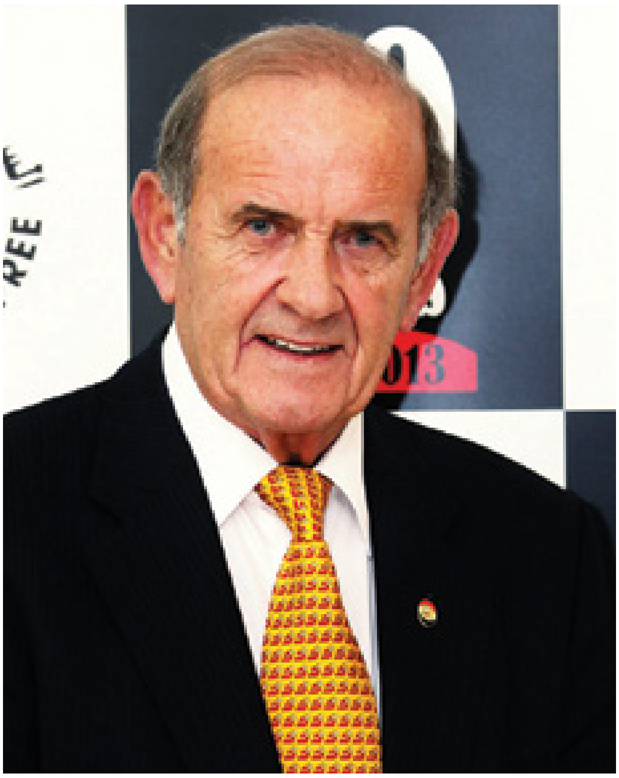
The travel retail sector has proved itself to be a very resilient one, and the outlook for the industry remains positive. The BRIC markets will continue to be real drivers of growth and innovation, while growing local demand and ambitious hubbing plans will continue to really drive traffic growth in the Middle East. Collectively this means that travel retail will have to cater for wider passenger profiles, with their associated preferences and product choices. And it means that retailing in the airport will become ever more innovative and experiential.

Internet shopping and pricing presents an increasing challenge to airport shopping. Travel retailers such as ourselves seek to offer the best value worldwide – or at least at a regional/local level. However brands do not want to focus on 'price' in the travel retail sector; and in the meantime, Internet prices continue to get lower and lower, driven in part by unofficial or unauthorised 'grey markets'. This trend is one that the whole industry needs to tackle: working together to find the right solutions and ways forward, with a 'Trinity' approach and spirit.

Other challenges are presented by LAGs (liquids, aerosols and gels) restrictions, which continue to be quite inconsistent and confusing for many passengers – especially those who transfer at an intermediate airport as part of their journey. Clearer regulations would really help minimise problems, for retailers and customers alike. Restrictions on tobacco sales meanwhile grow ever more stringent, which inhibits sales.

Restrictions on cabin baggage – with some carriers regarding airport shopping as part of the cabin bag allowance – have an impact on sales. In the EU the industry is trying to address this via a clause in the revised Air Passenger Rights regulation, which would ensure that passengers are always able to bring their airport shopping onboard in addition to their hand baggage. However it would be desirable to have similar legislation worldwide, to give all passengers this entitlement.

# KEEPING UP WITH CHANGE




**Colm McLoughlin**
**Executive Vice Chairman**
**Dubai Duty Free**

*Dubai Duty Free is the world's largest travel retailer (measured by annual sales) at a single airport*

By the very nature of our business, travel retail will always be in a state of flux and change; and our job is to stay ahead of those changes. In the past decade alone there have been major challenges, whether security-related restrictions, travel-related health fears or the global economic crisis.

Today, though, the travel retail industry is stronger than ever. The emergence of high-spending travellers from China and the continued spend by Middle Eastern and Russian passengers has seen a spike in sales.

Dominant travel routes and hubs have also changed dramatically, with the Middle East expected to double its global airport sales by 2020. Major developments in Abu Dhabi, Qatar and in Dubai are now coming on line. Dubai International recently overtook London Heathrow in terms of international traffic and Dubai Duty Free, which operates 26,000sq m of retail space there and a further 2,500sq m at Al Maktoum International, will grow by a further 7,000sq m in early 2015 with the opening of Concourse D. Turnover for 2014 is expected to reach US$1.9 billion, and we will post sales of US$3 billion by 2018 when airport capacity reaches 90 million passengers.

Challenges still remain. Investment in technology is vital, particularly in logistics, as we expand. Dubai Duty Free's Distribution Centre has been further expanded and is now 95% automated. We have also invested significantly in an e-commerce platform, recognising that online shopping will play an important role in the future. Investment in front-line staff is also essential: not just in terms of training and product knowledge but in securing loyalty and continuity, and by providing employees with a long-term career path.

Marketing should play a more significant role for travel retail. Dubai Duty Free invests around 2.5% of its turnover in marketing, and the return on investment is very worthwhile. An independent evaluation of the TV coverage of our recent Dubai Duty Free Tennis Championships was calculated at US$780 million.

The future of the region's travel retail industry is positive. Dubai expects to attract an additional 25 million visitors during its hosting of Expo 2020, and the UAE is seeing suppliers keen to expand into the region to make the most of its strong economic recovery and tourism growth.

One note of caution lies in the region's crowded skies. The already-congested GCC air space is expected to see aircraft movements more than double over the coming 15 years, with UAE movements alone increasing from 2,200 per day to a forecast 4,600 daily movements by 2030.

