

**Dufry AG**

## Airport retailers look to make every minute count

Duty-free operators eye new ways to encourage time-pressed travellers to spend



Travellers are spending less time in airports, which presents a challenge to duty free retailers © FT montage

Ralph Atkins in Zurich and Don Weinland in Hong Kong AUGUST 4 2017

Any harried passenger knows that minutes count at airports. They matter, too, for airport retailers.

For many air travellers, shopping for duty-free products from perfume and whisky to luxury goods is a part of their trip overseas, while others may feel bombarded by the retail offering. In fact, says Julián Diaz, chief executive of Switzerland's [Dufry](#), the world's largest travel retailer by sales, "only 16 per cent of the passengers going through an airport buy something".

The challenge facing Dufry, which in 2015 [acquired World Duty Free](#) for SFr3.8bn, and its main rivals is to increase sales generated from passengers in the time before they embark on flights, as well to profit from shifting traffic flows.

[Dufry this week reported](#) annual, like-for-like sales growth of 8.9 per cent in the three months to June, its fastest rate since late 2011, to SFr3.8bn (\$3.9bn).

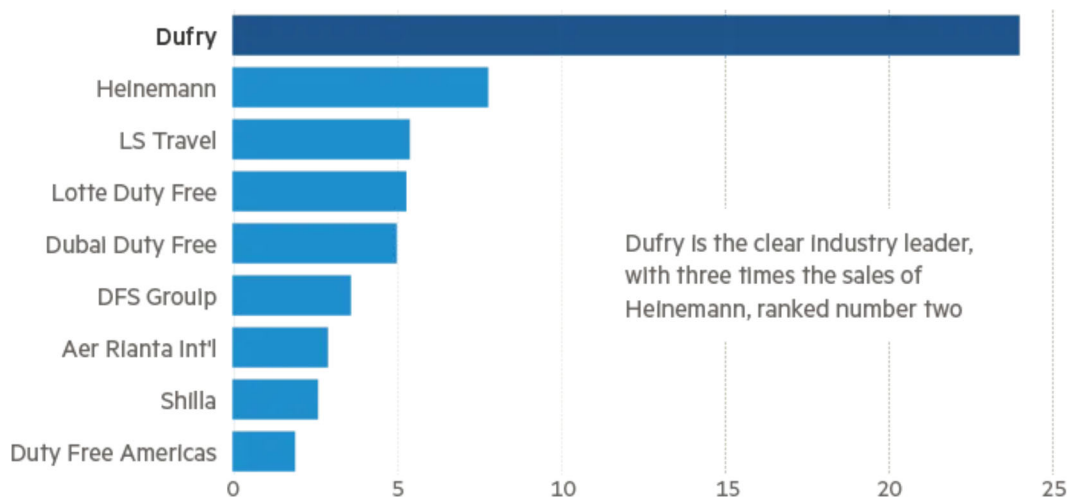
That was partly the result of strong growth at UK airports, where a weak pound has meant bargain prices for overseas visitors.

Another powerful force was the increase in global air travel. There has been a "complete turnaround" during the past six months in the number of travellers from China, Russia and Brazil,

says Mr Diaz. The previous 18 months have been “the toughest period of time”, he adds. “Now the situation has normalised tremendously.”

## Leading global travel retailers

Worldwide revenues, 2014 (\$bn)



Source: Dufry  
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The global duty-free industry is expected to grow to about \$67bn by 2020, from an estimated \$45.7bn in 2016, according to Dufry. It forecasts that Asia-Pacific will be the fastest-growing market in airport retail sales during the next five years, with sales in 2020 at levels almost double those of 2014.

Chinese travellers offer the best growth potential. “There is no new nationality in sight to take over from China in the next 10 to 20 years,” says Philippe Schaus, chairman and chief executive at Hong Kong-based DFS, the third-biggest duty-free operator by sales and part of [LVMH](#), the luxury group.

