

TRAVEL RETAIL

WHAT ARE THE PROSPECTS AND WHAT STRATEGIES SHOULD BRANDS AND RETAILERS ADOPT?

Described as «a sixth continent to be conquered¹» travel retail, a rapidly evolving market, has overcome obstacles and crises to post exceptional growth figures (+ 6% per year, on average, since 1995)—at a time when the rest of the economy is in contraction.

AUTHOR



YVES MARIN
yves.marin@wavestone.com

This publication has been produced with input from Pierre-Yves Beny.

Since the 1930s, and the early days of duty-free alcohol and perfumes on the banks of the Panama Canal, the world of travel retail has changed beyond recognition: the number of people traveling is rising continually, and the market has gradually shifted from the Americas, to Europe, and then toward Asia. In parallel, market players have multiplied, modified their structures, and consolidated; and the number of products has grown exponentially, fundamentally changing the marketing mix and star categories.

Far from being limited to duty-free areas of hub airports, travel retail covers all the stores and store-brands located in all places where there are concentrations of people on the move. Travel retail is heavily focused on airports, stations and ports, but also encompasses tax-free shops in city centers.

- / What are the key success factors in this world of acquisitive shoppers?
- / What are the fundamental issues for the players, and what are the solutions?

1. According to Jean-Paul Agon, the CEO of L'Oréal, in 2014

TRAVEL RETAIL: A RAPIDLY-GROWING MARKET

For 20 years, the travel retail market has grown unceasingly; a trend that should continue between now and 2025. This growth can be explained by the combination of three factors:

- 1 The huge growth in numbers of people traveling**, with levels expected to triple between 2000 and 2030 (from 3.6 to 12 billion travelers²),
- 2 The rise of the middle classes**, especially in emerging countries: between 2000 and 2030, their numbers are expected to triple to some 5 billion people³,
- 3 The level of investments** being made by brands, retailers, and key transport-sector operators in order to maximize the capacity and quality of facilities in travel locations. As a result, the travel retail market is expected to represent about \$109 billion in revenue by 2025.

A growth phenomenon primarily driven by Asia

Since 2012, Asia has been a key region for travel retail as a result of the rising number of Chinese travelers going abroad⁵ (+120 million by 2020), who, moreover, tend to prefer Asian destinations (such as South Korea and Taiwan). In addition, numerous, recently-launched initiatives to help develop Asian travel retail are bearing fruit:

- / The creation of huge airports (such as those in Chengdu and Singapore) and the appearance of new airlines,
- / The progressive adoption of legislation allowing VAT to be waived on purchases by foreign travelers⁶ (in airports, ports, and even city centers).

Around the edges of a strongly developing Asia, the Middle East is also securing its position as a travel-retail hot spot, both by leveraging its role as a strategic hub - between Europe and Asia - and also its massive investments in developing its airports and airlines (whose levels of service quality are universally recognized).

Beauty products, fashion, and wines and spirits: travel retail's biggest sellers

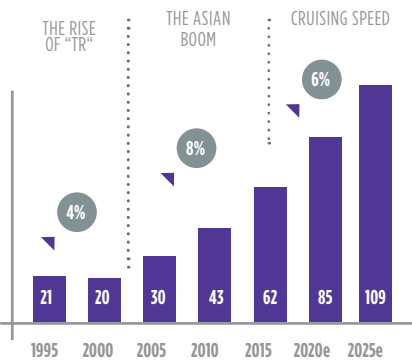
The world of beauty (perfume, makeup, and care products), accounts for a third of all sales in travel retail, and remains the flagship product category, ahead of fashion, and wines and spirits.

Having said that, even within these categories, a number of trends can be observed:

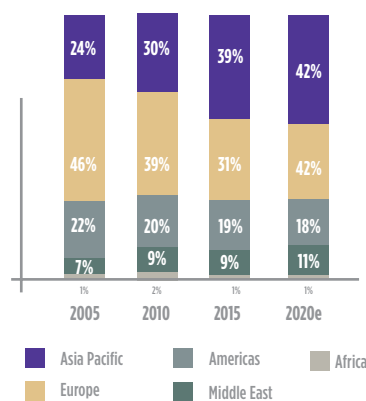
- / In beauty products, sales of women's perfumes are experiencing a slight decrease (28% of women bought perfume in 2016, compared with 30% in 2012⁸), while perfume and care/makeup products for men are growing strongly,
- / In the fashion world, market growth is mainly driven by accessories, partly because they are more accessible, convenient, and easy to buy, compared with products that need to be tried on (such as dresses and trousers). Glasses represent 8% of purchases in this class—ahead of bags.