All partners with a vested interest in the Middle East's aviation growth must recognise the need to put measures in place to alleviate congestion and work together to find solutions. This cannot be done by one country in isolation; there has to be collaboration across the region.

# RETAIL, RISK AND REWARD

**Jack MacGowan**
**CEO**
**Aer Rianta International**

*ARI is the overseas travel retail division of Irish state-owned Dublin Airport Authority*

Industry consolidation has been a key trend over recent years; and this is likely to continue, as the benefits of scale provide some cover for those retailers that gamble on large risky contracts with high MAGs. A key factor is that some retailers can account for these risky positions without affecting their P&L or balance sheet, as the contingent liability is held off balance sheet. The travel retail industry has never had so much debt and (off balance sheet) contingent risk.

The current environment, in which optimistic bidders bid to win at all costs, is one where (risk-adjusted) returns are reducing dramatically. Wafer-thin margins combined with massive contingent liabilities are not a recipe for sustainable returns.

Given the returns from bidding, it is therefore not surprising that acquisitions are becoming more common. In many cases, the value in an acquisition accrues more to the shareholders of the acquiree; but in our industry, compared with bidding returns, acquisitions can – when the conditions are right – be an attractive alternative.

The trend towards growth by acquisition may prove more sustainable over time, and this in turn may create the conditions in which joint ventures or other more flexible and transparent forms of partnership between airport and retailer replace or supplement concession contracts.

Part of what made this industry great over the past decades was a focus by airports, brands and retailers on the customer experience. As the industry matures, are we seeing more sameness in the core retail categories? Is it getting harder for retailers to find new designs that are really inspiring for customers? I think it is, and that the penalty for those who try but get it wrong is increasing, with higher MAGs. Retailers are now more than ever before incentivised to copy the old proven formula, rather than investing in new experimental and innovative shop designs. This is a big challenge for all travel retailers.

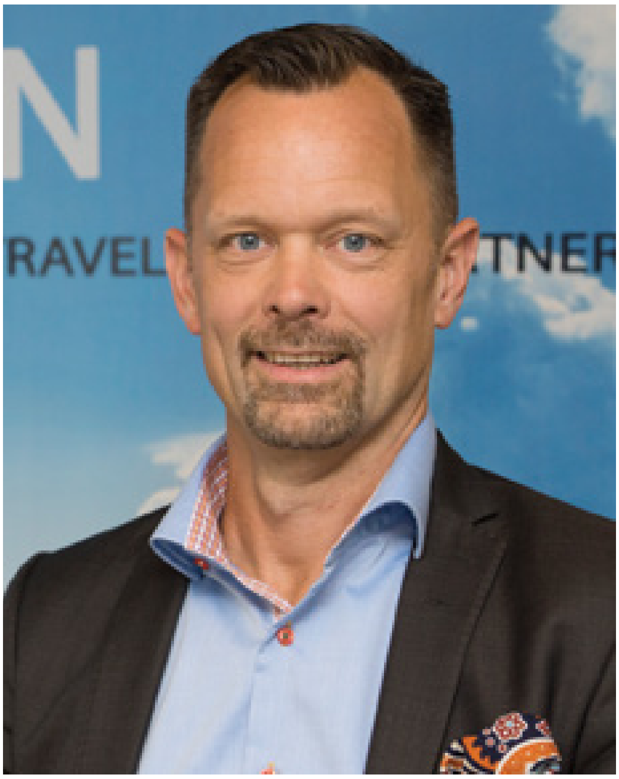
I'm confident that some retailers will indeed rise to this challenge and discover spectacular new shops which increase spend per passenger. For others, though, the temptation to copy proven designs and not take a chance on anything new will be too much.

Online retail is one channel where a breakthrough could deliver for both airports and retailers. Up to now, persuading travellers to shop online has been frustrated by complexity and Customs regulations. I'm confident that in time a breakthrough will happen, and the new online services and tools will transform the experience and drive additional spend.

But what if we don't rise to the challenge? What if the high MAGs drive operators to focus on costs, reduce staff and pursue uniformity of shop design? A concern for the industry must be that airport shopping as a whole may lose its edge.

Growing uniformity, particularly in some core travel retail categories, is a concern in an industry that has driven much of its growth and strength from innovation, diversity and the presentation of bespoke retail environments. It has never been more important for retailers, brands and airports to redouble Trinity efforts, to share risk and seek out the best, so as to exceed customer expectations.

# FACING A NEW FUTURE




**Björn Ulfberg**
**CEO**
**Inflight Service Europe**

*Inflight Service is a service provider to airlines, cruise & ferry lines and airports in the Nordic region*

The business outlook is positive for the future in Europe; but the recovery from the economic downturn seems to be taking longer than one would have hoped for. Consumer confidence is coming back, but slowly.

We believe this is partly due to a fundamental shift in consumers' mentality. Among some younger audiences, those that rely on digital media, travel retail is even losing its appeal. This development is unfortunately partly driven by the industry itself.

For example, the availability of products at prices much lower than high street RSPs is ever increasing in the online and discount channels, and this is especially visible in perfumes & cosmetics. Grey market goods are flooding Europe, eradicating the value proposition of travel retail.

