



PRESIDENT'S SPEECH – REPORT

13th May 2019

Collaboration and innovation key to success for the duty free and travel retail industry, says TFWA President

Taking to the stage to open this year's TFWA Asia Pacific Exhibition & Conference, TFWA President Alain Maingreud said it was a particular pleasure to be back in Singapore, this time as TFWA President. "I joined the Association in 1995, the year of the first TFWA Asia Pacific Exhibition & Conference, and my brief at that time was to develop TFWA's Asian activities, so I feel a special connection with this summit.

"Visiting the Asia Pacific region today, with its vibrant economy and thirst for business, is a refreshing reminder for a European like me that there is life beyond Brexit and the equally intractable problems facing some other parts of the world.

"The Financial Times has declared this the dawn of the Asian Century, predicting that by next year, more than half of the world's GDP will be generated here. If we look at the tourism sector, Asia Pacific is attracting visitors at an impressive rate these days."

Market data and regional trends

Maingreud said traveller data from the first of this year's TFWA Monitor studies prepared by ForwardKeys shows that, while international inbound tourism rose by 2.9% worldwide in 2018, the growth in this region was more than double that at 6%.

"As we learned at the recent TFWA China's Century Conference in Hainan, China continues to drive travel in the region and beyond, but traffic to other parts of Asia, such as Vietnam, Indonesia, the Philippines and South Korea, is also developing fast.

"Looking at this region's expanding share of global inbound tourism, 31% last year and closing rapidly on Europe, the leader with 34%, I'm reminded of the moment in 2012 when industry sales in Asia Pacific overtook Europe's for the first time, making this the world's number one region for duty free and travel retail.

"Since then, Asia Pacific has pulled further ahead, and passenger forecasts suggest that pattern will continue. More than ever, this is where the trends for our industry are established and where we should look when planning for the future."

Generation Research

Asia Pacific's leadership is, Maingreud stated, clearly visible in the latest preliminary industry data from Generation Research covering the 12 months of 2018.

Before he explored the figures, Maingreud said that TFWA is aware that some question the accuracy of the numbers. But, according to Maingreud, they are the only global figures currently available to our industry. "Until we as an industry – brands,

retailers, landlords and all stakeholders – agree on the advantages to be gained from sharing data, we will never truly understand what is happening in our business.”

Returning to the figures, Maingreud stated that two headlines stand out. “The first is that total worldwide sales broke through the US \$70 billion barrier for the first time last year to finish at over US \$75 billion.

“That represents growth of 9.3%, roughly the same as in 2017. But with momentum slowing in Europe and the Americas, it was Asia Pacific that propelled the global performance. Duty free and travel retail sales in this region exceeded US \$35 billion last year, up 14.2%. At the current rate of progress, Asia Pacific will account for more than half of the business worldwide within the next two years.

“The second headline is the remarkable rise of fragrance and cosmetic sales to travellers in Asia Pacific. Worth over US \$18 billion in 2018, the category grew by just under 20% versus the previous 12 months.

“Over 50 cents of every dollar spent on duty free and travel retail in this region goes towards a fragrance and cosmetic purchase. The next largest product category, fashion and accessories, claimed a little over 13 cents by comparison and showed only half the growth of fragrances and cosmetics.”

Challenges

While the figures available are positive, Maingreud continued, as always, numbers don't tell the whole story. “We all know that sales are not growing in line with traffic. More passengers don't always mean more sales. Unless we have a better understanding of who is travelling, and what their real needs are, we will never match sales growth to traffic growth.”

For him, Maingreud said, the biggest challenge is relevance. “It's finding the answer to the question: why should a traveller shop in our stores? If the answer is no longer price, then what is it? Is it convenience? Not when our online competitors can deliver to customers' doors at a cheaper price than we can offer. Is it differentiation? Not when so many shoppers tell us that duty free stores look the same wherever they go. Is it a “sense of place” then? Maybe, but there is scope for us to show far greater creativity and innovation here. It should be about more than just putting a city photo on the product packaging.

“And when we talk about our customers, I would humbly suggest that we never again use the phrase “captive audience”. Our shoppers are far from captive. Considering them as such will bring the kind of complacency that's causing the death of so many retail chains on the high street.

“As others have noted, the answer lies in the experience we can offer our customers. The best retail experiences come when we find a great product, at a competitive price, presented in a unique, inviting environment, by staff who are sensitive to our needs and who make us feel special. This last point is crucial. In an age of algorithms, chatbots and artificial intelligence, it's human beings that still make the difference between a disappointing retail experience and a great one.