Coming behind these categories, while tobacco is losing more and more ground, delicatessen and confectionery are likely to continue to grow strongly, driven by on-site consumption and expanded product lines.

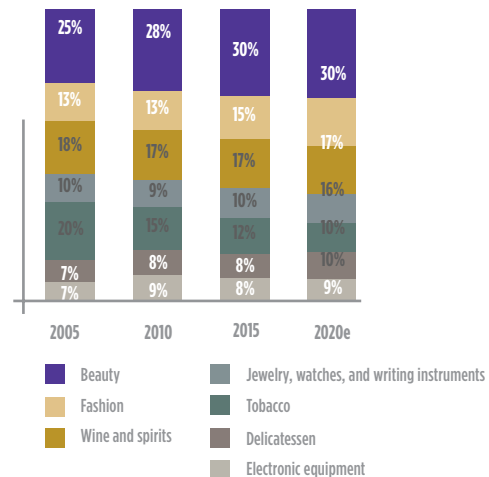
Sales growth in travel retail 1995-2025e in \$ millions⁴



Sales growth in travel retail by product category/2005-2020e in \$ millions⁷



Sales growth in travel retail by region/2005-2020e in \$ millions¹⁰



2. ACI - Global Traffic Forecast 2013-2031

3. Kharas and Gertz, «The New Global Middle Class,» in China's Emerging Middle Class, 2010

4. Generation Research; Santander - Travel Retail industry Europe, February 2014; Wavestone analysis

5. China Tourism Research Institute

6. China Daily

7. Generation Research; Wall Street Journal; Wavestone analysis

8. BW Confidential

9. TFWA Category Reports 2015

10. Generation Research; Wall Street Journal; Wavestone analysis

WHAT ARE THE CHALLENGES AND THE STRATEGIES TO PURSUE IN THIS GROWTH SECTOR?

Travel retail is a customer-centered universe, and there are three main types of player. This “retail-triad” brings together transport-sector operators (airports, airlines, shipping players, etc.), retailers and brands; with each type of player pursuing different, but interconnected, objectives.

Transport-sector operators possess the resources needed to accommodate and attract more travelers