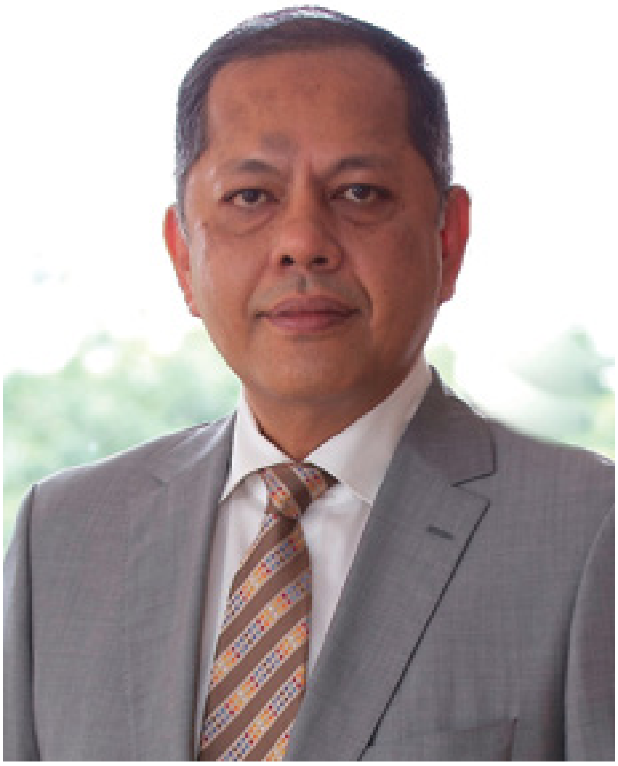
Discounted products are widely available online, where the channel speaks to younger audiences' need for 'instant gratification'. It is becoming impossible to compete in this environment. But what is more worrying is the overall positioning of many brands when prices are so low. We fear the P&C category will be commoditised rapidly unless control of goods improves. Why would anyone go to the high-service department store or perfumery to buy products when online prices are up to 40% cheaper? This requires industry action so that a large portion of the category's sales is not undermined.

On a positive note, we are seeing the continued growth of leisure passengers, representing a significant opportunity to grow revenues for Inflight Service's airline customers. The needs and behaviours of leisure travellers are similar to those of holidaymakers, which will allow us to expand our pre-order offering to more flights. The more pre-order sales we can make, the better we can plan the operation of our inflight activities, which in turn reduces costs for our customers.

Not only does pre-order improve revenues but it reduces weight and waste significantly. Accordingly, where we operate onboard sales of food and drinks for our customer airlines, we are moving to offer pre-order too. It provides better choice for consumers, less cost for our customers and more efficient operations for us – so everybody wins in the end.

Ultimately we envisage a future in which most passengers' needs are met before their journey begins – and are ordered and paid for before they board their plane. We will be looking to introduce more of these new services in the coming year.

# STRENGTH IN UNITY



**Jaya Singh**
**President**
**Asia Pacific Travel Retail Association**

*APTRA represents the interests of its airport, retailer and supplier members in the Asia Pacific region*

TFWA's 30th anniversary year is marked by as many uncertainties as opportunities. As we go forward, we need to ensure that the US$60 billion industry we have built over the years is going to continue to create value in the decades to come. This involves not just financial value, but the intrinsic value of the duty free & travel retail proposition.

Today we face a number of stark realities in the Asia Pacific region that we have to deal with and adapt to. We have to understand the distinct culture and characteristics of each market, far more so than in other world regions. The lack of a unifying legislative body, as in Europe, complicates matters further as legislative measures – on tobacco or liquor control, for example – lack any uniformity. Political tensions between some nations are also having an impact on travel and therefore on industry performance.

The major challenge which the industry, APTRA and our partner associations face is the need to differentiate the duty free retail environment from domestic retail in the minds of legislators and policy makers. This will enable us to retain the exemptions to domestic laws that are being removed in some markets in the region.

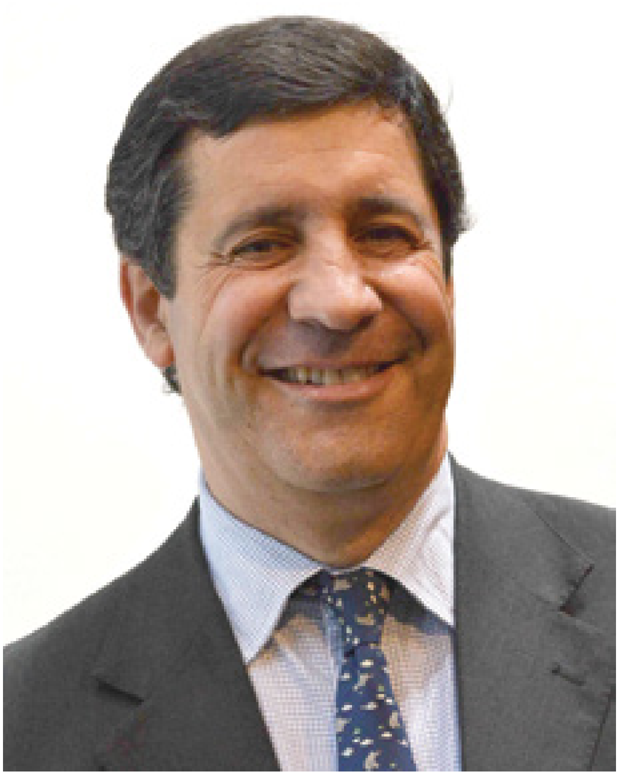
Asia Pacific is undoubtedly the region with the most inbound allowance restrictions, and the speed and frequency with which these measures are being introduced is posing a serious threat to growth. Free trade agreements such as the Trans-Pacific Partnership Agreement could also pose serious challenges to our business.

