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11TH MEDFA CONFERENCE ATTRACTS RECORD NUMBERS TO DISCUSS TRAVEL RETAIL'S POWERHOUSE REGION

The 2012 MEDFA Conference got under way on Monday 26th November with a record audience of almost 500. Taking place at the new Jumeirah Creekside Hotel, Dubai over two days, the conference looked at all aspects of travel retail in the region.

John Sime, MEDFA President and VP Retail Services Emirates Airline & General Manager Emirates High Street, welcomed the audience with a summary of travel retail in the region. In 2011 regional sales in airports and on airlines reached almost US$3.3 billion, an increase of 14% over 2010 and representing 7% of the global travel retail market. “We're a small region punching far above our weight in duty free sales,” he said, describing the Middle East as the “powerhouse” of the industry.

Sime said the importance of the Middle East to travel retail - its continued growth, geographical location 'where East meets West', and dominance as a global travel hub - had earned it the right to hold its own regional duty free exhibition, Middle East Exclusive, which with 100 exhibitors was running parallel to the MEDFA Conference. Sime urged everyone to attend and said: “I hope it will grow to become an important part of the duty free calendar.”

Sime's introduction led neatly into the keynote speech by **Paul Griffiths, CEO of Dubai Airports**. Setting the scene, Griffiths said that the aviation industry is going through “'the most amazing phase of growth” reminding the audience that some 3.3bn international travellers will jet through the skies by 2014, with passenger numbers set to double between 2011 and 2031. The Middle East continues to lead the way with US$200bn being invested in more than 1,000 aircraft since 2005 and US$110bn allocated for further investment – by 2015 passenger traffic in the region will reach 190m.

Griffiths talked about an unbalanced supply chain with airlines barely in profit and unable to invest in the industry. Griffiths said airports need to become points of innovation and showcases for brands, pointing to various initiatives taking place at Dubai Airport, such as the Heineken Lounge at Concourse B; ongoing development of digital advertising strategies, particularly at point of sale; and the placement of an innovative smoking lounge in conjunction with JTI. The world's first truly passenger concentric airport facility, Concourse A will see revolutionary ideas put into place. “We are working with brands to create experiences worthy of the best malls in the world,”' he said.

Griffiths summarised with four general predictions for the future: the importance of airport retailing will be showcasing global brands, with reputation and equity established through more social and viral based advertising; fulfilment will become an external commodity – for example buying in-store but with delivery straight to the home; online price comparisons will drive travel retail to once again become a global value proposition with local differences based purely on tax regimes; industry consolidation is inevitable.

Giving an overview of the economic situation in the region, **Dr Costas Verginis, director Consulting Real Estate & Hospitality, Deloitte & Touche** underlined the importance of travel and tourism to the economy in MENA countries, representing almost 8% of GDP overall and expected to account for US$300bn by 2022. With arrivals in MENA set to increase, particularly from China and India, Verginis said to secure continued growth visitors had to be given more reasons to visit – such as Mohammed Bin City. The industry had to continue to innovate but, he warned, keep an eye of what is happening in the east, particularly Singapore.

While airport retail development in the Middle East is now very sophisticated, the same cannot be said for Africa – although this is changing, slowly. A panel of three experienced operators summarised their dealings in Africa: **Erik Van der Veen, Regional Commercial Director Dufry; David Brenner, CEO Tiger's Eye Division, Tourvest; Paul Topping, Independent Director, Flemingo.**

All were convinced of the potential in Africa, but business here can be difficult. Topping cited problems such as the stability of countries, rising wage costs, the difficulty of getting quality staff, ever-changing laws and government policy, corruption/security issues, extreme poverty, logistical nightmares, reducing air traffic and the ongoing problem of HIV in some regions. “There are a lot of obstacles to growth,” he said. “Don't come to Africa unless you are bold.”