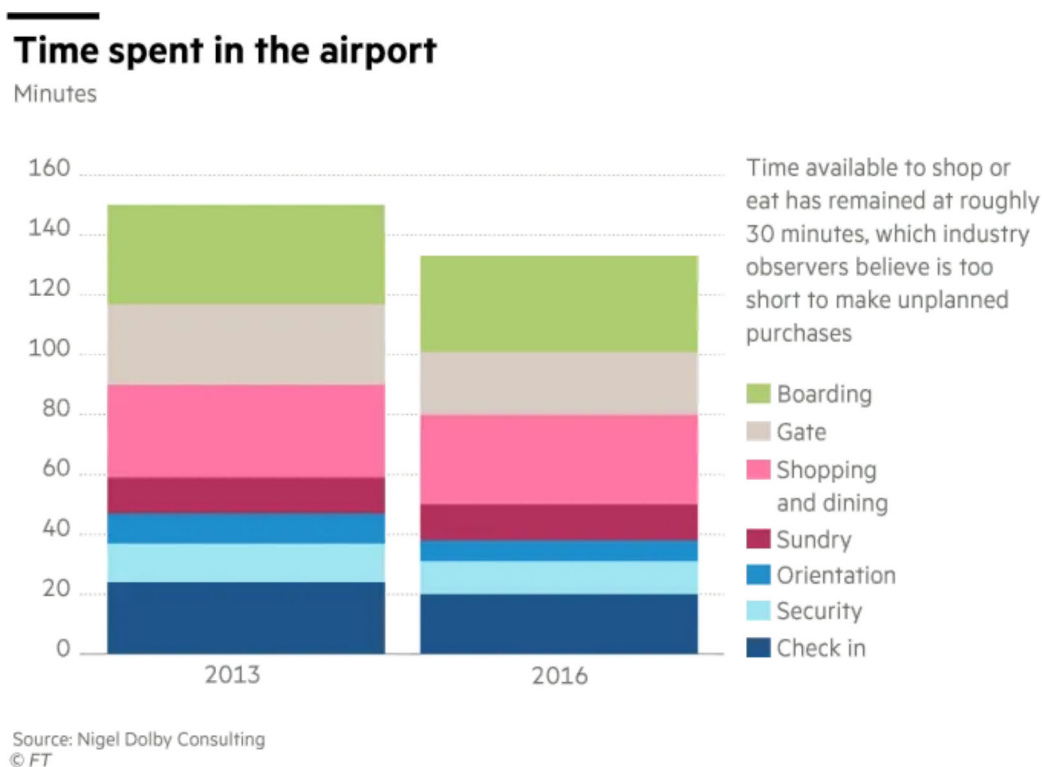
“It’s not Indonesia, it’s not India, it’s not Vietnam. All these countries have positive dynamics but they are so far away from the consumption patterns we are seeing in China,” he says.

Distressingly for airport retailers, however, spending per [Chinese traveller](#) is falling. Mr Schaus says this is linked to “the economic situation, currency devaluation [and] possibly partially the anti-corruption [campaign]”. But, he adds: “At the same time, we should not think that Chinese people travelling on budget trips are low spenders. They can be very big spenders.”

Globally, the average time spent at an airport — from arrival until an aircraft’s doors are closed — was 133 minutes last year, down from 150 minutes in 2013, according to Nigel Dolby, a commercial consultant to the airport industry. As passengers become more familiar with flying, they arrive later at airports.

Because airport processes, such as security and check-in, have become quicker, the time available to shop or eat has remained at roughly 30 minutes over the same period. That may be sufficient time to shop for pre-planned purchases, “however, 30 minutes is not enough to maximise the potential for additional impulse sales, which is where the growth opportunity sits for airport shopping and dining”, says Mr Dolby.

To maximise sales, Dufry is using technology to communicate with customers before they arrive at the airport and to team up with airlines to pitch ideas to customers as flights are booked. “The most difficult thing in this business has been historically to contact customers before they get to the airport and when they are sitting down in the corridors,” says Mr Diaz.



But airport retailers face a number of obstacles. One is that if passengers can shop online at home, they may start shunning retail outlets at airports.

Another is that they have already taken significant steps towards boosting sales — for instance by pushing “walk through” formats, which oblige travellers to pass through duty-free shops after security.

“After seven quarters of negative growth prior to mid-2016, Dufry has a lot of catching up to do. But as a retailer, it is already considered ‘best in class’,” says Jaafar Mestari, leisure analyst at JPMorgan. “Can you really improve the concept further?”

What is more, concepts such as “walk through” could mean “travellers end up resenting duty-free operators and airports”, warns Henry Harteveldt, president of Atmosphere Research, a travel

industry analyst. He suggest airports follow the high street trend towards “pop up” shops, which would open only for a limited period, their novelty attracting time-pressed customers.

