

The TFWA logo consists of the letters 'TFWA' in a white, serif font, centered within a solid blue square. The background of the entire page is a red-tinted photograph of a modern perfume store interior with curved shelves and various brand displays.

TFWA

COMMENT & ANALYSIS

INTRODUCTION

In preparing this edition of the TFWA Handbook, we sought the views of industry leaders on the issues and challenges facing duty free and travel retail, just as we did for this publication in 2014 and 2016. The Comment & Analysis pages ahead feature opinion from travel retailers, heads of regional associations and editors of the major trade media titles – and for the first time, senior commercial directors at some of the world's major airports.

The executives who contributed are broadly positive about the industry's current state of health and its longer term prospects, but they acknowledge several big challenges facing the business.

Chief among them is how to better engage with the travelling

consumer in an era when shopping and other travel services are becoming digitalised to a greater degree than ever.

The core message is clear: competition from the online world demands differentiation of the offer, innovation in marketing, deeper cooperation between stakeholders and the constantly reinforced message that duty free and travel retail delivers value for travellers.

TFWA would like to extend thanks to those companies and individuals who contributed to this section, which we believe stands as a timely barometer of industry sentiment.

We hope you find this Comment & Analysis chapter of the TFWA Handbook enjoyable and thought-provoking.

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AN UPBEAT VIEW OF GLOBAL INDUSTRY PERFORMANCE



Julián Díaz
CEO
Dufry Group

Dufry is the world's number one travel retailer measured by annual sales

Current trends make me optimistic about the performance of the travel retail industry and of Dufry. Industry statistics and airport passenger disclosures from all over the world confirm an increase in travellers, which is the main driver for industry growth. In the case of Dufry this is particularly true for our Division 3 (Eastern Europe, Middle East, Asia and Australia) where sales are increasing across all channels. In 2018, products from core categories such as tobacco, spirits as well as perfumes & cosmetics are the favourite picks of the customers from a global viewpoint. Tobacco is growing twice as fast as spirits, boosted by the new electronic devices which find more and more adherence among customers. This is a reality seen in all countries where the product is available.

Within the challenge to engage with customers through different touch-points and communication channels, we see positive reactions to the use of digital technology to facilitate customer dialogue. All our digital initiatives, such as the New Generation Store, our customer loyalty scheme RED by Dufry and the online Reserve & Collect service, are well accepted by our customers and confirm the need for our industry to accelerate digitalisation further. We will embrace the deployment of these initiatives in 2018.

We are only at the beginning of this development and I am convinced that a close digital cooperation between all industry stakeholders bears great potential to develop our business. So far we have only started to benefit from the opportunities of collaboration through the use of technology and we still have a long way to go along this path to fully leverage the digital potential. In this context we also include the use of technology at internal company levels for our employees and the whole value chain.

The insights outlined above, and the huge potential we still have to explore and develop, nourish my optimism for the overall performance of our business and the industry as a whole. We still see much room for growth and profitability going forward.

CONVENIENCE: THE NEW LUXURY FOR TRAVELLERS



Ed Brennan
Chairman and CEO
DFS Group

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

The return in consumer confidence that we have seen in the past year is a welcome respite to all of us in the travel and travel retail industry, after several long years of challenging circumstances. More buoyant conditions benefit airports, retail operators and brands, as international passenger traffic increases along with an appetite for self-reward and self-indulgence.

However, we would be wrong to disregard the lessons from the past. The gruelling conditions from which we now emerge were a mixed blessing, presenting all of us with an opportunity to reflect on our strategies, and to assess whether they had kept pace with the radical changes in customer behaviour or protected us from sudden downturns. We can collectively admit that they had not. For many consumers, the value proposition that was once the *raison d'être* of travel retail seemed in danger of becoming irrelevant as they found better offers and – crucially – better convenience, on the high street or online. At the same time, we all became acutely aware of the sudden impacts that geopolitical events, currency movements and generational shopping preferences can have on our business models.

It is testament to the pioneering nature of our industry that for some of us, these conditions presented an opportunity as much as a threat. Those who were able to recognise these impacts, and put in place the

necessary transformational changes, now look to the future with a renewed sense of optimism and anticipation.

Today's internationally travelling consumer is likely to be a Millennial, and probably Asian. For this consumer, for whom the world is, quite literally, at their fingertips, convenience is the new luxury. They shop in an omnichannel universe, but this does not mean they no longer venture into a bricks and mortar environment. In fact, the physical store is where they go for a deeper, richer connection to a brand and its products. They are also highly value-conscious, but while price is important, 'value' is increasingly defined by more intangible, emotional factors such as the quality, exclusivity and *savoir faire* of a particular item, and whether it is a worthy memento of a voyage taken.

To reaffirm the importance of travel retail to this quintessentially 'worldly' consumer, airports, retail operators and brands must work together as never before to continually innovate their core offering. Exciting design elements, a rich and varied product assortment that reflects the best of the destination, omnichannel selection and payment options, and exceptional customer service must all combine to create an experience that touches today's consumer in an authentic and unforgettable way. By looking ahead to the needs of this new consumer, and with an eye on the past to learn from capricious economic and world events, we will build a travel retail industry that is even more meaningful, profitable and relevant than before.

PROMOTING DEVELOPMENT AND COOPERATION



Charles Chen
President
China Duty Free Group

China Duty Free Group is China's state-owned travel retailer, with operations across the country and overseas

The main issues facing today's duty free industry are development and cooperation. Over the past 70 years, the global duty free industry has had a splendid history and many remarkable achievements.

However, duty free shopping is facing the challenge of innovative development as consumers' habits have changed. For example, how does the industry meet consumer needs for online shopping, how does it combine different shopping scenarios to create more sales opportunities, and how does it provide consumers with better shopping and technological experiences? All of these are new situations and issues for the innovative development of the industry.

In the meantime, we must understand the profound changes in the duty free industry brought about by the globalised economy. The uncertainty of geopolitical risk, changes in global economic and trade policy and in the global financial environment, especially with fluctuating exchange rates, have become barometers of the duty free market. Therefore, cooperation becomes another key issue affecting the industry's development.

The cooperation between duty free operators, airport operators and brand owners; between duty free operators themselves; and between duty free operators and industry media will help better address risks and promote industry development.

