

TRAVEL RETAIL: A MYRIAD OF OPPORTUNITIES

TOP TIPS ON HOW TO CONQUER THIS GROWING NICHE INDUSTRY AND CATCH PEOPLE DURING THE *GOLDEN HOUR*



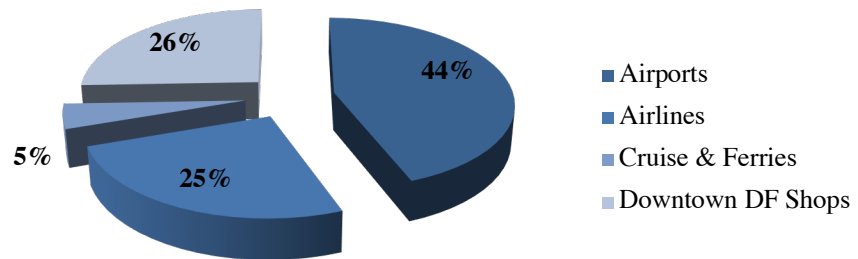
Travel Retail presents a plethora of both tapped and untapped opportunities that are so great, brands, especially in the beauty industry, cannot simply ignore. Each year, more than 15% of the global population (around a billion people) travel internationally spending the equivalent of a trillion US dollars. Referred to as the *sixth continent* and the *Formula 1 of retail*, the Travel Retail industry is a strategic market for the development and visibility of brands and contributes to the quest of a significant base of new potential consumers. TR gives the amazing opportunity to build customer loyalty throughout the world and gives direct access to entire continents. Travel Retail is burgeoning, as companies, whether large or small, new or well established are increasingly recognizing the value of the global shop window that our international gateways represent. Competition is getting fierce and brands are fighting more and more for the perfect spot on the shelves. Is your brand reaping success from the ever-growing Travel Retail market yet? To be able to make the most of this market, you need a good understanding of tourist traffic and the various cultural specificities and shopping habits typical to each location. Brands which have succeeded the most in the Travel Retail market were those able to identify

the best products and promotions to entice particular customers. Retailers must adapt their product ranges according to the specific type of customers and destinations. So what exactly can brands do at a strategic level to deepen the engagement with the traveller?

Overview of the Travel Retail Market

The Travel Retail market is divided into four distinctive market segments:

1. Cruise Ships and Ferries
2. Airports
3. Airlines
4. Downtown DF Shops



With 3.8 billion passengers expected in 2017, air traffic continues to constitute the bulk of the Travel Retail market. L'Oréal saw half of its sales volumes at airports in 2013, compared to only 30% in duty free shops located in city centers. Airports are gradually turning into glitzy shopping malls and there has been a significant shift in travellers' shopping habits thanks in part to the democratization of travel and the growth of the middle class traveller in emerging markets. Duty Free shops were once exclusively associated with alcohol and tobacco but mindsets have rapidly evolved with the development of more luxurious store spaces.

The world's first duty-free store opened in 1947 at Shannon Airport in Ireland and was aimed at passengers travelling between Europe and America whose flights stopped for refueling. The idea was an instant success and spawned number outlets in Europe, North America and Hong Kong in the sixties. Travel Retail has come a long way since then. Nowadays, luxury experiences dominate as opposed to the modest duty-free experiences of the past. As of 2017, beauty products account for more than a third of Duty Free shops total sales.



According to Euromonitor, sales of goods in airports, cruise ships and duty-free shops grew 9 percent last year to 55.8 billion euros and are expected to reach more than 100 billion euros in the next ten years. Cosmetics such as perfume, skin creams and make-up were the biggest category, accounting for around 30% of Travel Retail revenue last year. L'Oréal largely dominates the travel retail market with a market share of 21.6%. Rivals such as luxury giant LVMH (Guerlain, Dior, Givenchy to name just a few) are pushing hard to compete. The global value of Travel Retail is set to reach 80 billion euros by 2020 and sales at airports will grow by 73% over the next 4 years. In 2015 alone, Chinese spending during outbound travel grew by 53% and in South Korea duty-free sales grew by 33% to 9.5bn euros in 2016.