Another challenge is the overbidding by major retailers for new business opportunities. Unsustainable business models put pressure on all stakeholders, which could affect quality in the long term. With global economy fluctuations leaving travellers with less disposable income, the discounting culture that we have seen in many markets will be difficult to abandon, thus affecting the perceived value of our retail sector.

As far as our future prospects are concerned, passenger growth is clearly set to be robust in the medium to long term, fuelled by the emerging middle class in China and India and across Southeast Asia. We are seeing a surge in travellers from other high-potential markets such as Indonesia, Vietnam and Myanmar. So as Asian consumer purchasing power grows over time, we will see more and more international and inter-regional travel. Furthermore, as competition in the air travel sector toughens we will inevitably see an increasingly thriving low-cost airline market.

In order to ensure we realise the potential of the industry in the region and capitalise on all these growth drivers we need to work far more closely as an industry, to ensure that we are working on behalf of the common good and not as individual players. Whatever the nature of the challenge, a threat to a part is a threat to the whole. Industry stakeholders have a firm belief in a bright future for the duty free business in Asia Pacific, which is shared wholeheartedly by APTRA.

# DIVERSITY AND DEVELOPMENT



**José Luis Donagaray**
**Secretary General, ASUTIL**

*Latin American duty free association ASUTIL represents and promotes the interests of the region's travel retail industry*

On 19 August ASUTIL celebrated the 20th anniversary of its Charter, which was signed in Rio de Janeiro by a group of visionaries. Many of them are still active in the industry, and they received a well-deserved tribute at ASUTIL 's annual Conference, held in June in Mexico City.

The first duty free store in Latin America was founded in Panama by the Motta family, and since then the concept has spread throughout the continent. Shops began mainly as Arrivals stores, and their owners were local business families. Over the years, with the signing of several trade agreements among countries and as the number of travellers increased, ASUTIL was formed in order to defend the interests of the industry.

Latin America boasts a wide cultural diversity. MERCOSUR is not the same as the Andean Pact; Brazil is more like a continent than a country; and there are huge metropolises like Mexico City, the world's third largest. Several countries' economies are growing, and many are world tourist destinations for their historical wealth, their beaches and other attractions.

As a consequence our industry has undergone rapid development with shops of 11,000sq ft at airports, new ships, walk-through concepts, Arrivals and Departure duty free shops, destination merchandise and the introduction of non-traditional product categories. Duty free shops no longer sell only luxury brands. And as passenger numbers and flight frequencies demonstrate, Latin America has been one of the top three growth regions over the past few years.

Such development has brought difficulties, though: laws that do not keep pace with change, new duty free product categories not provided for by any law or decree, border duty free shops that did not exist before, economic crises (which are not exclusive to Latin America), difficulties in legal harmonisation between countries, economic imbalances, economies with different market opening levels, and so on.

All of the above represents ASUTIL's challenge for the years ahead: to work with business operators and with governments towards the harmonisation of laws and franchises; the incorporation of new product categories; and economic agreements, not only between countries but also among the different types of duty free shops, always aiming to make shopping easier and friendlier for the tourist.

In a region that is definitely against tobacco, we are developing a joint action plan together with brands and other continental associations in order to work side-by-side with the World Health Organization. With regard to LAGs, it is an issue that has had several fits and starts, especially between the EU and the USA. There are many countries in Latin America that do not have direct flights to the USA/Europe and Asia, and that means difficulties for passengers that buy at duty free shops. Many small countries also have limited access to scanning technology.

There is a lot of work ahead for ASUTIL, as well as many opportunities. Together with our Board of Directors and our operators and suppliers, we will continue to work daily to build a better and more prosperous future for the duty free industry in Latin America.

# OUR VOICE IN EUROPE

**Sarah Branquinho**
**President**
**European Travel Retail Confederation**

*Securing a robust future for the industry*

The duty free & travel retail industry's tenfold increase in sales over the past three decades is not only the result of the meteoric rise in the number of people travelling and increased retailer and brand professionalism – it owes its success in part to the trade associations which ensure a healthy regulatory environment in which the business can thrive.

The European Travel Retail Confederation has its origins in the small group of industry professionals who fought off the European Union's first attempt at duty free abolition in 1992. Better prepared for the second attempt in 1999, the forerunner of ETRC fought another phenomenal campaign, losing the vote to retain intra-EU duty free sales by a single country's veto.

Today ETRC is a highly effective association representing the interests of the duty free & travel retail industry in Europe.

Initially funded by contributions from the national associations, which retain a vital role in ensuring support from their governments at national and EU level, the advent of direct membership from retailers and brands in the wake of the 2006 LAGs crisis has enabled ETRC to meet the increasing number of challenges with confidence.

The security of reliable funding has allowed ETRC to draw up and execute plans which have protected the industry on several fronts. In addition to the funding, the willingness of brands and retailers to provide robust data with which to substantiate arguments in government and regulatory circles has been a crucial factor in securing support.

ETRC has earned the respect of governments and institutions as a constructive contributor to debates on matters which affect the channel. Over the past decade ETRC has defended the industry's interests in the face of a wide range of challenges: the carriage of liquids and gels, where ETRC proposed to the authorities the entire STEBs system, without which the purchase of liquor and beauty items by transfer passengers would have ceased; the 'one bag' rule which has affected every product category; and myriad issues affecting tobacco sales, liquor, and – more recently – confectionery.

