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# Airport retail in 2017: A year in review

Pragma Managing Director, Airports, Travel & Commercial Spaces  
Alex Avery looks back on last year's main trends in airport retail,  
and presents three key themes for 2018.



In the context of a challenging retail market on the high street in many mature economies around the world, how did airport retail fare in 2017?

In general, it was a good year for the industry with absolute retail revenues increasing across many airports globally. However, when looking at the drivers in more detail, this was largely caused by rising passenger numbers. Spend per passenger didn't grow, and in many cases, it remained stable or declined.

This will have been in part due to the phenomenon of lower income

passengers typically being the growth drivers of increased passenger volumes, such that their lower spend per head dilutes the overall figure as absolute volumes grow. Perhaps it is also reflective of evolving consumer behaviours and the challenges that retailers in all markets are facing, both downtown and in airports. These are principally capturing footfall and getting customers to cross the threshold into their stores, when online purchases provide a more convenient channel.

Despite some challenging headwinds,

we saw UK international airports performing better, supported by a post-Brexit weaker Pound. Other European airports though were negatively affected. London Heathrow Airport reported an impressive +11.8% retail revenue increase to £313 million (US\$423.4 million) in the six-month period to 30 June 2017. London Gatwick achieved +8.3% growth in retail income in the six months to September 2017. Manchester Airports Group reported an increased retail income of +14.3% for FY2017 driven by improvements at both Stansted and Manchester.

Strong performance: Retail revenue was up significantly at Heathrow Airport in 2017





Mixed results: Frankfurt Airport reported an overall rise in retail revenue for 2017, but a less favourable picture for net retail income per passenger



**Rising passenger numbers and changing composition**

Growing passenger numbers drove airport retail's strong performance in 2017 – tied to the chain of lower oil prices, cheaper tickets, and route expansion. In addition, the low-cost model continued to evolve, with easyJet and Norwegian offering passengers the convenience of single purchase interconnectivity and transfers, opening up new value propositions for longer haul travel.

General socioeconomic trends played a role too. The growing size of middle classes in developing and newly industrialised countries, especially China, was a key factor. China is the biggest source of outbound tourists in the world, with 122 million travellers in 2016. Examples of the impact in markets such as Australia are significant, with Chinese overseas visitor arrivals set to overtake New Zealanders as the number one source of inbound arrivals, with visitors set to increase +26% year-on-year. Fast-growing Chinese passengers continued to increase their proportional share at Sydney Airport. Its impressive new retail offer and enhanced luxury proposition reaped the benefits, reporting a +12% rise in retail revenue for FY2016.

By contrast, the Lotte Duty Free concession at Incheon was heavily impacted by the reduced proportion of Chinese visitors, following the tourism issues resulting from the THAAD dispute between China and South Korea.

Frankfurt Airport also reported an overall rise in retail revenue for 2017, but a less favourable picture for net retail income per passenger. This was in part due to faster growth of European routes and the associated passengers that tend to spend less than long-haul intercontinental travellers.

The challenge for many airports globally will be managing their dependence on particular nationalities, in the face of increased global volatility.



**Regulations**

The core duty free offer globally continued to experience challenges, in part driven by the imposition of stricter regulations concerning the sale of tobacco products and the introduction of plain tobacco packaging in May 2017. According to the European Union, the new rules are in place to try and reduce the number of smokers across the bloc by 2.4 million.

Beyond the challenges of regulation alone, evolving consumer behaviour also presents headwinds for the sector. Statistics from the UK government showed that the proportion of adults saying they drink alcohol was at its

lowest level since 2005. Young people aged 16-24 are less likely to drink than any other age group.

Given the significant contribution that both tobacco and alcohol sales make for duty free operators and their airport business partners, the industry needs to work hard to evolve the product offer and mix to meet the changing consumer habits and the regulatory environment, and reduce the reliance on traditional categories.

**High performing brands**

In terms of the retail categories themselves, 2017 saw interesting developments across a range of formats.

High street brands such as WHSmith saw their revenue in travel overtake the high street for the first time. Profit in the segment grew +10% to £96 million (US\$130 million), accounting for over 60% of group trading profit, driven by a presence in 45 airports across 25 countries. Part of the trading success was attributed to improved in-store concepts.