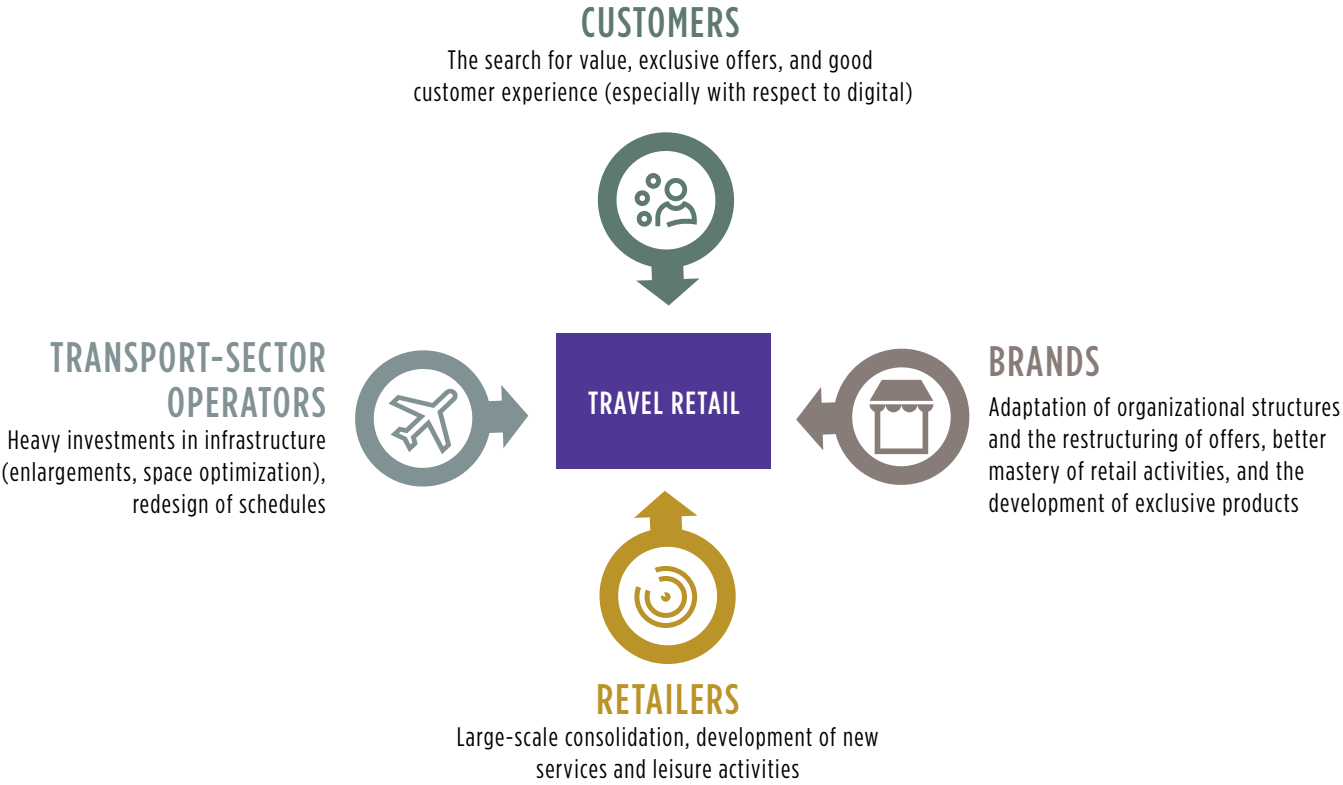
These investments are characterized by:

- 1 The development of huge airports and airliners to transport more passengers and absorb the increased traffic they generate,
- 2 The establishment of strategic hubs and modified schedules, to increase shopping opportunities and drive indirect revenues,

3 The optimization of space dedicated to travel retail and leisure (including spaces outside airports, ports, and stations) to enhance the travel experience,

4 The deployment of new digital services and CRM (practical information, in-flight click & collect - with collection on arrival, extended loyalty programs, such as Heathrow Rewards - for example, etc.) to simplify the customer journey and experience for travelers.

Structures and strategies in travel retail



Retailers consolidate and launch new concepts

The last decade was marked by a strong consolidation among retailers: in 2005, a quarter of the market was held by ten players; by 2014, there were only three—Dufry, DFS, and Heinemann.

While this consolidation simplifies trade, it also increases retailers' bargaining power with respect to brands and transport-sector operators, and provides the critical size needed for innovation.

Brands restructure and optimize their offers

Travel retail has become a major challenge for brands, who are creating dedicated departments within their organizational structures (for example, L'Oréal, Armani, Puig, etc.).

Brands have also revised their product ranges and their prices by developing entry-level product lines to capitalize on the emerging middle classes, as well as producing limited-edition products to further

strengthen the role of exclusive and original products in travel retail.

Last, brands want to gain greater control over their go-to-market strategies, improve their point-of-sale performance, and promote cross/add-on selling.

The result has been the emergence of numerous initiatives, such as Armani opening its own shops, or Mars organizing events in partnership with retailers.

1 THE DEVELOPMENT OF NEW STORE CONCEPTS:

SHILLA IPARK AT SEOUL

This giant complex (with over 30,000 m² of floor space) offers over 600 luxury brands and regional duty-free products in the heart of the city center, aiming to boost travel retail and take it beyond the immediate area of the airport.



WALKTHROUGH HEINEMANN AT TURIN AIRPORT

This store, with more than 900m² of floor space, was the first European "walkthrough": a type of duty-free store designed so that passengers have to pass through the store in order to get to their gate, increasing footfall and numbers of impulse purchases.