ETRC provides advice and assistance to retailers and brands in many markets, works closely with IAADFS and ASUTIL, and welcomes the close links being forged with MEADFA and APTRA, along with the formation of the DFWC, which will provide strong representation for the industry's interests at global level.

The effectiveness of trade associations depends very much on the commitment of their members and leaders. On the occasion of TFWA's 30th anniversary ETRC thanks TFWA for its outstanding support and thanks its dedicated Managing Board members and staff, the national associations, and its retailer and brand members without whose commitment and support the industry would not be where it is today.

# BETTER AT THE BORDER

**Laurie Karson**
**Executive Director Frontier Duty Free Association**

*The FDFA represents Canada's land border store operators and its supplier members*

The Frontier Duty Free Association (FDFA) is an organisation that represents the interests of Canada's 28 land border duty free stores and its supplier members. The association was established more than 30 years ago to meet the government objective for independent Canadian business owners to create Canadian duty free stores with the purpose of repatriating sales otherwise lost to their US counterparts. Today these stores are largely still owned and operated by these same families, located all over Canada from British Columbia to Quebec – many run by the second generations.

Today the majority of customers served by FDFA's members are Canadians, who are crossing the border to the USA. Americans dominated the customer demographic in the 1990s, but the landscape of the industry has changed since 11 September 2001. Challenges exist due to stricter passport laws, longer border lines, and a need to continuously demonstrate to customers the value of shopping duty free. Although these challenges may seem daunting from an outside perspective, the land border duty free store owners are accustomed to facing obstacles and familiar with shifting their business focus to turn them into opportunities.

Historically, sales at land border and airport duty free stores combined in Canada are some C$400 million annually, with land border sales accounting for about C$145 million of that total. Sales growth in 2014 has been largely stagnant, due mainly to the aforementioned challenges faced by the industry. The number one product category continues to be liquor, driven by the savings of over 40% that our members can offer customers compared with other Canadian liquor retailers. The main competitors for Canada's duty free stores are our counterparts on the US side of the border.

The highlight of the Canadian duty free calendar is the FDFA's annual convention, whose 29th edition will be held in Toronto in November. This is traditionally a great opportunity for operators and brands to meet and share ideas on the direction of the business, and government representatives are often in attendance to update us on the decisions that affect us all.

More focus on government relations for the land border industry is a top priority for FDFA. The government originally created our industry to compete with US retail, and with further government support to ensure our industry maintains its opportunities, the future will most definitely be bright.

# UNLIMITED OPPORTUNITY

**Alberto Motta Jr**
**President**
**IAADFS**

*The International Association of Airport Duty Free Stores represents the interests of around 400 industry members, and organises the annual Duty Free Show of the Americas*

The International Association of Airport Duty Free Stores (IAADFS) has experienced a very active and productive year thus far in 2014. This has occurred in a year when I have probably witnessed more changes and expansion in the industry than at any time in the 40-plus years IAADFS has been active.

The duty free industry continues to demonstrate strong growth throughout the Americas. This trend parallels the very positive increase in air travel for the region which, of course, is the primary source of our customers. However the growth has been across all aspects of the industry, including airports, cruise ships, ferries and borders. Having the FIFA World Cup hosted in the region was obviously a boost and helped draw attention not only to Brazil but other areas in the Americas. Barring some unforeseen event this positive growth should continue through the remainder of the year.

Our advocacy efforts on behalf of the industry have remained extensive and focused. The transport of liquids and gels, limits on duty free allowances, 'one-bag' rules, health concerns affecting tobacco and potentially alcohol and confectionery are being watched closely and, in some cases, have been a top priority for years. Our overriding goal is to protect the ability of our industry to sell products without undue interference or unnecessary restrictions. We all understand the important revenue contribution that duty free makes to the overall operation of airports, not to mention the value it brings to the travel experience for the travelling public. IAADFS is committed to ensuring those interests are protected and advanced throughout the Americas and globally.

Our trade show and annual meeting in Orlando is a primary vehicle which we use to help fund our operations. As the longest-running gathering of leaders in the duty free industry, it provides a major forum for business-to-business exchange in the Americas – as well as a prime networking and social opportunity. The IAADFS Board is continually working on ways to improve and enhance the show and to find better ways to serve our industry. That commitment is ongoing.

I am excited about the future that this industry offers. The expansion of airport infrastructure either under way or planned for in the Americas, as well as globally for that matter, while certain to present more and more change, also presents unlimited opportunity.

# BUILDING LINKS AND ENCOURAGING DIALOGUE


**Sean Staunton**
**President**
**Middle East & Africa Duty Free Association**

*The Middle East & Africa Duty Free Association (MEADFA), formed in 2001, represents the interests of duty free operators across one of the industry's most dynamic regions*

MEADFA has 35 members from Africa and the Middle East, representing retailers of varying sizes. Significant efforts have been made in recent years to diversify the 'brand' of MEADFA and to broaden its scope, from being seen as an association involved principally in organising a conference to one that is active in many areas of the duty free world.