Travel similarly represents a key part of other brands' strategies. Highly successful fresh food brand Pret A Manger achieved global group sales of £776 million (US\$1.05 billion) in its FY2016 results. Some 16%, or £124 million (US\$168 million), was delivered

by the airport and train station portfolio. Pret's unit at London Heathrow's Terminal 5 generated the highest sales of any unit globally. This presence is likely to be further bolstered in 2018, following an agreement with Autogrill to open more stores in North America and Europe.

While Pret undoubtedly delivers a fantastic concept for travel retail environments, last year's success for both Pret and WHSmith will have been supported by the continued rationalisation of the onboard airline food proposition. More major global carriers, such as British Airways, chose to remove free meals on short haul

flights last year, increasing customer demand for grab-and-go at the airport.

An emerging sector in airport retail is the delicatessen and souvenir food concept stores. Shops that present a strong local influence, unique proposition and offer items particular to the destination provide a compelling reason to purchase across customers of all demographics, incomes, and nationalities. Singapore Changi, for example, expanded its offerings in this category with the introduction of brands such as Taste Singapore and Asia Favourites.

Beauty too went from strength to

strength, with established players such as Estée Lauder achieving double-digit travel retail sales growth. Beauty has struggled to deliver significant online sales growth to-date, due to customers' preference to test the product, as well as the smaller average transaction values for individual units. The travel retail proposition therefore presents a highly attractive environment to capture the attention, provide testing opportunities, and build brand presence. This is particularly crucial when footfall to downtown department stores – traditionally one of the key sources of customer engagement in the beauty market – are on the decline.



**Upward trajectory: Fresh food brand Pret A Manger will continue its expansion in airport retail in 2018**



Thinking ahead: An impressive new retail offer at Sydney Airport is leading to higher revenues



### Innovation in airport retail

While real innovation in airport travel still has a long way to go, 2017 saw the top performing airports introduce stellar pop-ups and experiential stores to encourage passengers to interact more with the retail offer. We've also seen a big focus on making shopping as efficient and convenient as possible via multi-channel offers, allowing passengers to pre-order their purchases together with complimentary home-service delivery.

Technology has enabled this further to both create unique experiences and make shopping more convenient. Hong Kong International Airport, for instance, introduced an array of retail innovations, including pop-up stores showcasing new retail categories such as drones and aerial photography systems, and a beer truck. Its retail environment was also enlivened with virtual reality exhibitions, a 360-degree selfie experience and interactive screens.

Alongside e-commerce, virtual reality and augmented reality are transforming the passenger retail experience. Heinemann Duty Free launched an augmented reality shopping promotion at Berlin Schönefeld Airport in the run-up to Christmas.

### Defining the passenger experience

Possibly the most eagerly awaited new terminal development for 2017 was the arrival of T4 at Singapore Changi. A fantastic new experience for consumers, notable features include components such as the Heritage Zone, inspired by Peranakan shophouses nestled around Singapore, housing familiar traditional brands with heritage-themed facades, interior design and furnishings to invoke a sense of nostalgia.



**Looking ahead to 2018**

In the context of the challenges and trends experienced in 2017, what can we expect to see in 2018? We believe there are three key themes:

- **Vice to vitality**


Traditional categories that have upheld airport retail to date, such as tobacco and alcohol – the ‘vice’ categories, will continue to be challenging. They will be pressured by both government and global regulatory bodies, as well as a more health-conscious consumer. This trend can be expanded into F&B and airport leisure requirements too, as consumers increasingly seek higher quality propositions, ‘me-time’, and experiences that enhance productivity and well-being.

- **Crossing the threshold**

With retail footfall on the high street continuing to suffer, retailers across all channels face the issue of getting customers to cross the threshold into their stores. Only those that offer a genuinely eye-catching experience, environment, and enhanced proposition will succeed in moving customers’ eyes from their phones to the shop windows, to hope their feet then take them into the store.

- **Flexible formats**

While capital investment costs and contracts can lead to airport retail units being fixed for 5-10 years, the passenger profile and customer demand can change overnight, with global trends becoming increasingly volatile around the world. Retailers will need to work harder to react faster to adjust their product offer to changing demands. Airport operators need to take risks to increase the flexibility of their space and programming to better accommodate retailer requirements.

Look out for a follow-up article in which Alex Avery will dig deeper into key airport retail trends for 2018. For more information on Pragma [click here](#). 

Enhanced presence: WHSmith's travel division was a key driver of growth in 2018