But retailers like Flemingo and Dufry are bold, between them operating 96 retail shops in Africa (including airport, downtown and military/UN). Van der Veen gave a summary of Dufry's activity in Tunisia, Morocco, Egypt and Algeria – all with large scale tourism potential. Van der Veen said that the operating model in Africa was not different to anywhere else – success being dependent on understanding the passenger’s needs with product offers and activities tailored to expectations.

Topping agreed, comparing Africa with India ten years ago. With a growing middle class, passenger growth expectations of around 7.5%, growing GDP and numerous small airports receiving international status, Flemingo is committed to targeting retail opportunity in this region. One area of focus was the introduction of more local products to shops to create a better sense of place within the retail environment.

This is certainly where Tourvest's Tiger's Eye Division has succeeded in South Africa, where its destination retail shops in Jo'burg and Cape Town have shown growth of 14.1% over the past year compared to 7.3% in general. “It addresses customer boredom, provides prime gifting items, is less price sensitive, offers a wider range of products, covers both ends of the price spectrum, and is not fashion-orientated,” said David Brenner.

There followed an update on developments at Sharjah Airport, where **Director Commercial Sharjah Airport Authority Donald de Souza** reported on the continuing growth of business as new markets, trade links and the gradual elimination of international constraints are driving the development of air transport in the country. Low cost carriers have fuelled growth with Air Arabia now possessing 31 aircraft and conducting some 308 flights weekly with 81 destinations around the Middle East, North Africa, Europe and Asia.

Two presentations by **Dr Peter Mohn of m1nd-set** and **Cyrille Fabre, partner Bain & Co Dubai** made it crystal clear that retailers cannot treat all shoppers the same. There is an absolute need to segment each shopper into a category – and cater for them accordingly.

m1nd-set surveyed over 1,000 passengers at the departure gate at Dubai, Doha and Bahrain airports to compare the reasons for shopping – or not. Of those who had bought, the prime reasons were that they had visited the shops to see interesting promotions (57%), to kill time (50%), for a planned purchase (26%), to buy on behalf of someone (22%) or for gifts (20%). Perhaps more relevant is why people did not buy – price and lack of variety being the most frequently cited reason. The following options, however, could turn non-shoppers into shoppers: guaranteed prices 20% below downtown (38%), more variety (34%), more interesting promotions (33%), more product within each category (20%), more gifting choices (19%), better atmosphere (16%), better service (15%).

But Mohn's research goes deeper with a cross-category segmentation study revealing 14 different types of shopper globally. Within the Middle East, the top three segments are the Low Budget Shopper, Executive Pre-Planner and Inspiration Seeker – which he was quick to point out were not the same top three segments as, for example, China or Brazil. Mohn explained the different features of each segment and made suggestions of how retail shops could adapt to meet their individual needs and expectations in terms of product offer and type, promotional activity, product mix etc.

Faber's research was focussed on luxury goods – a market which has seen double digit growth for the third year running and is now worth some 200bn Euros. Europe still counts for the bulk of sales, followed by the US, but Asia and China are hot on their heels and are certainly the engines of growth currently. The Middle East, however, would come in 10th if it was counted as a single entity.

Faber said that retailers in the Middle East had to adopt a customer-led approach rather than a brand-driven business. The assortment now has to be tailored to the passenger and again various segments had been identified in terms of shopper ranging from the classic spender to the fashionista, to the bargain-hunter to the budget-focussed shopper. Each was looking for a different offer and it is down to the retailer to learn to recognise and respond to each of these profiles.

Communicating to the passenger is crucial – pre, post and during travel. Under the theme ‘360 degree communication’, **Anne Kavanagh of Kavanagh Communications, Robert Thorpe, Managing Director DC Activ** and **David Judge, Executive Creative Director Start JudgeGill** gave delegates a reminder of just how important a role social media plays in today's world – and how travel retail should be using it to its advantage; the retail technological advances which can improve shopper penetration, conversion and spend; and a view of travel retail shopping in the future.