TAPPING INTO THE CONTINUING CHINESE TOURISM WAVE



Jang Sun-wook
CEO
Lotte Duty Free

Lotte Duty Free is South Korea's leading travel retailer and the number two worldwide by sales value

For the last decade, Chinese tourism has been the strongest driver of duty free & travel retail growth. Will this phenomenon continue for the next decade? Possibly.

China's outbound tourism has been on an upward trend. China has been the world's biggest tourism spender since 2012. In 2016, Chinese overseas tourists spent US\$261 billion, far more than the second highest spenders, Americans. At present, Chinese overseas tourism accounts for more than one-fifth of global travel expenditure.

Yet the potential for further growth of Chinese overseas tourism still seems enormous. Currently, about 120 million Chinese citizens possess a passport; that is just 8.7% of the population. This number will likely double by 2020. Overseas travel spending by Chinese globetrotters will likely reach US\$429 billion in 2021 – a +64% surge over 2016.

The strategy of Lotte Duty Free for Chinese tourists includes targeting tourist destinations and enhanced payment methods.

Since the travel retail industry in South Korea is still struggling from the banning of Chinese tour groups due to the THAAD dispute, Lotte Duty Free has been boosting its efforts at foreign expansion. Lotte Duty Free currently operates seven overseas stores in

five countries: USA, Japan, Indonesia, Thailand and Vietnam. It is not a coincidence that these countries are all included in the list of the top ten countries visited by Chinese tourists in 2017.

When it comes to payment methods for shopping, Chinese tourists overwhelmingly use mobile devices. 65% of Chinese travellers used mobile payments on their most recent trips compared to only 11% of non-Chinese. Chinese tourists are well aware of mobile payment platforms' advantages – not only their convenience, speed and familiarity but also their additional offers, favourable exchange rates and security.

Lotte Duty Free supports Chinese mobile payment platforms: Alipay since 2012 and WeChat and UnionPay since 2016. Beyond merely supporting the mobile payment platforms, Lotte will provide many other services beneficial to users such as in-app purchase systems, additional discounts and exclusive offers.

A rising tide of Chinese travellers will spread all over the world. Lotte Duty Free believes that price competitiveness is not the only option to lure Chinese globetrotters. It is more important to appreciate what they are actually interested in and grasp the main trends of the market to fully satisfy them.

*(Data sources: UNWTO, Ctrip, CLSA, Nielsen)

ADAPTING TO CHANGING TRAVELLERS



Dag Rasmussen
Chairman & Chief
Executive Officer
Lagardère Travel Retail

Paris-based Lagardère Travel Retail is a leading global travel retailer, with a strong presence across its three key platforms of duty free & luxury, travel essentials and food service

Structurally, travel retail has significant advantages compared with domestic channels, allowing it to outgrow traditional retail segments. Key to that performance is very strong footfall at airports, and an affluent, largely high-spending demographic.

Although we see increases in passenger numbers every year, a new paradigm is starting to emerge: declining marginal passenger retail value. In other words – we have more passengers but they are spending less per head. This is explained by the increased frequency of travel and the fact that the middle class, with lower purchase power, has access to travel – due in particular to declining air fares as a result of the low-cost phenomenon.

In order to thrive in this new world, there is an absolute need to focus on customers' needs, with a 360-degree approach, not limiting ourselves to historical or contractual activities. We believe frontiers between duty free, luxury, foodservice and convenience will blur even more moving forward. Successful travel retailers will be the ones that are able to develop an optimal approach by mixing up these different activities depending on travellers' real needs.

At Lagardère Travel Retail we have introduced more convenience and food-to-go items and taken Sense of Place to a new level by 'deep sourcing' genuine

local and regional products, to adapt to our customers at specific locations. Meanwhile, experiential and digital highlights are now common in our new stores to give consumers the excitement they require to trigger purchasing.

In addition, the industry needs to re-examine the current business model of minimum guarantee per passenger. If additional passengers structurally spend less, we must look at new rental systems. It is important that we incentivise each party to focus on maximising value of the additional passengers by adapting commercial strategies, and not destroying value by imposing unsustainable rent per passenger which, over time, reduces the ability to invest or innovate in the channel.

Lastly, to thrive optimally in this new world, we absolutely need to innovate. We are doing this by adapting concepts, creating new ones, designing new services for travellers, introducing new categories and so on.

Lagardère Travel Retail is excited by the future prospects of the travel retail market and we are determined to be a major and proactive player in this new world by focusing relentlessly on travellers' needs and on innovation.

PERSONALISE AND DIVERSIFY FOR THE NEW CONSUMER



Ingyu Han
President
Hotel Shilla
TR Business

Seoul-based The Shilla Duty Free is one of Asia's leading travel retailers

The global travel retail industry faces many issues such as the integration of online and offline channels, cross-border retail, changes in customer trends and behaviours and many more. As we consider customers as the most important part of our business, adapting to rapidly changing customer behaviour is the big issue for us today. By and large, these changes can be divided into two categories.

First is the increasing demand for personalisation. Today, overseas travel is more common than ever and the boundary between general retail and travel retail is becoming blurred. Rather than seeking products at cheaper prices, customers are demanding more personalised engagement from retailers. That means new products, services and benefits that fit each customer's taste and preference. To address such needs, analysis of customer data such as purchase patterns and frequency is crucial.

As a result of in-depth analysis of customer data, Shilla recently introduced a new service named 'Lala Club', which categorises customers into five different categories, each offering different benefits. Each category's benefits are tailored for the lifestyle that the category represents. Lala Club has had a very good start and many early customers already enjoy the benefits designed for them.

The other factor is dramatic diversification in customer tastes. Traditionally, luxury brands represented the most popular trends. However, customers now carefully select from a vast range of brands, from luxury names to local niche brands, to purchase products that best express their own uniqueness. Identifying such trends in brands and products is an important task for all retailers. Shilla keeps both eyes on shifting trends in Asia's most trending cities such as Seoul, Singapore, Hong Kong and Tokyo to keep up with rapid changes. With such effort, trends in one region can be quickly applied to others.

Shilla's Seoul downtown store recently introduced @Cosme, a specialised section for trendy J-cosmetics to cater for customers' demand for J-Beauty. Similarly, our Hong Kong Airport store has introduced a specialised section, called New Generation, which is a carefully curated zone for rising Korean and Japanese cosmetics brands.

