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GLENN KAUFFMAN IN DUBLIN

# It's time for Africa

*Glenn Kauffman explores the future of African duty free markets*

**A**s businesses look for Africa's tourism and natural resources to be the engine that drives future growth and prosperity on the continent, existing duty free retailers look to that prosperous climate as a reason to expand their operations and justify new ventures.

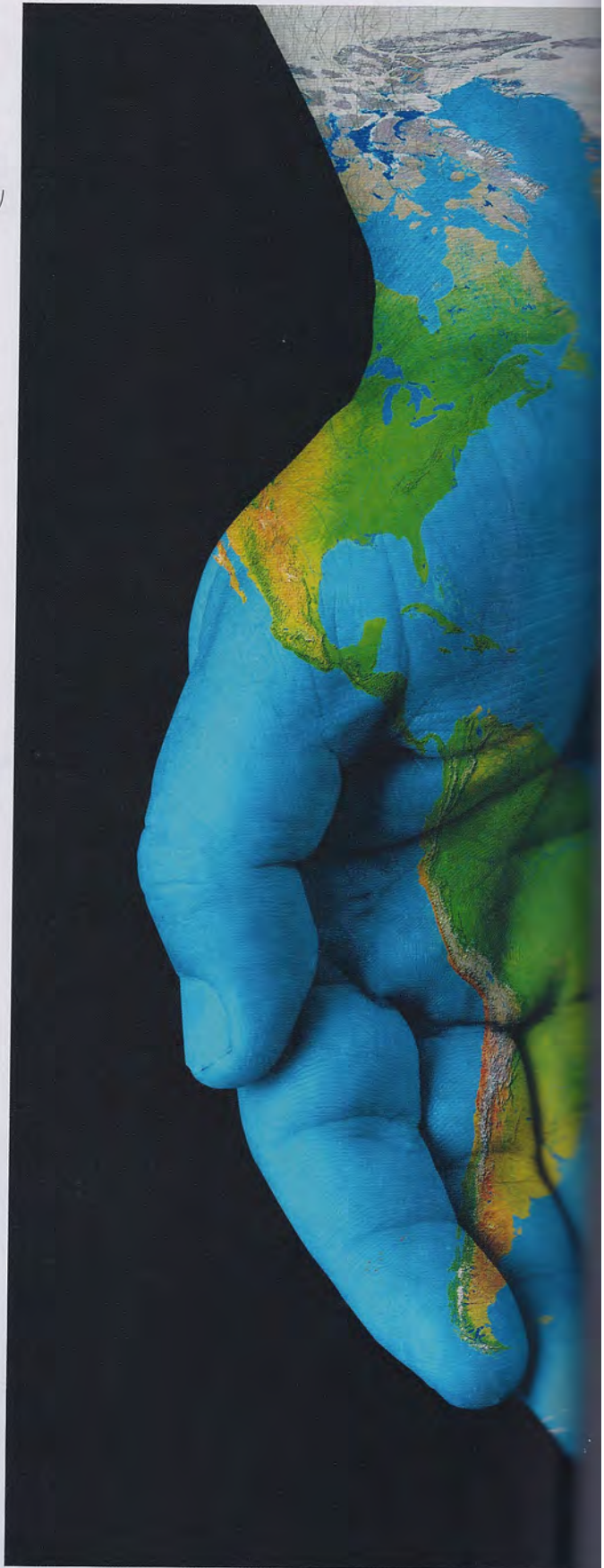
But where there is potential, there is also risk. While passenger numbers are up in many parts of Africa, the viability of expansion in Africa's duty free markets is still a waiting game.

For signs of potential African duty free expansion and development, one need look no further than the Middle East. According to the MEDFA (Middle East Duty Free Association) website, in February 2013 the organisation elected to "embrace Africa". In the words of the renamed MEADFA's (Middle East & Africa Duty Free Association) newly elected president, Sean Staunton, this move "formalised the inclusion of African travel retailers, as that was the next logical step" for an organisation that "has had members from the travel retail industry in Africa for many years".

## A LITTLE HELP FROM YOUR FRIENDS

It's hoped that this move will promote synergies and knowledge sharing between retailers and suppliers in both regions. Existing African duty free concerns and those wishing to enter the market may find it useful to connect with suppliers, warehousing, and transport providers based in the Middle East who have already established service into and out of Africa. This newly formalised MEADFA connection may also give Middle Eastern operators (and existing African enterprises) an opportunity to acquire country-by-country knowledge of the African market, a notably complex sector that resists broad regional generalisations. But what are the requisite tools for entry into emerging duty free markets, particularly ones as challenging as those in Africa?

Most duty free retailers cite a comprehensive understanding of each airport's (or route's) passengers, including their economic status and buying patterns, as being central to development of the ideal product mix. Additionally, MEADFA's Staunton refers to "the relationship between airport, retailer and supplier" as





"the trinity in travel retail", and believes that it will be one of the keys to overcoming challenges in Africa's emerging duty free markets.

Gauging the affluence and purchasing needs of customers is a given. But unless local authorities have sanctioned duty free on arrival, these calculations depend less on understanding local economics and gifting culture than they do on understanding the buying patterns of departing duty free customers, who will be predominantly non-local.

Reflecting on the rapid development of some Asian duty free sectors in recent years, and the general priorities of developing duty free markets, Michael Barrett, the executive officer of APTRA (Asia Pacific Travel Retail Association) states: "It's about understanding who your passengers are first and foremost." Barrett further comments: "Obviously getting a retail environment, and an airport environment that cater to the modern traveller is also important."