Thorpe's examples included store retail design and layout, brand fixtures and displays, category activations and retail theatre. His message was clear. There has been a paradigm shift in retail driven by technology and the High Street “is dead”. But there is still a great opportunity for travel retail. Retailers had to realise that the connected customer can now purchase pretty much any item across many channels and they have to adapt their business model to take this into account. Retail now revolves around the consumer and personal data will drive the shopping experience towards personal service based on the shopper's exact preferences. The airport retail offer needs to be based on the physical shopping experience. It must be more exciting and engaging on the sensory level. It has to offer what online cannot – sampling, tasting, touching, trying, blended with education, entertainment and information.

Judge put these examples into solid reality describing the Adidas virtual footwear wall which had been developed in 2010 because of the numbers of customers who left without purchasing because they couldn't get the right size or colour. The virtual wall enables the full range of Adidas footwear to be shown, including limited edition designs, enabling customers to order their perfect pair, or a prototype design to be test-marketed for comment.

Using well-documented material, Kavanagh reminded the audience of the incredible role that social media such as Facebook, Twitter, LinkedIn, etc. play in today's world and how these channels can be used to promote brands (and that includes airports or retailers as brands).

The second morning began with a panel discussion on the inflight sector, bringing together airline, supplier and concessionaires. Asked to define 'Excellence in the Air' – the title of the session - **Keith Hunter, Senior Vice President, Qatar Duty Free and Qatar Airways Inflight Duty Free,** said that it was “consistency and execution of service”, offering products that are immediately and always available.

Scorpio Worldwide Chairman Stuart McGuire emphasised that 'excellence' would mean different things to different people and very much depends on the type of airline, passenger profile and length of flight. “Everyone is looking for something different. Low cost airlines need to maximise sales – Easyjet for example is selling raffle tickets, duty free, train tickets etc all in a very short time, and do an amazing job. Keith may view excellence of service in terms of offering consistency and maintaining the image of the airline, which might not necessarily mean maximising sales. A customer on Easyjet would not be looking for the same service as on Qatar.”

For brands the decision to be onboard can be a matter of image. **Jean-Charles Séité, Vice President Europe, ME and Africa, Estée Lauder** said that decisions to be onboard is down to the ability of the airline to deliver good service – having stock available and crew who have good product knowledge. “If they can't deliver, then we are not onboard.”

It is clear that airlines present a great sales opportunity. “It's a totally different business to the airport shop. You have the passengers just sitting there, they are a captive audience. The key is to drive sell out,” said **Rami Madi, General Manager of Traveller Limited.** McGuire agreed: “Airlines have a unique opportunity. The customer is onboard in an environment controlled by the airline and that is very attractive to brands. We are contacted all the time by brands who want to be involved in this business but they don't know how to do it. It's a fantastic marketing opportunity.”

All agreed that while the introduction of new technologies allowing more pre-order and home or airport delivery that would enable a much wider offer is essential, the real key is the attitude of the crew. Said **Selwyn Grimsley, CEO Tourvest Duty Free**: 'You can do the best job in the world creating a compelling range, putting together the best catalogue in the world, training staff, and ensuring delivery, but at the end of the day, it is down to the crew. Their primary objective is the safety of passengers and not everyone is motivated or equipped to be an effective sales person.

Picking up on the technology discussions of day one, three major brands from the liquor, tobacco and beauty sectors showcased samples of innovation in their respective industries. **David Freeborn, Managing Director, Pernod Ricard Gulf** gave an entertaining and refreshingly non-partisan presentation that highlighted the good work of rival brands as well as Pernod's own such as Absolut.

Stefan Dembinski, Director, L'Oréal Luxe Travel Retail Europe and Middle East agreed with this, pointing to cities rather than countries as being the key to brand marketing as they are now so big. Tokyo, he said, would soon become as big a market for L'Oréal as the UK and, as the main entry point to a city is usually an airport, this channel is vital to business. He used Kiehl as an example of retail experience which offered global consistency, where personal interaction between the consumer, brand and retail consultant was critical.