2 DEVELOPMENTS IN DIGITAL

Tablets in stores, beacons, click & collect, etc.

3 THE DEVELOPMENT OF NEW SERVICES

Loyalty programs, personal shoppers, etc.

TOMORROW'S KEY DRIVERS IN TRAVEL RETAIL

Improving knowledge of customers is essential

Mastering knowledge of customers is essential and remains, to date, an area for improvement.

In fact, there is little sharing of information between members of the «retail-triad» who could gain by pooling their efforts (and knowledge of customers) to obtain a complete view of the customer journey and buying behaviors. To this end, putting in place extended/unified loyalty programs (comprising brands, retailers and transport-sector operators) would help optimize knowledge and customer relationship management.

The development of digital is a key success factor for travel retail players

Like other sectors before it, travel retail has found it cannot ignore digital. Whether it's to expand the customer base, personalize customer service and offers, in order to compete (or work together) with e- or m-commerce, or further develop «retailtainment», digital will play a key role in the coming years.

In the future, multichannel strategies will be used in travel retail just like any other channel, in the same way as in «traditional» retail. With the majority of members of the «retail-triad» aware of this trend, and pursuing a range of initiatives to move in that direction, the technologies that we are seeing arrive in «traditional» shops (beacons, store-to-web interfaces, augmented reality, etc.) will progressively be rolled out for use in travel retail.

The exploitation of all the possible segments of travel retail will offer new perspectives

Dominated by air transport, travel retail could benefit from the dynamism of the railway and maritime sector activities, which are attractive in terms of passenger numbers and conversion rates. The SNCF (french railway company) carries some 10 million passengers every day, while the global cruise market is expected to reach levels of some 25 million passengers per year; and, of the 7 out of 10 people in France who used a rail station last year, two thirds purchased something while they were there. This represents a significant chunk of potential extra revenue, despite the fact that, in 2015, overall travel retail sales contracted for the first time in decades, by 2.5%, compared with 2014.

TWO KEY LEVERS TO PURSUE FOR OPTIMIZATION

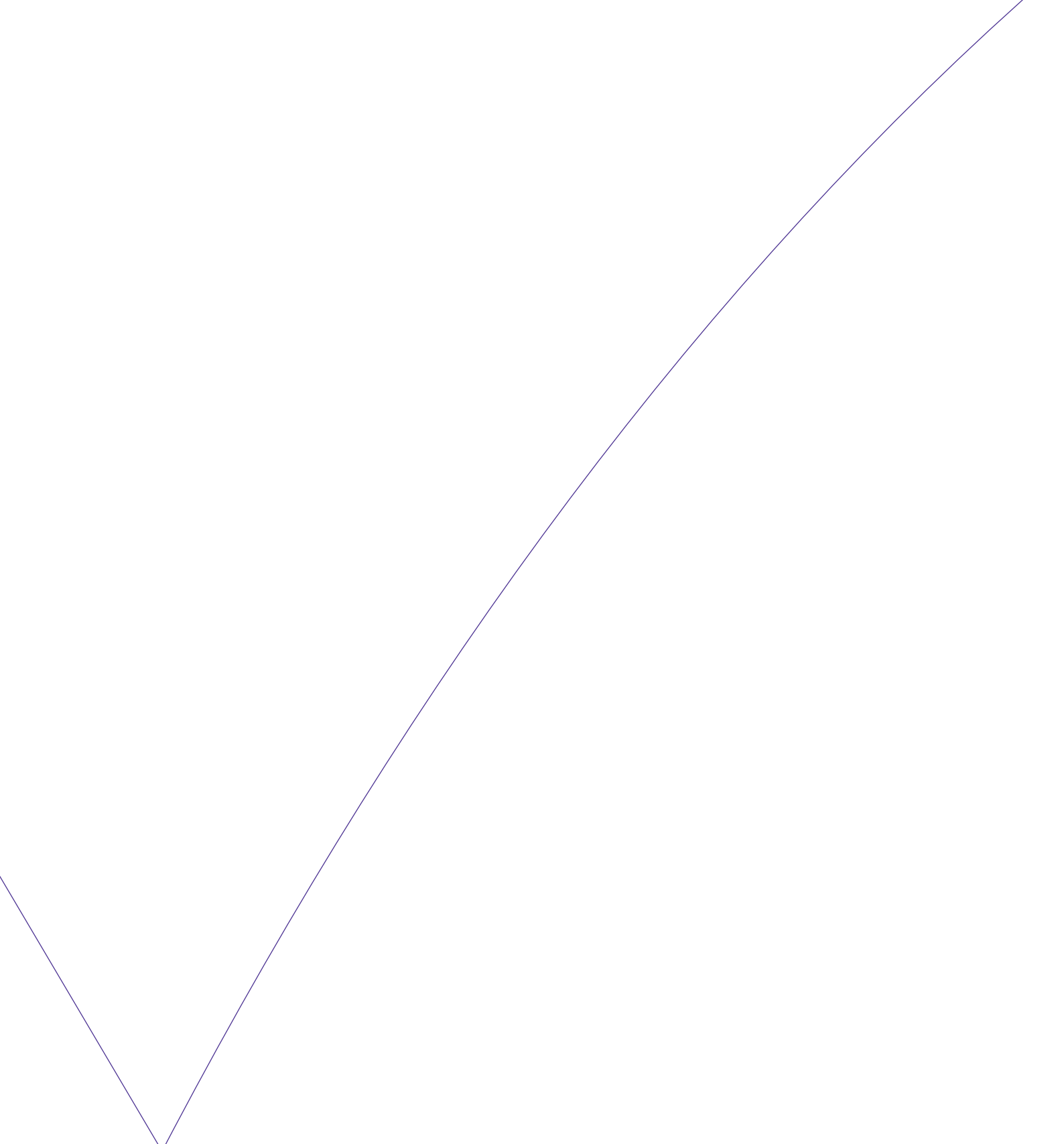
For brands as well as for retailers, the future of travel retail seems to be developing along two main lines.