Adapting to changes in customers may sound like a textbook answer. However, in a time of uncertainty, a business should get back to the basics to enhance its core competitiveness. Travel retailers need to pay attention to customers to identify what they are looking for. By doing so, we can offer the most enjoyable retail experience to our customers.

TAKING A GLOBAL APPROACH AND TARGETING GROWTH



Claus Heinemann
Co-Owner
Gebr Heinemann

In a rapidly consolidating travel retail market and a highly competitive business environment, geopolitical developments continue to demand our full attention. Gebr

Heinemann is a company with a global focus – in 2018 more than ever before. This strategic approach means that all of our activities, both as a retailer with more than 330 Heinemann Duty Free shops, and as a distributor to over 1,000 customers, are aligned with this global commitment.

The more globally we establish ourselves, the better we can outbalance country-specific risks like currency fluctuations. While we have been able to hold our strong position in Europe, we have expanded further in Asia and Australia this year.

To continue our international success we need our partners, such as brand manufacturers, to think and act globally too. This was one of the reasons why we launched the Travel Retail Data Innovation Group (TRDIG) last year. So far, 35 suppliers and the biggest travel retailers in Europe have joined this initiative for digital, automated data exchange – thus proving its importance for the whole travel retail sector.



Gunnar Heinemann
Co-Owner
Gebr Heinemann

The industry's focus should be on creating new and exciting experiences for shopping in order to offset high street and online competition. An example

of this is our “marketplace” concept, which can be seen in Sydney. This is what we believe the future of travel retail will look like: one-stop shopping, without doors but full of inspiration and innovative promotions.

In the airline market we see future growth in the buy-on-board segment and in offering airlines not just products but added value too. As a distributor we are all about providing solutions from a single source – and that is what clients are looking for.

Of course, global travel retail has changed over the past few years due to digitisation – and web shops, apps and loyalty programmes will gain even more importance in the future. Combining these with the authentic face-to-face (POS) service gives us unlimited insights and chances to communicate with our customers throughout their journey. In short, we as travel retailers have never encountered more challenges – and opportunities – to reach our customers and potential customers in new and exciting ways.

SOCIAL RESPONSIBILITY AND THE TRAVEL RETAIL INDUSTRY



Kevin Chiang
President
Ever Rich Duty Free
Shop

*Ever Rich Duty Free is
one of the world's top ten
travel retailers measured
by annual sales*

The tourism retail industry not only provides sales services, but also plays an important role as a bridge connecting the local with the global. In this way, the practice of corporate social responsibility (CSR) should be broadened to have a global scope.

Ever Rich participates in international activities and actively adopts international standards to establish a sustainable enterprise in line with global trends. Travel retailers worldwide can cooperate together and be the first to make a difference in the world.

In 2014, without any government requirement, Ever Rich published a CSR report and obtained a certification from global firm Bureau Veritas (BV) group, making us the first travel retailer in the world to issue CSR reports. In 2017, the second report was published using the GRI4.0 compilation standard. A public forum took place between industry, government and academic representatives to discuss how to implement CSR on a larger scale, and how to help the local become global.

A sustainable enterprise should not only seek to generate profit; how you spend your money is as important as how you generate it. The process of pursuing sustainability is the same direction as is needed to help society develop towards goodness and to deliver kindness through action.

Starting from Taiwan, Ever Rich wishes to create a different, more sustainable model. We look forward to seeing travel retailers in every corner of the world implementing CSR, connecting the local culture to the global, making correct choices and changes from time to time, so that the travel retail industry becomes a leader in securing a better future for the world.

TACKLING RISK



Ramesh Cidambi
Chief Operating Officer
Dubai Duty Free

Dubai Duty Free is the world's leading travel retailer by sales at a single airport

Travel retail is likely to complete a good 2018 with growth in the high single digits for most parts of the industry. The growth has been driven by the Chinese consumer, high oil prices, growth in most major economies and a US Dollar that strengthened less than expected, despite US interest rate rises. The near-term outlook for 2019 is also reasonably good with the main risks being a slowdown in the Chinese economy (as even non-Asia Pacific retailers have Chinese consumers as a significant customer) and the possible strengthening of the Dollar.

In the long term, the opportunities for airport retailers are fantastic; ACI forecasts annual growth in passenger traffic of +4.9% on average until 2031 with 15 billion passengers travelling through airports by then. But there are risks to maximising this opportunity, which come from three sources.

The first is competition from the 'A List' (Amazon, Alibaba and other e-commerce firms). They have the ambition, resources and an extraordinary relationship with the customer to compete aggressively.

The second risk is the inability of the travel retail industry to match the great retail offer in airport shops with the experience of the customer in the digital world. This might result in disappointment as more and more marketing and sales move online.

The third risk is that the retailers and brands do not react to the competitive pressures and continue to erode the value proposition, leading to lower penetration in an environment of continued passenger growth.

Airports, airlines and retailers have to work together to overcome these risks as revenue is in danger for all parties. The best way to work together is to ensure that the connection with the passenger is maintained at each stage of the journey, from booking to reaching the final destination. This requires much more data-sharing and better integration of the user experience across the platforms by all three parties.

If the friction is reduced within the journey, the better the experience, which can then lead to more revenue per passenger for the retailer.

Retailers have to continue to work hard to engage with their customers as they run the risk of being disintermediated by the brands. They in turn are increasing their efforts to reach customers directly, are continuing to consolidate and are becoming more powerful. The brands are also agnostic about the final sales location of their products.

A NEW RETAIL REALITY



Beth Neumann
President & CEO
Starboard Cruise
Services

*LVMH-owned Starboard
Cruise Services is
the world's leading
maritime travel retailer*

Starboard Cruise Services has led the cruise retail experiential evolution in response to a critical consumer shift towards greater personalisation and engagement. These consumer desires serve as a path to curate vacation experiences and memories in the form of meaningful keepsakes. Starboard is creating a new 'retail reality' by bringing to life 360° experiences onboard the cruise industry's newest and most anticipated ships. This approach parallels the high level of innovation the cruise industry is delivering across all aspects of the onboard experience.