The organisation of staff training programmes has been an important part of MEADFA's work for many years, but it is now seen as a key driver in the development of our association. We believe that pooling our resources to advance the skills of our members' employees will bring tangible benefits for us all. For example, we have held a number of peer group workshops, bringing together retail managers, human resource managers and warehouse managers to name but a few. These have gathered like-minded professionals in an environment where they communicated, challenged and learned from each other. Our training sessions have doubled in number over the last two years; bringing members closer together to learn from each other was our vision, and I am delighted we are making that a reality.

MEADFA now strives to be part of the greater duty free world. Communication between ourselves and other associations has been important to our development, and we welcome in particular the forming of the Duty Free World Council. We see it as a tool to communicate, develop and learn from each other.

Among the challenges MEADFA faces in the Arabian Gulf in particular, tobacco legislation is one of the most pressing. We have tried to approach this in a constructive manner by opening a dialogue with the relevant government authorities within the Gulf countries and encouraging our members to do the same. We have worked with the authorities to give our input and suggestions, while respecting their positive intentions, our aim being to achieve a constructive outcome for all parties.

The Middle East and Africa is a fast-expanding duty free environment. It is the home of some of the strongest duty free operators in the industry and, geographically, is the largest duty free region in the world. Within our membership are companies which have faced significant challenges because of political change and instability. MEADFA will continue to support those companies as we seek to broaden our membership base and build closer links with our colleagues in the global duty free & travel retail industry.

# TRENDS, INFLUENCES AND EXPECTATIONS

**Dermot Davitt**
**Vice Chairman &**
**Editorial Director**
**The Moodie Report**

*The Moodie Report is a leading business intelligence source for travel retail and airport commercial revenues*

What will travelling consumers demand of the travel environment and of duty free & travel retail in the years ahead?

**Technology & connectivity:** Mobile technology is poised to drive huge changes in the way passengers undertake travel-related transactions, from booking to check-in to ordering and purchasing while on the go.

This has implications for travel retail, with big opportunities to target people on the move, before they travel and during their trip.

**Entertainment and engagement:** Retailers have already recognised that they need to become more than just a shop. They are now required to go way beyond simply selling product, into offering advice and demonstrations.

That means better interaction with travellers. Digital media including touchscreen technology is already becoming a necessary feature of the store, as retailers try to harness passengers' dwell time. This will become more of a factor in the future.

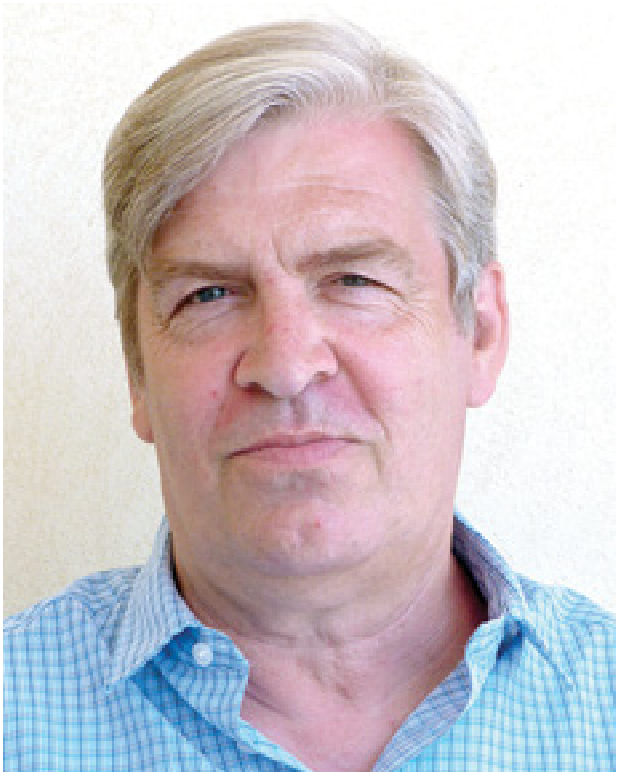
**Specialisation:** In line with a drive for exclusivity and differentiated environments, the best industry players will set themselves apart through greater emphasis on the core categories in dedicated stores, with ranges not found elsewhere, allied to expert advice. Education will become an even more important factor influencing purchasing decisions among consumers.

**Personalisation and loyalty:** Loyalty programmes can become a more prevalent feature of the airport retail landscape. Already where such schemes exist (Heinemann & Me, DFS Platinum Service Club, Duty Free Philippines), spend per transaction among members is significantly higher than among regular travellers.

**Price:** The traditional USP of the trade will remain a factor, though it will play different roles in different regions. A discounting battle against domestic discounters or the Internet is not one the industry can win. Rather it should focus on building a reputation as a haven for premium branded goods, many of them exclusive to travel retail or limited-edition products, allied to high-class merchandising and service.

But even so, price perception is vital – and each member of the Trinity has a part to play in reinforcing that. Airports have a role to play in ensuring the duty free & travel retail proposition isn't upset by other airport price perception drivers such as car parking, the price of a cup of coffee or the cost of a luggage trolley. Retailers need to be better at communicating their price levels against domestic and international competition, both in the stores and before travellers arrive at the airport. Suppliers and brand owners also have responsibility to ensure that regional pricing anomalies are rationalised – and that will be a factor in the future as customers can press a button and compare prices around the world.

# MAKING US STRONGER



**Doug Newhouse**
**Editorial Director**
***The Travel Retail Business***

*The Travel Retail Business is an independent monthly magazine and website focusing on retail news, analysis and commentary*

The effective 'reincarnation' of the Duty Free World Council has the potential to make a huge difference to the continuing success of the international duty free & travel retail business, and this is definitely top of my wish list for this industry.