The Travel Retail consumers are global shoppers: they are not only purchasing where they live but wherever they are, both in their local and destination markets and when travelling. To meet with the aspirations of these travellers, brands must adapt their approaches, according to languages, cultures and beauty rituals. Lancôme, for instance, offers exclusive products to celebrate the Chinese New Year in Waikiki (Hawaii), where numerous Chinese customers travel.

The Travel Retail customer is typically looking for all-time favourites such as perfume, whisky, cigarettes and candies. However, people are also eager to purchase new products with innovative features. It is a chance to show off to people who may become your best customers when they return home. What customers are really looking for is an uncomplicated buying process with low required assistance (no bespoke or size-wise complicated products). Travel sets are also a must.

It seems that shopping is integral to the travel experience with customers from emerging markets including China and Russia spending more on luxury goods than incoming tourists to their countries.

Luxury brands now consider travel retail an important part of their business strategy and have made significant investments to ensure they are carefully positioned in the best terminals to take advantage at its best of travellers purchasing power.

Megabrands, whether its beauty or fashion, can be found in the world's busiest and top-grossing international airports in Dubai, Singapore, London and Hong Kong to name just a few.

Drivers of success in the Travel Retail Market

It is important to emphasize the fact that Travel Retail provides great new opportunities for brands to engage with consumers. Due to a drastic increase of international travel, shoppers have a sufficient amount of time to buy from DF shops. According to *JC Decaux*, 83% of people surveyed consider shopping as a major part of their trips abroad. Today, a myriad of products ranging from fine food to high-end clothes and from electronic goods to luxury cosmetics can be shopped at a Travel Retail distributor. The *Golden Hour* or the time between clearing security and boarding a flight is often the promise of duty free discounts and travellers dread their transit time a lot less than they used to do in the past.



Travel Retail is extremely useful as it is a major data lab for brands wanting to experiment. In fact, airports, flights and cruises have become large sources of data. Thanks to the latter, brands are able to better prepare for international arrivals, ensuring that speakers of the right languages and cultural sensitivities will be on hand. Stores can all the more change their shop displays to suit the national tastes of travellers passing through. Personalization is key.

Travel Retail is also an extremely effective way of increasing brand awareness. More and more brands are investing large amounts of money hoping to raise their profile with potential consumers in emerging countries, even when these targeted consumers may not purchase the brands in their domestic market. According to a recent study by Deloitte (*Global Powers of Luxury Goods*) consumers' appetite for

foreign and luxury brands is greater when they are travelling especially in more developed markets where the product selection is wider and where prices are more advantageous (no import taxes).

Bear in mind that customer engagement is higher with travellers than it is with the average consumer. In fact, travellers or *captive audience* are more receptive to marketing messages and advertisements as they have no other choice than to see it. When travelling, people are always on the lookout for entertainment, making the waiting time to go by more quickly.



Among the biggest drivers of Travel Retail success we can identify:

- Generating temptation
- Engaging the customer through senses
- Outstanding customer service
- Qualitative shopping environment
- Unique selling proposition
- Journey satisfaction

Travellers often have little time available in the travel hub and they usually know from the start which retail outlet or brand are worthy of visit versus those who do not merit their consideration. Moreover, Travel Retail purchases are often the result of impulse meaning that it is imperative from brands to generate temptation and win the attention and engagement of the customer. To do so, brands must emphasize on their store presentation and novelty and come up with eye-catching displays. Moreover, a sense of intrigue and connection with the brand has to be established. The staff approach, brand story telling, retail environment and location all play a major role. The shopper should feel special and it does not all come to making the product look different. The buying experience must go beyond the single product and customers must be blown away.

Travellers often feel lost because of the never-ending choice of brands and products available. In other words, the Travel Retail environment is seen as clustered. Stimulating shoppers' senses in subtle and

obvious ways and tapping into their emotions via sound, smell or visuals will increase their willingness to buy from your brand. As mentioned above, the Travel Retail environment is extremely busy and competitive: if a shopper is not happy nor satisfied he/she just needs to take a few steps and buy from your competitor. Moreover, many travellers do not intend to buy in the first place, they are just looking around to kill time in between flights or on board. The way the salesman behaves and engages with the customer is essential and one must always remember to adapt to the customs and cultural beliefs of its clients.