Following unprecedented growth with four important ship launches during Starboard's 60th anniversary year, 2019 will be even more impressive. Starboard will launch on four of the industry's most important megaships, including *Costa Venezia* and Royal Caribbean's *Spectrum of the Seas* in Asia, *Costa Smeralda* in Europe and *Norwegian Encore*. We are proud to consistently win contracts for the newest and largest cruise ships.

Now more than ever, cruise ship shopping has become a priority for Asian travellers and a growing macrotrend. For retailers, it's vital to have a deep understanding of this growing customer demographic, and their appreciation of quality and authenticity mixed with fun and exclusive experiences – especially ones they can share with families and friends.

Travellers in this market respond extremely well to luxury products, and distinct and inimitable experiences, including beauty events, fashion shows and behind-the-scenes previews of new collections and merchandise.

Starboard works to understand and connect with this customer profile by offering a curated collection of luxury legacy brands, complemented by emerging high-end discovery brands and sales associates trained to service these inquisitive and discerning travellers.

The trend of experiential shopping is a global one. Starboard will continue to roll out its transformational approach to cruise retail across its 90-plus ships, tailoring the experience to each cruise line brand and its unique guest profile. By 2020, we will operate more than 360,000sq ft of retail featuring over 750 brands.

Our leadership in retail transformation drives our growth. Since 2013, Starboard has driven a +60% (+10% CAGR) passenger growth spend in fine jewellery, Swiss timepieces, beauty and handbags. With brands such as Cartier, Tiffany, Bulgari, Tag Heuer, Le Vian, Michael Kors, Kate Spade, Marc Jacobs and Dior, these key categories represent more than 50% of retail sales.

THE INTEGRATED, CONNECTED JOURNEY



Eugene Barry
Executive Vice
President Commercial
Dubai Airports

*Dubai International
is the world's leading
airport for international
passenger traffic*

Customer-centricity isn't a novel concept. Global brands have long strived to build corporate cultures and products that are centred on changing consumer preferences and emotions. What is new, in airports at least, is the emergence of 'experience' as a central driver of differentiation and competitive advantage. The overriding consumer objective of a new wave of airport commercial development is to drive footfall on the day of travel towards relevant products and services, and as a result, maximise the financial potential and reputation of our business.

Key to that objective is a collective effort to inspire travellers to engage with the airport – in both the physical and digital worlds – to deliver an end-to-end message which informs and influences them.

All elements of the travel journey within the airport must be integrated and connected to deliver tailored, engaging experiences that build satisfaction, loyalty and advocacy. At Dubai International, the world's busiest international airport, that is no small feat, with 100 international airline partners, connecting Dubai to 260 destinations and serving over 100 countries across the globe. At the front of our minds, there is awareness of ever-changing needs of travellers, a global base that is increasingly connected, mobile, impatient, brand-aware, and value-driven. The spaces and products we select with our partners must reflect

the needs and wants of a global, transient community at a moment in time, and become a logical addition to the overall promise.

We are looking to differentiate ourselves through a holistic product offering. We must stand out from the crowd by creating an element of the unexpected, as much as the expected. Whether that is through world-class retail, food and hospitality, or through emerging products and lifestyle experiences like music, technology or art which are interwoven with conventional retail. The key for us is to integrate the entire experience on a common trading platform, and therefore maximise the collective impact of our partnerships to drive performance and reputation.

Dubai Airports, in line with the direction of Dubai itself, has recognised and responded to these emergent trends in our business, and we are reorienting our brand proposition to place customer experience at the core of the airport business, woven into each consumer touchpoint. Our social media channels are using the same, consistent content and message to build familiarity and spark interest.

Our goal is to ensure the airport environment – and the entire airport commercial ecosystem – matches the wants and needs of global travellers, and creates meaningful and memorable solutions inside the airport. By creating a connected, multisensory network that includes relevant products and services, and planned experiences enabled by technology, we are laying the foundations to connect with present and future travellers, and drive the airport retail business performance even further.

AT THE CUTTING EDGE



Chris Annetts
Retail and Services
Director
Heathrow Airport

Heathrow is the world's second largest airport measured by international passenger traffic

Our airport has remained at the cutting edge on a global scale by identifying trends ahead of the curve and investing in premium, relevant services for our customers. With this in mind, it is now more important than ever to connect with passengers earlier, online – ensuring their journey is simple, smooth and convenient at every step.

We have made significant progress in increasing our digital services and engagement with passengers. Our new Amazon Alexa Skill means customers can receive instant information about live flight times in the comfort of their own home. We've partnered with Locus Labs and Apple to enhance our digital terminal maps to help customers navigate the airport and find the amenities, restaurants, retail and offers that are closest to them at any given time.

Taking this further, responding to the individual traveller's needs and behaviours is key to ensuring they make the most of their time at the airport. The Heathrow Rewards programme is a great way of offering our customers the products that are most relevant to them. This opt-in scheme helps refine each person's information based on their behaviours, and the more frequently the customer travels through Heathrow, the better we can refine the best services and items that meet their needs. The email newsletters we send to regular customers, including

through free Wi-Fi, contain a mechanic for customers to tell us when they are next travelling, triggering a series of time-sensitive communications.

This year we are improving pre-purchasing, improving our 'Heathrow Boutique' Reserve and Collect service to enable passengers to browse and reserve more exciting products before they travel. We have created a simple process for our 300+ brands to share their products with customers, showcasing our fantastic range of products at competitive prices. In addition to providing a convenient on-and-offline shopping experience, the OM3 Suite technology will become integrated with additional features including Heathrow Rewards and other products and services.

We have also welcomed a number of new Chinese routes this year, building on our position as the UK's hub airport and biggest gateway to China, offering more than 100 direct flights to Chinese cities every week. We expect passenger numbers to continue growing and the Chinese to remain a key audience.

The ever-changing demographics of those passing through our terminals mean we need to maintain close focus to ensure the proposition is right now and in the future. One of the ways to do this is by introducing pop-ups to our terminals as they give our frequent passengers new and exciting retail offerings every time they fly, while offering us the chance to trial new brands to see what is popular with a view to potentially creating a permanent store for the brands in the future.

TRANSFORMING INTO A LIFESTYLE DESTINATION



Kitty Lo
General Manager,
Retail Experience,
Retail and Advertising
Airport Authority
Hong Kong

Hong Kong International is the world's third busiest airport in terms of international passenger traffic

Instead of just being a place to get on or off a plane, we strive to develop Hong Kong International Airport (HKIA) into an “airport city” and a destination in itself.