Getting the DFWC up and running properly has taken an extraordinarily long time, especially considering this is now a US$60 billion industry. But the fact is that formalising the DFWC and keeping it well funded and properly staffed by permanent employees is crucial to the future of this business.

As a keen observer of this industry for 30 years I have never seen the regional industry associations in such good shape as they are today. That they are also right behind the DFWC is great to see, as is the considerable work that has been done behind the scenes to assist the 'born again' Council, by TFWA and ETRC in particular.

Over the past five years in particular there seems to have been a renewed and much more energetic attitude towards getting organised amongst the regional associations than I have seen before, along with greater opportunities for interaction between many players in multiple areas.

Projects already being looked at include a genuine industry database, training and education, and in times of crisis – which this industry has faced on more than a few occasions – that all-important function of representation at senior government level. After all, why should busy politicians take our industry seriously if we can't even organise ourselves well enough to be able to persuasively brief them on what our industry does?

Every time there is a crisis our people are obviously fighting with other industries to get the ears of politicians and regulators long enough to tell them how many people we employ, what contribution we make to the travel, tourism and transport infrastructures around the world and how that all filters directly down to jobs in manufacturing and production for brand-owners all over the world.

How many politicians actually know that many airports would simply go bankrupt without their shops and restaurants?

A revitalised DFWC will not only hopefully have all of this information to hand, but will be able to distribute it to the regional associations on an instant basis when needed.

So my wish may be basic, but I think it is really important. People in this industry really don't need me to tell them that there are plenty more threats coming our way over the next few years in the security, tobacco, food labelling, alcohol and other industry sectors.

Quality information supplied efficiently in a structured fashion when required will be hugely important in arguing our industry's case in future.

# TESTING TIMES AHEAD

**Gary Scattergood**
**Editor**
***Duty-Free News International***

*DFNI is a leading monthly subscription news magazine covering retail and product news as well as features on product sectors, market and operator reports*

According to the statistics the duty-free and travel-retail industry is in rude health – despite continuing economic problems in Europe, and political and civil strife in parts of Asia, North Africa, the Middle East and lately in Ukraine.

The experts at Generation Research have valued the global travel-retail industry at around US$60 billion for 2013, up from US$55.8 billion. The charge, unsurprisingly, is being led by Asia in general and China in particular, with sales growing by around +12.3% on average across all product categories and channels in 2013. This can be compared to the global average growth of +8%.

Duty free sales in Asia Pacific reached US$22.4 billion in 2013, about US$2.5 billion more than in the previous year. Asian spending shows no sign of dramatically slowing, though super-premium spending has been hit by anti-corruption laws in China, which contributed to fewer sales for gifting, and several industry executives have expressed concerns about an increasingly heavy reliance on one geographical area for sustained double-digit growth.

I have no doubt that the growing prosperity spreading across Asia, particularly in the South and East, will continue to fuel the market for years to come; but a cursory glance at the retail situation in Russia shows how sales can be hit by factors outside the industry's control.

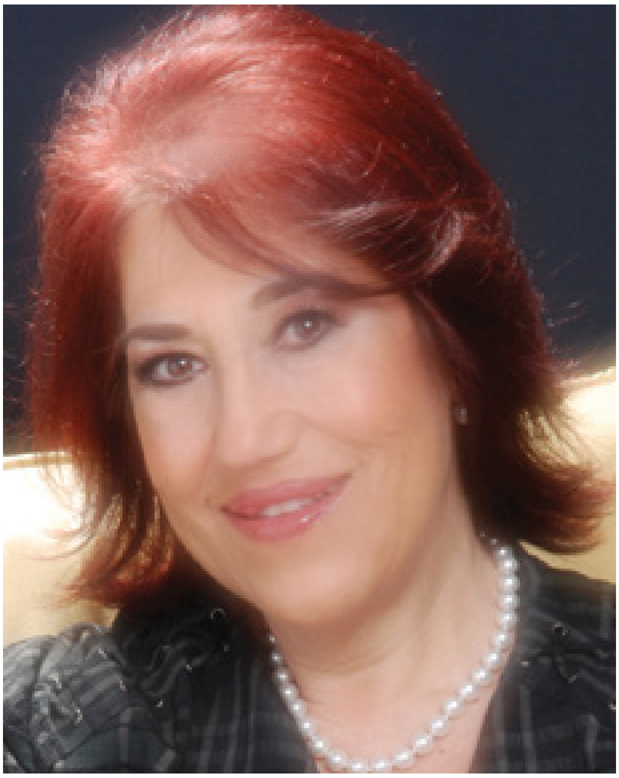
Tax free spending by Russians fell sharply in the first few months of 2014 as international travel restrictions were placed on high-net-worth individuals, and those of more modest means also, unsurprisingly, chose to curtail their spending in an unstable environment. At the time of writing it appears that the travel and spending situation is stabilising – if not the conflict itself – and Russians comfortably remain the second-largest tax-free spenders behind the Chinese.

Chinese shoppers clearly need to be targeted, but there are also plenty of opportunities at the lower end of the market, which sometimes risks being neglected in the race to attract wealthy passengers. No-one is suggesting a return to 'stack them high, sell them cheap', but is there a growing danger that those with average incomes are being squeezed out of the retail equation at some airports? It's a question that I've heard more than once in recent months.