“For all the challenges we face, it's important to recognise how far we have improved as an industry. Like me, some of you in this room were active in duty free and travel retail at the time of the TFWA's first Asia Pacific event 24 years ago. We have come a

long way in that time, but then so have our customers' expectations. Meeting those expectations together – as brands, retailers and landlords – is our most urgent priority.”

Sustainability

In the search to prove our relevance, sustainability is an area that could, according to Maingreud, bring us closer to customers. “Climate change and the growing quantity of plastic in our oceans have placed environmental concerns centre-stage for many people. As an industry that began at an airport and still earns most of its revenue from airline passengers, we must recognise that air travel in its current form is seen as far from green. This makes it all the more important that we reduce the negative impact our business has on the environment. Some companies active in travel retail have taken a lead here – Estée Lauder, L’Oréal and Pernod Ricard are just three corporate examples who have made public commitments to work more sustainably.

“Yet as an industry, we can and should do more, not just because it makes sense, but because failing to act on this issue could make us seem complacent and out of touch with customer concerns.”

CSR

Moving on to CSR, Maingreud stated that greater sensitivity to the world around us implies a healthy respect for the communities where we live and work. “Corporate social responsibility is not new to our industry, which has a strong track record of supporting worthwhile causes. Since 2005, TFWA’s own CARE initiative has contributed to humanitarian organisations and charities helping vulnerable people build better lives for themselves, and that support continues today.”

We have a lot of good stories to tell, he continued, but we are not always the best storytellers. “We know that sustainability and CSR are both subjects that resonate with today’s consumers. This should mean that demonstrating greater environmental awareness and a good performance on responsibility enable us to forge a stronger relationship with shoppers, but as an industry, we are not good at communicating with the final customer.

“We have plenty of positive messages about the benefits that duty free and travel retail brings, from the jobs it creates to the revenues that fund investment in infrastructure, yet we have still to find our voice.

“TFWA’s media campaign celebrating duty free’s 70th anniversary two years ago marked the first attempt to convey some of these messages directly to travellers.

“We need to become more vocal and underline our relevance, especially to the younger passengers with whom we often struggle to connect. TFWA stands ready to play its part in raising our industry’s collective voice.

“The requirement to demonstrate relevance to a key audience is something experienced by many organisers of face-to-face business events like this one. Recent advances in connectivity and communication mean it’s now easier than ever for buyers and sellers in any sector to talk directly to each other without having to meet physically or bear the associated cost and inconvenience.”

Collaboration

Collaborating closely with other associations working in duty free and travel retail is a further area of activity for TFWA, Maingreud continued. He went on to talk about TFWA's partnership with the Duty Free World Council, and its investment in the newly launched DFWC Academy. "This new initiative aims to raise the level of service among frontline staff in our industry by providing accredited, specialised training modules. The professional standards supporting these modules were drafted by a working group and refined following industry-wide consultations.

"Participants in the training will earn credits, recognised internationally, enhancing the value of their professional qualification. You have heard me underline the key role that people play in creating great retail experiences. As an industry, we must ensure our frontline staff benefit from the training offered by the Duty Free World Council Academy."

Innovation Lab

Maingreud has spoken in the trade press about his interest in innovation and how it opens up new possibilities for duty free and travel retail. As a development of the technology showcase created by the TFWA Digital Village, which was a successful first step along the path of adapting digital technology for our industry, TFWA's new Innovation Lab takes things a stage further.

"Under the tagline 'Fresh Thinking. New Ideas.', TFWA Innovation Lab explores smarter ways of doing business. You will continue to see a strong digital element, but alongside exhibitors promoting high-tech solutions and mobile technology, we are inviting companies active in the domains of sustainability and CSR to participate. I see this focus on new ideas as part of a broader mission for the Association to be a positive force for our industry, helping it to develop and prosper in the years to come."

Final thoughts

"This morning I have outlined a number of challenges that our industry faces, from the imperative to demonstrate relevance to our consumer audience and the importance of doing more on sustainability, to getting positive messages across to travellers," Maingreud concluded. TFWA also needs to listen to its exhibitors and visitors to ensure its events deliver value, as well as contribute to the development of the industry. "A key part of that contribution will be ensuring that the next few days provide you with a lively, productive forum in which to exchange ideas, do business and network."

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