In view of the worldwide trend driven by e-commerce, conventional shops are transforming themselves to find new niches. At the airport, for instance, shops may become a showcase of products, complementing online shopping. We also believe it is important for retail outlets to engage passengers with innovative and interactive elements.

HKIA's transformation into a destination gathers pace as it welcomes new duty free anchor operators CDF-Lagardère (under the brand name Duty Zero) for the liquor & tobacco concession and Shilla Travel Retail Hong Kong Ltd for the perfume, cosmetics and fashion accessories concession (under the brand name Beauty & You). The new operators have introduced an array of interactive customer engagement activities, such as “magic mirrors” for virtual makeup, a “New Generation” zone featuring emerging Korean and Japanese beauty brands, as well as tasting bars and an in-store VIP lounge.

New confectionery concession operator Heinemann (under the brand name Sweet Dreams by Heinemann) provides unique themes and engagement activities like interactive games and 3D printing of chocolate and candy in its eight outlets in HKIA. Meanwhile, we have

also expanded our retail mix to include kids wear, entertainment, express hairdressing and lifestyle.

To make the shopping journey hassle-free, HKIA is offering free delivery service, with which passengers spending certain amounts can enjoy free delivery. We now deliver to 15 destinations, covering most of Asia, Australia, Canada and USA. Later this year HKIA will also launch a new Shopping Ambassador Programme to assist time-pressed passengers by providing practical help in shopping and the latest information.

Passengers can also make use of HKIA's online platform HKairport Shop. They can order a wide array of products online from beauty, packaged food to airport exclusives, and collect them at the airport before or after their flights, or have the goods delivered to a local Hong Kong address.

HKIA is also widening and upgrading its cuisine mix to offer tantalising dining options. Recently we further enriched the variety of food options, with both local flavours and international cuisines such as Korean, Japanese, Italian food and more.

The East Hall food court is undergoing a revamp to bring in a new look and concept. With the help of technology, in the near future passengers will be able to pre-order food via our HKG My Flight mobile app before arriving at the airport.

By providing an unrivalled retail and dining experience, we aim to give travellers a memorable time at HKIA, and turn HKIA into a destination in their journey.

A FOCUS ON THE CUSTOMER AND IMMERSIVE EXPERIENCES



Glyn Williams
General Manager,
Retail
Sydney Airport

Sydney Airport is Australia's largest gateway, with connections to over 90 destinations around the world

The retail landscape has changed dramatically over the last few years and many airports are struggling to keep pace with the expectations of today's customer, the brands they wish to engage with, the products they're interested in and when and where they prefer to shop. A reliance on a captive audience is now passé and the new retail frontier is here.

Across the world, customers are more into the style of life than the stuff of life and experience is the new value.

This is something we're passionate about and recognise as a huge business opportunity – tapping into the emotion of customers while they travel to deliver a contemporary offering that's hyper-relevant.

Personalisation, identifying with brands, understanding the brand story, their authenticity – these elements are fundamental to customers and the importance deepens the younger you go.

We understand our customers' need to express their personality through their experiences. And when you think about it, we all recognise this. Our coffee order is unique to us, the food, handbag, suit, trainers, glasses we choose to buy reflects our personality, our own personal brand.

We don't see this as a trend, but a powerful opportunity to create a shopping environment that

ensures our customers can tap into a sense of self without having to compromise on anything.

We have something for everyone and, most importantly, it's unique. A great example of this is in our new food offering – flagship and exclusive dining concepts that deliver one-of-a-kind experiences. Kitchen by Mike, the only concept of its kind in the world, delivering a wholesome Australian food experience, resonates well because of the richness of the brand story coupled with the freshness of the food. The Bistro by Wolfgang Puck showcases a gourmet menu by a global, award-winning chef.

It's also evident in our duty free and luxury precinct – a streetscape of brands to suit all personalities, the latest limited-edition products and travel exclusives. The product and the shopping experience is something customers can only attain at Sydney Airport.

We are also looking to the future to enhance the travel experience. We're in the first phase of our biometric trials, where your face will be your passport, which will totally streamline the travel process. We're also partnering with technology leaders like Google, Apple and Baidu to develop apps that will make it easier for customers to find their way through the terminals and hunt down a bargain. Our goal is to use technology to take the friction out of travel, and make sure customers have more time to enjoy everything the airport has to offer.

We'll continue to position the customer at the heart of our offer, driving the experience into new areas, evolving it and most importantly, aligning with brands and partners that reinforce our vision and bring it to life.

SEIZING THE OPPORTUNITY



Frank O'Connell
President
European Travel Retail
Confederation

*Securing a robust
future for the industry*

Never has there been a more pressing need to define duty free and travel retail as a separate retail channel. Operating in a global marketplace, serving millions of customers from all corners of the world every day, our industry needs the freedom to capitalise on our growing potential customer base, offering new and exclusive products, unhindered by an increasingly complex body of national and EU regulation designed for domestic markets.

We need to ensure that the regulatory framework within which we operate optimises rather than hinders the industry's ability to take full advantage of the growth opportunities. With that in mind ETRC is confronted by a number of issues which could harm our industry.

An example is the unstoppable trend towards giving more and more information to the consumer, which simply does not consider the practicality of fitting so much text on to small labels and packaging, nor the complexity of our retail channel with its cosmopolitan customer base. Three core categories are now affected: food and confectionery, alcohol and next – fragrance.

The off-the-label solution that ETRC has developed is groundbreaking and could have a global application. Carrying factual information only, it will be capable of presenting information in any number of languages. It has been welcomed by a number of key officials

in the EU Commission, but still has several hurdles to pass on its way to acceptance. Objections from the consumer associations are unfounded but if we lose this battle, customer choice in duty free and travel retail will be restricted.

The never-ending onslaught of tighter tobacco legislation takes on a new urgency with the coming into effect in September of the Protocol to Eliminate Illicit Trade in Tobacco, which has now been ratified by more than the required 40 countries. The WHO will press to launch the study referenced in the protocol seeking to establish 'the extent to which duty free contributes to illicit trade'. The wording indicates the intended outcome of the study and could herald the implementation of the ban on duty free sales of tobacco that the WHO has long sought to achieve. This position at the outset of the process presumes that duty free retailers, airports, ferries and airlines are contributing to the illicit trade of tobacco products. We reject this allegation and continue to work vigorously with our retailers and suppliers to protect the right of eligible customers to buy duty free tobacco products.