David Francis, General Manager Worldwide Duty Free, JTI focussed on how smoking lounges for core brands Camel, Winston and Mild Seven can act as sales enhancers. There are around 500m smokers travelling through airports and they tend to be high value customers but often don't enter the departure lounge until the last minute if they can't smoke. Smoking lounges placed near retail areas have been shown to dramatically improve sales for both duty free goods and food & beverage products.

Technology, all are agreed, is important....but as **VP Retail Operations, DFS Duty Free Abu Dhabi Glen Morgan** pointed out in a discussion on industry challenges, it cannot totally replace the shopping experience and can be very good or very bad depending on service. “It's about your people developing relationships with customers,” he said, “and that has nothing to do with clever marketing or brand image.”

Sean Staunton, VP Operations, Dubai Duty Free also commented that staff is a main challenge. When Dubai International Airport's Concourse A opens in January, retail space will increase 50% with an additional 9,000 sq m of retail space and the number of cash registers leaping from 355 to 550. 1,500 new staff have been taken on with another 500 in the pipeline. Rising passenger numbers also create operational challenges – congestion has been a problem at Dubai T3, but Concourse A should resolve this.

The conference ended with a fascinating two-part discussion on Chinese and Indian travellers in the Middle East including a perspective on the potential from these nationalities by **Bernard Creed, VP Finance, Dubai Duty Free**.

Deepak Talwar, Chairman, IDFS Trading and **Kapil Kaul, CEO South Asia, CAPA** started the session with an overview of the Indian aviation industry.

The three main UAE airports are on course to handle almost 80 million passengers in 2012 with the number of passengers travelling between India and Dubai increasing by 7% in the first quarter of 2012 reaching 1.8m, compared to 1.7m during the same period in 2011, he commented. In fact, said Kaul, Dubai is the largest single international destination ex-India by some margin in terms of international seat capacity.

The average weekly spend of Indians travelling to the Middle East is estimated at US$ 355.83 million, which means an average annual spend of US$ 18.5 billion – all good news for retailers in the region, but what do they spend their money on? CAPA has carried out a comprehensive survey of consumer behaviour interviewing 6,000 passengers at 10 of the largest Indian airports.

The conclusion was that prospects for duty free sales to Indian passengers (in India as well as overseas) are very strong: passenger numbers are increasing, the Indian consumer is becoming increasingly wealthy and Indians are avid shoppers. However, said Kaul, it was vital to understand the Indian consumer is not homogeneous – he/she varies significantly by region, age, gender, income and travel experience.

China now ranks third in the world for international tourism expenditure (US$73bn), and recording the highest increase (32%) or an additional US$18bn, said **Catharina Eklöf, Vice President Enterprise Development, Mastercard Worldwide**, who was joined on stage by **Alexander Glos CEO, i2i Group China.**

The Middle East is a popular and growing tourist destination for the Chinese who are keen travellers. An estimated 300,000 Chinese tourists travelled to the UAE in 2011, attracted by lower prices, and spent US$334 million. With China expected to be the world's largest luxury market by 2020, accounting for 44% of global sales, and 50% of all Chinese luxury spending abroad, according to Glos, this spells good news for ME retailers. "In ten years China will be the biggest source of sales growth to your business," he said.

"There is an increasing need to get to know the Chinese," said Eklöf. "Who they are, what they buy and why, how they think and what their needs are." Glos gave some insight here. 87% of Chinese shoppers opt for premium brands, followed by 76% for apparel, 73% cosmetics, 42% technology, 39% perfumes and 34% watches.

Both days were expertly moderated by Dermot Davitt, Executive Director and Deputy Publisher, The Moodie Report and John Sutcliffe, Consultant Director, ARIME.

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