There are also a number of outside threats to the industry's resilience, which need to be tackled. New Zealand is planning to mirror Australia by slashing inbound tobacco allowances, and India also took the industry by surprise when it announced new 'sin-taxes' in July. In Europe and North America, among other places, the threat of tobacco display bans looms large, and liquids, aerosols and gels confusion continues to deter customers, despite the relaxing of the rules for transit passengers on 1 January 2014. Confectionery is also increasingly coming under fire from global health organisations.

So, though 2013/14 saw notable sales successes for the industry, there are challenges that will have to be met in order to maintain the momentum.

# THE VIEW FROM THE AMERICAS



**Lois Pasternak**
**Editor/Publisher**
***Travel Markets Insider***

*Travel Markets Insider is the only travel retail media based in the USA; it covers the duty free & travel retail markets throughout the Americas*

The future of travel retail in the Americas remains extremely positive. Air travel in both North and South America continues to show strong growth, with US carriers topping the profitability chart – a good sign of health in the system. IATA's latest World Air Transport statistics report that the USA – the largest single air market in the world – carried 618.1 million passengers last year, up more than +3%. At the same time air traffic in Latin America and the Caribbean rose an impressive +7.6% to 240.5 million, says IATA, and continues to show good growth through 2014.

On top of the growth in passenger traffic, air travellers in the Americas are finding an impressive array of appealing shopping opportunities in airports that are undergoing major upgrades and improvements. The outdated aviation infrastructure of many North American airports is benefiting from massive infusions of investment and rebuilding; and unlike in years past, speciality retail and duty free are enjoying prime positioning as airport authorities realise the value of these non-aeronautical revenue streams. Millions of dollars have been poured into new stores in New York JFK, Los Angeles, San Francisco, Boston and Philadelphia airports, to name just a few, and it shows in stunning new retail offers.

Investment is not limited to North America. Airports throughout the region are receiving upgrades, from San Juan's Luis Muñoz Marín International in Puerto Rico to all the newly privatised airports in Brazil, including São Paulo's Guarulhos – the largest airport in South America. These projects present unprecedented opportunities for travel retailers and suppliers throughout the region.

As in other parts of the world, progress is not without its challenges, and some major Latin American markets are experiencing a tough cycle this year. Brazil's football World Cup did not bring hordes of shoppers to stores in the region – regional operators report that some local companies saw business drop by as much as -30% during the course of the games. The largest travel retailer in the region, Dufry, said World Cup business was 'neutral', even as the group benefited from new and expanded shops, especially in Guarulhos Airport's flagship new Terminal 3.

With Latin America's two largest players facing challenges ranging from political unrest and presidential elections in Brazil to national default, inflation and elections in Argentina, it is uncertain when short-term recovery will take place. But that recovery will occur is not in doubt; most observers are looking for improvement once the elections are concluded.

Though global events like the World Cup may not have kept retail cash registers ringing as much as was hoped, the enormous improvements in infrastructure made throughout the region to prepare for the event have established a framework for significantly improved travel retail sales both in airports and in border regions. Even with the challenges facing parts of the region now, the potential is there for even greater growth.

# TRAVEL RETAIL: THE WARMEST WELCOME

**Kristiane Henney**
**Editor**
***Frontier***

*Frontier is a monthly magazine aimed at travel retail industry decision-makers*

When were you last truly enchanted by a retail experience? What was it that struck you? The energy and warmth of a cheerful sales assistant, the flashy allure of dynamic design, the theatre and thrill of in-store activity? Travel retail has the exhilaration of great retail in abundance.

This is one of the reasons brands remain eager to enter the industry. Around the world the collective travel retail contingent notched up sales of US$60 billion in 2013, according to Generation figures. Growth spans geographies, product categories and channels. As the global engine room of the business, Asia Pacific sales across the region grew at a thunderous +12% over the year, with the global total weighing in at +7.5%. Slow and sedate this is not.

Horror stories of pressured margins, picky passengers and geo-political perils invoke a note of caution among brands looking to enter the industry, but rarely do these outweigh the glamour and reward a travel retail presence can bring. Widely mooted as a 'shop window to the world', the showcase status – a premium setting combined with the excitement of travel – piques consumer interest and triggers purchase.

Where else but in an airport do captive new customers from around the globe have hours to browse and spare currency to drop? Sleek designer names, glowing with the newness of fashion, share terminal space with sumptuous high-end spirits, vibrant children's gifts and practical travel ware. From the height of extravagance to everyday opulence, the travel retail offer – not just at airports but inflight, on ferries and cruise lines, at downtown shops and border stores – has something for everyone.

And everyone is welcome. Emerging market wealth gives birth to first-time adventurers, wide-eyed with anticipation and the thrill of the new. Families on vacation vie with sun-seekers for the latest travel exclusives. Business travellers join the well-worn footfall: some jaded, some frantic, seeking out corporate gifts or thoughtful presents for those back home. More passenger groups than you can count join the melee, each with their own shopping agenda and sales approach, and every one adding to the vibrancy of it all.

But what of the industry itself and the mechanics of business within travel retail circles? The welcome continues. From the first foray, friendships form. Conferences and exhibitions build genuine bonds as well as networks. People rarely leave – meaning those links endure over decades, and the sense of camaraderie only grows stronger.

Back to the question: when were you last truly enchanted by a retail experience? In travel retail, brands constantly enchant and engage in a unique environment. Come and share the experience. The welcome is warm.