Meanwhile Brexit – for all the other problems associated with it for air transport rights and beyond – represents an opportunity for our industry and the 153 million passengers travelling between the EU and the UK each year. It is clear that passengers travelling from the EU to the UK should be able to avail themselves of their duty free allowance once the UK becomes a 'third country', in the same way that they do when travelling to every other non-EU country. We would expect the same arrangements for passengers travelling from the UK to EU member states.

ETRC cannot march on an empty stomach. A big thank you to all the companies who continue to support the work of ETRC in particular financially. To those that don't, I appeal to you to join today and add your contribution to that effort and investment essential to ensuring this industry realises its potential.

A VOICE FOR THE INDUSTRY IN ASIA PACIFIC



Andrew Ford
President
Asia Pacific Travel
Retail Association

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

The duty free & travel retail industry is booming in Asia Pacific, with the growth in sales outperforming every other region. The engine for growth is the burgeoning market in China with millions more people every year embarking on international travel and retail is flourishing as a result. However, although the future is bright, there are some dark clouds on the horizon.

APTRA is a membership organisation set up to nurture and protect the duty free & travel retail trade through advocacy, research, training and connectivity. With over 100 corporate members drawn from suppliers, retailers, airports, ferries, airlines and associated companies, we work with sister travel retail associations worldwide (Duty Free World Council, TFWA, ETRC, IAADFS) to dispel those dark clouds.

The most ominous cloud is the threat to the legal sale of tobacco goods in duty free. At nearly 11% of global duty free & travel retail turnover, tobacco is an important source of revenue for airports, airlines, ferries and cruise ships. Tobacco is also an important footfall driver, attracting customers into our shops.

Unfortunately, the World Health Organisation (WHO) is under the misguided impression that duty free contributes to illicit trade in tobacco and has stated that, under the Framework Convention on Tobacco Control, duty free tobacco sales should be abolished.

APTRA, together with the other trade associations, suppliers and retailers, are mounting a vigorous campaign to convince the WHO that duty free is a legitimate sales channel, which is already tightly controlled by customs with due diligence measures in place.

APTRA has also been engaged in solving an issue concerning the confiscation of purchases of liquids, aerosols and gels (LAGs) from passengers who fly into China and transfer to an internal flight. The objective was to ensure that a passenger who, for example, bought a bottle of Scotch at Heathrow en route to Beijing, should be allowed to take it into China provided it was placed in their checked baggage before connecting to an internal flight. APTRA has worked diligently with all partners involved to ensure they have the relevant information and that passengers are made fully aware of the rules and options.

APTRA has also developed an initiative to protect duty free liquor sales. It has developed a code of conduct for the lawful sale of alcohol which has been adopted widely in Asia and has been espoused officially by the Duty Free World Council for implementation worldwide. The Council has also adopted APTRA's online Responsible Retail Training Programme, which is designed to ensure that all frontline staff and brand ambassadors conduct their business with integrity.

Besides advocacy, APTRA is involved in the education of the industry to facilitate growth, commissioning research by consumer group, region, product and, most recently, airports, on behalf of members. The findings are disseminated at seminars during which members can congregate and discuss these and current issues.



RECOVERING THE RHYTHM



José Luis Donagaray
Secretary General
ASUTIL

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

Latin America will recover its normal rhythm after the major political and sports events that are taking place this year.

The regional agenda (and people's interest) has been marked on the one hand by the soccer World Cup in Russia, and on the other by elections, notably in several of the largest countries, including Brazil and Mexico.

Expect some uncertainty in coming months in Brazil, with two election rounds in October, and the 'Lula effect' sure to play a part [a reference to controversial former President Luiz Inácio Lula da Silva - Ed].

Political turbulence, the devaluation of local currencies and changing interest rates have all played a role in the duty free & travel retail industry's fortunes recently. That has especially been the case as far as Brazilian travellers are concerned, as they set the pace for regional travel retail.

Other factors will have an influence in the future. There are high expectations about (liberalised) regulation of stores on the Brazilian border, among both suppliers and potential operators. Mergers and acquisitions at operator and supplier level will continue, the much-mentioned digital threat will be managed and we will continue with business as usual. In Latin America, you need a strategy that is for the medium and long term

to even out the ups and downs.

ASUTIL will work side by side with operators and suppliers, as ever facing the challenges and in all aspects serving the industry, through our website, webinars and through the Summit of the Americas, organised in partnership with our friends at IAADFS.

SEEKING PROGRESS THROUGH STABILITY



Haitham Al-Majali
President
Middle East &
Africa Travel Retail
Association

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

The Middle East Duty Free Association was established in 2001 with only nine members, with the aim of ensuring the continued growth of the duty free & travel retail business in the Middle East. It has since expanded its representation to Africa (in 2013) to become The Middle East and Africa Duty Free Association (MEADFA) with 35 members who represent the entire region.

MEADFA is keen to build awareness with the public and with government entities, and to protect the industry from challenges and threats, including excessive regulation. MEADFA also aims to maintain high standards among the region's retail operations, and to assist the industry to grow bigger and more successful by encouraging closer links between retailers and suppliers.

The changes the region is witnessing point to a positive future. For example, since Prince Mohammed Bin Salman was named Crown Prince of Saudi Arabia, there has been a beneficial effect on duty free in the GCC, in part thanks to positive reforms allowing greater freedom and liberty of movement to the nation's women.

Security issues remain of great concern worldwide and especially in the Middle East. But the industry environment is improving, and the period of instability

is coming to an end, as groups like ISIS lose their power. Tourism and travel is getting back to normal and across most of the region people are working for peace. The Jordanian-Syrian border shops have been closed for the past six years, but they will re-open soon.

We hope that this will soon be a more secure, stable region; with this stability we are confident that duty free will prosper.

Another of the major global threats to the industry is the anti-tobacco lobby, notably through the World Health Organization's Illicit Trade Protocol. The industry has been successful in convincing countries and governments to take positions against a possible ban on duty free tobacco by stressing that the issue is criminal smuggling, not duty free sales, which represents a secure and legitimate sales channel.