First, the individual (or common) capabilities of the players to translate the winning formulas from traditional retail into the travel environment, where customers are captive but flexible, with little brand loyalty and a strong focus on price:

- 1 **IMPROVING CUSTOMER KNOWLEDGE AND CRM**, collecting, and capitalizing on, all available data, from basics, like email addresses, to purchasing behavior and customer-journey types, leading, ultimately, to better segmentation and higher levels of consumer loyalty.
- 2 **OPTIMIZING PRODUCT RANGES AND MERCHANDIZING**, by analyzing ranges of similar products, identifying successes and failures, developing strategies (common core ranges tailored to individual regions, for example), and then optimizing product merchandizing by reviewing the overall organizational structures of outlets: the development of walkthroughs, Point of Sale information and displays, digital, etc.
- 3 **IMPROVING IN-STORE PERFORMANCE**, by adopting the most up-to-date best practices developed in retail in recent years: increased personalization (customer reception/advice, purchasing history, tracking of current orders, etc.), hyperspecialization of sales forces, the development cross/add-on selling, etc.

Second, the ability to capitalize on the key success factors from existing strengths (compared with e-commerce or department stores) that match travelers' principal expectations:

- 1 **IMPROVING PRICE IMAGE**, by using ideas of exclusivity and perception to make profitable sales. This requires the development of adapted pricing strategies (through channels, competition intensity, customer segmentation, etc.) while strengthening promotional activity (special trip deals, «2 for 1» promotions, etc.) and exclusivity (dedicated product lines, packaging, limited editions products, etc.).
- 2 **OPTIMIZING THE CUSTOMER EXPERIENCE**, before, during, and after the purchase, by focusing on new concepts in the attractiveness of stores. Outlets must integrate a multichannel dimension to ensure a seamless customer experience (travel retail 3.0), but also the opportunity to develop an offer focused on leisure and entertainment (spas and beauty salons, sports activities, etc.).



WAVESTONE

www.wavestone.com

Wavestone is a consulting firm, created from the merger of Solucom and Kurt Salmon's European Business (excluding retails and consumer goods outside of France). The firm is counted amongst the lead players in European independent consulting.

Wavestone's mission is to enlighten and guide their clients in their most critical decisions, drawing on functional, sectoral and technological expertise.