Excellent retail environment cannot be underestimated. Shoppers seek for value and for a long time, Travel Retail has been synonym of good deal. Buyers want the price/quality ratio is relevant. Savings often lie at the centre of the shopper's decision to purchase or to choose one brand versus another.

The problem is that with so many products and promotions in such a small area, the challenge for retailers and brands is ensuring that the customer feels that he/she is benefiting from something else that just the transaction price. Miller Harris is an excellent example of a brand, which was able to successfully put into, practice all of above. The brand proudly managed to shift consumer's attention from the price to the product itself and the intangible benefits it offers by delivering a superb retail experience and customer service (e.g. the packaging, the gift box, the interactive displays).

The Travel Retail Market, a major battleground



Even though Travel Retail represents many untapped opportunities, brands wanting to expand in this particular market will have to face a number of tough challenges such as:

- The limited windows of opportunity
- The savvy-ness of travelling shoppers
- The contrasting travelling shoppers
- The exchange rate variations
- The disparate political environments
- The unique shopping proposition at destination
- The consumer perception of the environment

Travel Retail can be considered a major battleground in the sense that travellers are rarely passing through for a long period of time so brands must be quick and effective when generating purchase conversion. Today, there are so many distribution channels where a customer can get its product whether it is a supermarket, a department store or an e-commerce so Travel Retail has to propose a USP and set itself apart from mainstream competition by offering to its customer the “X Factor”.

All of the Travel Retail difficulty can be intensified due to exogenous factors. The political environment can have a drastic effect on the TR purchases. Let’s say that security is heightened due to rising terror attacks. This means longer queues and slower security checks that undermine traveller’s disposition and opportunity to shop. Travellers’ inclination to shop is greatly affected by the difficulties encountered during their journey.

Brands need to keep in mind that shopping at an airport or on a flight is not only a question of getting a good deal anymore. Brands must engage with the customer, create excitement and provide a tremendous shopping experience; one that exceeds expectations and that is superior to what is available on the high street (e.g. to appeal to higher-end customers who tend to stick to airport lounges, Heathrow Airport has recently launched personal shopping service). Don’t forget that airport assortment is narrow. Hence, brands have to present themselves more invitingly in terminals. They must also be able to adapt the way they address to their international base of customers and take into account cultural sensitivities. For instance, Brazilian women are happy to have a perfume spritzed on their bodies whereas you would have to use a tester with Chinese consumers. Shop displays need to be reconfigured to suit national tastes as well.

International shoppers are spending more on luxury goods when they travel overseas than in domestic markets. Thus, brands should not ignore the ever-growing opportunity that Travel Retail represents. Beauty is the driving seat of Travel Retail because products can easily be marketed as “on-the-go” items due to their size. Creating travel categories is now a common practice. Travel-sized products or ‘minis’ allow travellers to purchase smaller versions of full-size products and people love it. Beauty brands take advantage of Travel Retail by promoting exclusive products to be sold exclusively in certain airports. In

2015, Sephora opened a pop-up store in Dubai Airport in collaboration with DFS and offered exclusive products available only to travellers flying from that airport. DF shops offer opportunities for companies with large brand portfolios to diversify and market their brands to new audiences. Their unique retail positioning allows them to promote and test brands and products that may not yet be available in local stores. According to the World Travel & Tourism Council, despite terrorists, epidemics and recessions, travellers have not been deterred nor will be in the near future. In fact, since 2009 sales of Travel Retail have grown by more than 12% a year. Half the growth comes from a rise in the number of passengers, especially from countries newly gripped by wanderlust such as China or Saudi Arabia. Travellers have an increasingly greater appetite for shopping on the go and retailers' are developing skills to feed it. More people are travelling each year and it is expected that there will be 9 billion passengers by 2025. It is therefore imperative that retailers positioned in international airports continue to adapt in order to deliver exceptional experiences and relevant products for the travelling customer. Travellers have many engagement points during a typical travel experience - hence the power to engage and convert passengers into shoppers is a fascinating yet complex challenge.