In Africa, the picture seems challenging. We know there are some barriers to growth but also that the potential this region has is enormous. Africa is gaining the interest of many brands and retailers as travel grows and infrastructure improves. We are working hard to attract more African companies to join MEADFA.

I take this opportunity to deliver my warmest thanks to the MEADFA members for their continuous efforts and support, as well as members of TFWA for their work for the benefit of this industry.

PROTECTING AND SERVING THE AMERICAS INDUSTRY



Erasmo Orillac
Chairman
IAADFS

Michael Payne
President and CEO
IAADFS

The International Association of Airport Duty Free Stores represents the interests of around 400 industry members

The International Association of Airport and Duty Free Stores (IAADFS) continues its primary focus of advocating on behalf of and protecting the duty free and travel retail industry. This remains the mission and purpose of the IAADFS, which celebrated 50 years of service to the industry in 2018, marking an important milestone for the organisation.

It was also the first year of the newly organised Summit of the Americas in conjunction with ASUTIL. This moves to a new location in 2019 with a different approach and a commitment to a more flexible and productive business environment for suppliers and buyers. Our emphasis on providing valuable Executive Learning Sessions each day of the conference will continue in 2019 and an impressive programme of speakers is being finalised.

The Board has initiated a new governance format and will begin rotating leadership positions on an annual basis to ensure that IAADFS reflects the changing nature of the industry. René Reidi from Dufry has been elected Chair-Elect, Enrique Urioste from Neutral is Treasurer and Mark Sullivan from DFS Group is Head of the Audit Committee. Erasmo Orillac will serve as Chair for this year and together this group constitutes the Executive Committee of the organisation, committed to delivering the best value and service to its members and those attending the Summit of the Americas. The creation of the Summit was in response to members' requests that we better coordinate our activities and mutually support our industry through working with other organisations such as ASUTIL.

While the economy along with the currency exchange rate issue has created challenges for the industry in our region, the future for the Americas business promises to be a bright one. Passenger loads are increasing, airport infrastructure development continues and airport retail development is nothing short of transformational. The Caribbean is experiencing some of the best growth trends in years, even with

hurricane recovery still underway on some islands, and along with parts of Mexico this region is booming with travellers. This includes a cruise industry that is experiencing unprecedented growth. The US economy remains strong with the longest period of sustained growth on record. Brazil has announced a new wave of border shop stores which promises to change that dynamic for much of South America.

For the long term, analysts see nothing but opportunity and IAADFS is committed to ensuring that these promising opportunities are met. The revenue from our Summit of the Americas has helped us expand the allowances for duty free purchases, protect the ability to sell products from unwarranted government interference, allow for the continued sale of liquids and gels for passengers, improve customs regulatory requirements and simplify paperwork for suppliers and concessionaire members alike. These activities have translated into millions of dollars of sales for operators and suppliers and prevented the loss of millions more.

The IAADFS looks forward to welcoming everyone to the 2019 Summit of the Americas at the Hyatt Regency Orlando from 24 to 27 March.

A QUESTION OF VALUE



Dermot Davitt
President
The Moodie Davitt
Report

The Moodie Davitt Report is a leading business intelligence source for the travel retail and airport commercial business

The outlook for duty free & travel retail today is broadly positive, even if our channel faces many uncertainties, both persistent and new. The fundamentals are healthy, with favourable long-term traffic projections and emerging markets blossoming, notably in Asia.

Yet other factors combine to affect, in some cases negatively, the value perception of the industry today. These include shifting exchange rates; the rise of low-cost travel; higher frequency of travel in many mature markets, with travellers spending less on each trip; regulation that hurts the ability of the industry to trade effectively and perhaps most crucially, e-commerce.

How does travel retail respond to a world increasingly dominated by online shopping? How can travel retail 'future proof' itself against disruption from digitalisation, especially as its age-old historical advantage – preferential pricing – is eroded?

One thing is clear: the travel retail industry, for so long a definitive bricks & mortar retail channel, must embrace the opportunities of the digital age and focus like never before on the engaging, the personal, the experiential. Elements of touch, of taste, of smell, of exclusivity, of spontaneity, of service, of Sense of Place are assets that the new-generation e-commerce retail powerhouses largely cannot match.

We also see that the line between bricks & mortar and online stores is blurring. Travellers now want online

platforms that allow them to browse and transact, with the option of picking up in-store or even home delivery where possible. The successful fusion of the physical and the virtual will be the key to a prosperous future.

Changing consumer expectations also means that creating a far more personalised airport experience is vital. In tomorrow's world passengers will be guided directly to their parking space via mobile web services, and will have their food ready and waiting for them at the restaurant of their choice. They will be able to take advantage of personalised discounts in airport shops, and be guided to the plane at exactly the right time for boarding.

With that in mind, it's time to embrace the future, with airports perhaps becoming dynamic e-commerce marketplaces themselves, places where online and offline experiences are fused – rather than transport hubs alone.

Travel retail will change and evolve in the decade ahead. But with a focus on the channel's points of difference, closer collaboration between industry partners and communication that reinforces the value proposition, it can retain and even enhance its relevance as part of the travel experience.

TIME'S UP...



Charlotte Turner
Managing Editor
TRBusiness

The TRBusiness is an independent monthly magazine and website focusing on retail news, analysis and commentary

For a catalogue of reasons – passenger congestion, lack of resources, scanning equipment, staff – on my most recent holiday, the Turner family (plus one this year) spent over an hour stuck in the cogs of an antiquated security process before we gained access to the duty free shops at one of the UK's largest airports.

However, as I'm sure many of you can appreciate, we were no longer in the mood for shopping, having been left just 20 minutes to grab the essentials – bottled water, snacks, paracetamol etc – before dashing to our gate.

This seemed entirely unfair, especially considering that we had arrived at the airport three and a half hours prior to our flight's departure. For a family who were keen to shop, our most recent travelling experience was both disappointing and illuminating.

This was obviously not the first time I was a victim of what has become commonplace, but it was my first with an infant, which made an unpleasant situation more stressful.

This is not a new problem and arguments have raged for decades about how it should be addressed and who must provide the additional resources to resolve the issue. Shouldn't we have moved further than this by now?