That said, duty free expansion in Africa should not be viewed as exclusively new site development. Many countries already have well-established retailers and suppliers. Michael Payne, executive director for the International Association of Airport Duty Free Stores (IAADFS), a duty free advocacy and support trade organisation, points out: "You have really beautiful duty free shopping in Egypt and Tunisia; and there are other examples." While positive on the surface, Payne's statement begs the question: why have retailers felt comfortable enough to move into some African markets, but not others?

Payne addresses that question when he tells us: "They (retailers and suppliers) are unlikely to want to go and put resources in and develop stores that are for a two-year contract." For this reason, it's critical that airport operators, and the associated governmental entities recognise that growth of duty free markets will largely be a function of aggressive infrastructure development. This development must include generous space for commercial endeavours, progressive/transparent licensing, arrival and departure duty free allowances that incentivise purchase, and runways and facilities that allow for passenger volumes sufficient to sustain the system over the long haul. But how long will this level of development take?

### **AFRICA'S MARKET POTENTIAL**

This question seems particularly apt in Africa, a region that is perpetually hailed for its "coming" development. But investors won't wait forever, and further questions of how, when, where and, most importantly, who will be the focus of that expansion have yet to be answered.

In answering the question of whether Africa's duty free markets are ready to expand, Paul Topping, global director at Flemingo, a duty free retailer with stores in



## Without a steady, forward-thinking hand in government, business travellers and retailers will speculate elsewhere, and tourists will spend their money in South Africa

numerous African countries says: "In Africa you can't treat every country in the same way. They have different traffic, different spending appetites, different political issues, different safety levels and security issues." That there is potential for growth in Africa seems certain; knowing where that potential lies is the trick.

In 2011 *The Economist* reported that between 2000 and 2010, "six of the 10 fastest-growing countries in the world were African". They go on to say that much of this growth is the result of emigrants who sought

jobs and training overseas but have returned now that multinational businesses have begun offering jobs to skilled workers who know the culture and region. While the creation of quality jobs filled by returning native sons and daughters creates a bit of a chicken and egg problem, the immediate result may be an increase in income across the board.

### IDENTIFYING THE CUSTOMER

This increase in wealth often translates into higher passenger volumes both out of Africa and from place to place throughout the continent. But returning African passengers buying duty free on arrival, and the economics of intra-Africa passengers is currently a relatively small variable in the duty free equation. Assuming that tourism and Africa's outlook as a magnet for global investment drive the majority of existing air travel, it's crucial that retailers understand the dynamics of arriving non-African passengers. Where do they come from, and what are they likely to buy as they pass through duty free concessions on their way home?

Many destinations in Africa have seen an increase in passengers, making the continent a magnet for duty free retailers looking to expand their businesses

## “You have really beautiful duty free shopping in Egypt and Tunisia; and there are other examples”

Michael Payne, International Association of Airport Duty Free Stores



According to the Airbus Global Market Forecast released in 2012, since the year 2000 Africa's passenger volume to/from Asia has grown by 126%, travellers to/from the Middle East have increased by 300%, and traffic to/from the former Soviet states has risen by 584%. Knowing that Asia has a strong gifting culture and a booming middle class (as does Russia), coupled with the fact that affluent Middle Eastern passengers tend to have a sophisticated understanding of duty free shopping, passenger trends seem to indicate that affluence and interest will favour Africa's expanding duty free markets.

But expansion in Africa may be about more than emulating the retail opulence of Shanghai and Dubai. If Airbus' numbers are to be believed, 81% of their African sales in the coming two decades will be single-aisle and small twin-aisle aircraft. That could signal an increase in market share among LCCs (low-cost carriers). If that's the case, retailers could be looking at higher volumes, but smaller individual purchases (more \$50 bottles of whisky and fewer \$2,000 watches).

That Africa has expansion potential seems certain, but coaxing that potential into growth may prove difficult.

### NOT ALL GOOD NEWS

While many speculators have pointed to Africa's untapped natural resources for years, and giddy businessmen have joined the millions of tourists who flock to the continent each year, before they commit resources to Africa, retailers and suppliers want to be assured that this business and tourism traffic is developed by entities who are building for the future, and not by those looking to take the good and leave. This raises genuine concerns about the authenticity of infrastructure development in Africa.

A 2010 *Financial Times* article reports that with regard to Africa meeting its development goals, former UN secretary-general Kofi Annan contends that: "Much of the progress is occurring despite government." William Wallis, the article's author, interprets this to mean that: "There is still a huge deficit in accountable leadership and a strong risk that a chance to boost social and physical infrastructure could be squandered." Wallis goes on to cite JH Mensah, a former finance minister from Ghana who asserts: "In period after period, we had the opportunity to save our surpluses and invest in increased productivity. Instead we consume."

Without a steady, forward-thinking hand in government, business travellers and retailers will speculate elsewhere, and tourists will spend their money in South Africa, or in other stable, established, destinations. Fleming's Paul Topping reminds us that: "You only need one airline to move out of a small airport and you don't have enough volume to do business." If Africa's future does lie in low-cost carriers and intra-Africa

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*Paul Topping, Flemingo*



travel, the mainstay of African duty free may well be efficient, well-designed small to medium-sized airports, where sustained passenger volume will be vital.

Steadily growing tourism numbers, and the promise of growing business markets point towards expanding air passenger traffic throughout Africa. Accordingly, the way

forward for duty free markets in Africa looks promising, yet uncertain. For retailers and suppliers looking to expand their share or enter the market, understanding the passenger profiles of inbound non-African travellers will be key, as will assessing the unique safety, security, and commitment levels of individual countries.

For duty free retailers, understanding the needs of the different passengers using Africa's airlines and airports is key to developing the right products.