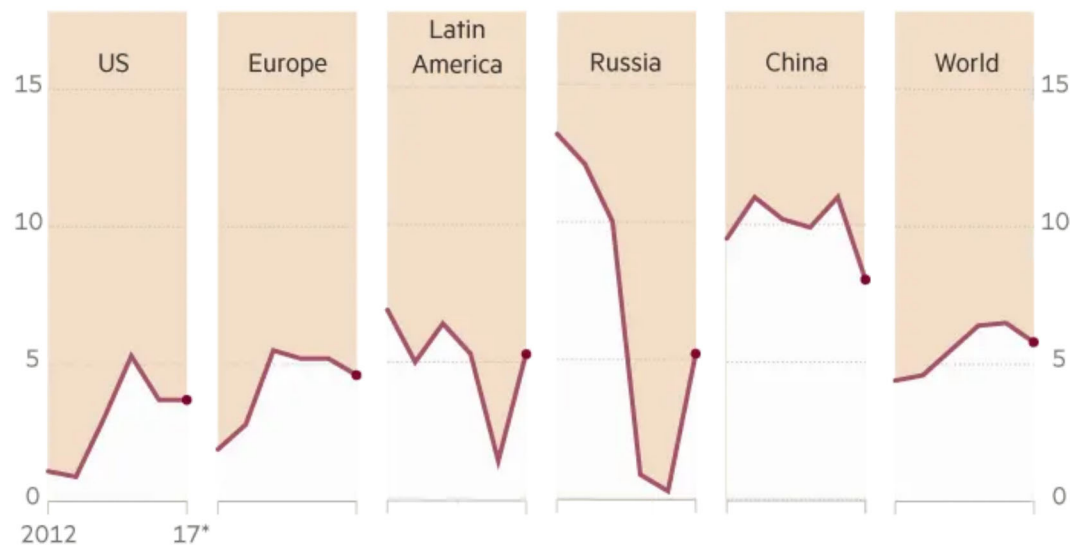
Another threat is shifting traffic patterns: as passenger numbers ebb and flow from destinations, operators can find themselves with stores in the wrong place. Dufry’s sales have been hit in recent years by the group’s exposure to Latin America, [especially Brazil](#), which has suffered its worst recession in history during the past three years. But the UK’s [planned exit from the EU](#) should boost sales opportunities if more goods can sold duty-free.

Lotte Duty Free, the South Korean company what is the world’s second-biggest operator in the sector, has had to weather the impact of a [boycott by Chinese tourists](#) after the deployment of the US’s Terminal High Altitude Area Defence system this year. The Korean market has seen a double-digit slump in duty-free sales as a result, according to DFS’s Mr Schaus.

Meanwhile, the election of president Tsai Ing-wen in Taiwan — which China considers its sovereign territory — has also hurt sales on the island. Ms Tsai’s party favours autonomy from China.

## Airport passenger traffic growth remains healthy

Annual % change



Source: Airports Council International Europe  
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\* 2017 to 2020

“This is very volatile. What I’m telling you now, I could be telling you the opposite in a year from now depending on how things move,” says Mr Schaus. “When one destination is suffering, like Korea, some of the flows of tourists diverge to other destinations.

“The overall picture is one of modest but stable growth — but also one with different geographical disruptions.”

Dufry, meanwhile, faces internal distractions. Acquisitive Chinese conglomerate HNA Group, which has interests from airlines to finance, plans to buy a 16.8 per cent stake — although the transaction has not yet been confirmed. Swiss luxury group [Richemont](#), whose brands such as Cartier rely heavily on airport sales, has also acquired a 5 per cent stake in an apparent effort to ensure “window space” for its products as air travel expands.

Mr Diaz says working groups have been formed to discuss possible synergies with HNA. “The strategy of vertical integration in the tourism sector is obviously very relevant,” he says. So far, however, HNA has not indicated whether it would consider a full takeover, or even expect a seat on Dufry’s board. That could depend on the strength of [HNA’s complex finances](#)— as well as the outlook for duty-free sales.

*Additional reporting by Jung-a Song in Seoul*

## Chinese spur spending

In the world of travel shopping, the Chinese tourist is king, *writes Don Weinland*.

In just a few short years, spending by Chinese travellers expanded to capture more than 20 per cent of the global market travel spend of \$216bn in 2016, making the cohort the world’s biggest spender on travel, according to the UN World Tourism Organisation. Last year alone, about 135m Chinese citizens left their country for leisure, many intent on stocking up on foreign goods before returning home.

In response, tour companies and duty-free shops the world over have hired Chinese speakers to help operate their businesses. It has become common to hear luxury bag sales in Paris conducted purely in mandarin.

Travel retailers are now homing in on the Chinese tourist dollar in the years to come. “Over the next five years, we expect Chinese tourists to spend an incremental \$453bn on overseas travel,” CLSA analyst Oliver Matthew wrote in a recent report. “This will be a huge windfall for those offering products and services that meet their needs.”

But tastes and spending habits among Chinese travellers have also become increasingly difficult to predict. Determining the flow of Chinese tourists in Asia over the next five years is a guessing game, says Mr Schaus of DFS.

For example, few would have predicted that a political row between China and South Korea would lead to a slump in inbound tourists this year. CLSA says that inbound traffic fell 66 per cent year on year in April this year. Although China and Japan have experienced a series of diplomatic and territorial disputes over the past five years, tourism spending in Japan remains strong.

Chinese tourists may also [spend less on shopping](#) during their trips in the future. Average spending by Chinese travellers on goods such as cosmetics and luxury clothing declined to 53 per cent of overall spending last year, from 57 per cent the year before, CLSA data showed. Spending on meals and accommodation is up.

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