What is certain is that our industry is losing out; a bitter pill for retailers and suppliers to swallow, after investing handsomely in impressive retail architecture and theatre to increase footfall and penetration.

The industry is meeting the challenge posed by the e-commerce giants through travel exclusives, innovative interactive shopping events and new technology, as well as investing in staff training. But duty free stores may not have many customers to serve, if passengers no longer have the time and inclination to shop. Improvements to security processes are a priority for all airports but this is made more difficult when the staff are sourced from an external agency.

Of course, it isn't only the UK which is suffering from capacity constraints. Airports in the Middle East and India have struggled to keep passengers comfortable in long queues. Amsterdam Schiphol has also publicly admitted that it has suffered in recent years, not so much from delays through security, but certainly from overcrowding and congestion in the terminal, which directly impacted spend per head. A study carried out by the Amsterdam Economics and Cranfield University last year revealed that congestion at Europe's busiest airports was pushing up air fares, leading to consumers paying up to €2.1 billion (US\$2.45 billion) a year too much for airline tickets.

A recent example of the implications for both travellers and our industry from the protracted processing of passengers can be found at Cape Town International Airport (CTIA). As *TRBusiness* exclusively reported back in June of this year, CTIA revealed that it was losing R25 million (US\$1.8 million) a year in duty free shopping revenue because international visitors were spending close to two hours moving through passport control.

This issue must be tackled on a global scale to prevent travellers losing interest in shopping in duty free & travel retail stores, at a time when the High Street and e-commerce giants are all too eager to steal a greater share of their wallets.

WINDOW TO THE WORLD



Kapila Ireland
Editor
Duty-Free News
International & Frontier

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

Ask a consumer the name of any major duty free company and it is likely they will draw a blank. Dufry, Lagardère, Heinemann are not recognised by many consumers. Even World Duty Free stores around the globe that incorporate a sense of place in their names – from Barcelona to Bali and Vancouver to Rio de Janeiro – are not household names like Harrods, Macy's and Takashimaya.

There are exceptions. In Asia duty free retailers like Lotte and Shilla are recognised brands with their extensive downtown operations and strong partnership plays with influencers, opinion leaders and celebrities. Similarly, DFS' luxury downtown travel retail concept T Galleria has made a name for itself in destination retail.

Ultimately, the brand experience and product offering is the key point of attraction for travel shoppers.

According to the latest Duty Free World Council KPI Monitor, which measures customer satisfaction in travel retail, a growing number of consumers perceive duty free as a place to "try and buy new products" and enjoy "a truly different experience".

The consumer perception of duty free is the single most important factor on which this industry depends. Too long has the industry focused on the 'trinity' when it should be considering the end consumer as a key stakeholder and partner in its decision-making.

Retailers are competing for tenders and negotiating concession fees with landlords while brands contest market share and shelf space – but overall, they share an aligned goal: to satisfy consumer needs and capture their spend.

The opportunity lies in analysing consumer behaviour and marketing the right products, allied to an unrivalled customer experience. The channel is a great way for brands to engage passengers with their latest campaigns and its accessible environment allows brands to recruit new customers.

Higher dwell time, the democratisation of luxury brands and an informed and personable sales force – the ingredients to success have all been there for some time.

Now, experiences shaped by digital technology are at the forefront of these customers' evolving expectations and many travel retail stakeholders are embracing this important shift. In the past year I have seen some fine examples of captivating activations in which airport, retailer and brand have joined forces to place the consumer before their own individual interests.

I hope to see this attitude develop and flourish in the years ahead, leading to airports enjoying healthy concession revenues that can further fund infrastructure and capacity development; retailers thriving from the benefits of a satisfied consumer; brands transposing their universe to an international audience; and the consumer winning by enjoying a travel experience enriched by engaging retail.

A REGION OF CONTRASTS



Lois Pasternak
Editor/Publisher
Travel Markets Insider

Travel Markets Insider is the only travel retail media based in the USA, and covers the duty free & travel retail markets throughout the Americas

We are seeing mixed travel retail business opportunities in the Americas in 2018. Tourism in Canada and Mexico is reaching record highs, and even the US, despite a stronger dollar, appears to be enjoying robust inbound travel and record numbers of Americans travelling abroad. South America, on the other hand, is beset with currency fluctuations and political uncertainty.

The cruise industry is prospering and the retail offers onboard have become an integral part of the holiday experience. Major duty free retailers, including Dufry and Heinemann, are now placing more emphasis on this sector than ever before.

Closely entwined with the cruise sector, the Caribbean is also showing strong indications of recovery. Although key tourism islands including the US and British Virgin Islands, St. Maarten/St. Martin and Puerto Rico suffered terrible damage last September from hurricanes, they are coming back and retail and hotel properties are being rebuilt stronger and much improved.

Most islands in the Caribbean were not hit by hurricane damage and, supported by multi-faceted and regional marketing campaigns, are booming. St. Kitts surpassed one million cruise passengers for the first time this year. The Cayman Islands reported a record 1.3 million tourist arrivals in the first half, with arrivals by air up nearly +16%. Grenada is seeing unprecedented investment in luxury hotels and has doubled the space devoted to duty

free at its new airport. Even Jamaica, which has instituted a state of emergency in some parts of the country due to crime, has enhanced security and attracted 1.25 million stayover guests and 1 million cruise passengers in the first half of this year, up more than +5%.

In Central America, Duty Free Americas is opening its long-awaited new duty free stores in Panama's Tocumen Airport, and initial reviews are positive. The tender for the duty free concession for Tocumen's new South Terminal 2 will undoubtedly attract strong interest.

The litany of challenges facing the travel retail business in South America sounds much like it did two years ago—Mercosur, which had been on an uptrend, has been hit again with currency fluctuations in Argentina and election worries in Brazil, as well as a regional drought affecting agricultural exports. Add to this a stronger US dollar, higher interest rates and fears of fallout from a trade war between the US and China, and much of travel retail is slowing down in southern parts of the Americas. The downward cycle has been affecting business, especially on the borders.

Despite the cloudy economic future, air traffic and investment remains strong in Latin America. AA2000 is in the midst of a US\$750 million expansion and renovation at Buenos Aires Ezeiza airport and Dufry continues to create some of the most striking travel retail stores in the industry, capturing an especially strong Sense of Place in its stores in Brazil, Argentina and Peru.