

Airport Shopping Takes Off

Non-aviation is big business for airports and retailers

Airports are not solely geared toward handling passengers and baggage. The non-aviation business—including shopping, dining, parking, and advertising—is constantly expanding as a vital source of revenues. The opportunities to develop a presence in these markets are definitely attractive for retailers, brand manufacturers, and caterers. But before jumping in, it is important to know which business models work best in which situations. Airport retailing is not like high-street retailing.

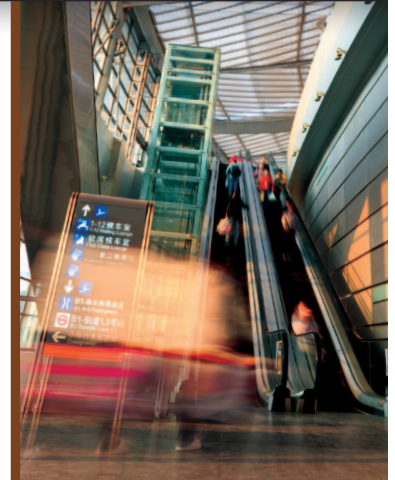
Non-aviation business refers to everything at airports not directly related to air travel, such as retail trade, catering, parking, and advertising. Airports have recognized the opportunity to boost both revenues and profits with the help of the non-aviation sector and, as a result, have significantly expanded the areas dedicated to retailers and restaurants. Even airports not initially designed or built with retail areas in mind have since managed to develop a retail presence. For example, Frankfurt Airport now has 570 square meters of non-aviation area per 1 million passengers, while London Heathrow has 1,050 square meters per 1 million passengers. Both airports plan to expand even more (*see figure 1 on the following page*).

The expansion into non-aviation is accompanied by more diverse retail concepts, particularly in fashion, wellness, and beauty. In the fashion sector,

premium and luxury formats have been supplemented by the mainstream segment—illustrated by the Accessorize store in Munich and Zara in Barcelona. Wellness and beauty outlets are found at numerous airports and work particularly well at those with a large number of transfer passengers. The Be Relax wellness brand, to name one, is represented at nine airports in Europe. Beauty products are now sold in mono-brand shops in addition to duty-free stores.¹

Rising Expectations for Shop Owners

Not only has the number of non-aviation areas risen—airports' expectations regarding the professionalism and individuality of shops are also growing. This applies to both retail trade and catering outlets. The following outlines some main expectations for airport retailers and restaurateurs:



The non-aviation business at airports—shopping, dining, parking, advertising—is constantly expanding as a vital source of revenues. What business model works best?

¹ Throughout the paper, duty-free refers to both duty-free and duty-paid.

Provide clear and efficient routing. Until recently, the most commonly used type of routing for duty-free walk through shops was meandering, allowing passengers to walk through as wide a range of merchandise as possible. Now, however, shop layouts provide clear and functionally efficient routing

that ensures optimal orientation with less time delay. This creates a more relaxed environment for stressed passengers, with the added advantage of increasing their willingness to buy products. An example is the shop layout planned by Gebr. Heinemann for Berlin Brandenburg Airport, scheduled to open in 2012 (see figure 2).

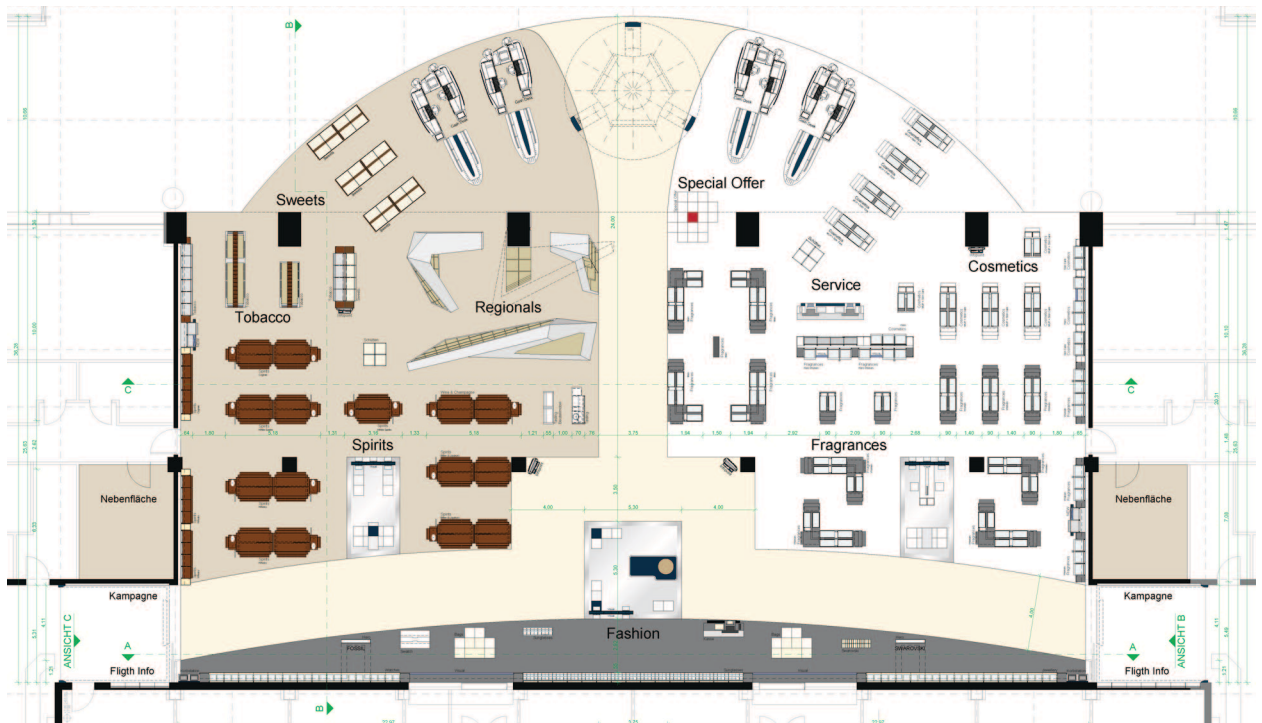
FIGURE 1: European airports are expanding non-aviation space

	Frankfurt Airport	London Heathrow Airport	Vienna International Airport
Total non-aviation space	<ul style="list-style-type: none"> • 30,000 square meters • 570 square meters per 1 million passengers 	<ul style="list-style-type: none"> • 68,750 square meters • 1,050 square meters per 1 million passengers 	<ul style="list-style-type: none"> • 11,500 square meters • 580 square meters per 1 million passengers
Number of non-aviation spaces	• 200	• 500	• 100
Planned expansion of non-aviation space	• 12,000 square meters through 2012	• 12,000 square meters with the new Terminal 2 ¹	• 9,600 square meters with the new "Skylink" terminal ²

¹ The completion of an additional building with 180,000 square meters of floor space is planned for 2013. The extension of the new Terminal 2 into the existing Terminal 1 site and the construction of a second satellite building is scheduled to be completed in 2019.
² When "Skylink" opens, 1,500 square meters of existing non-aviation space will cease.
 Note: All figures are approximate.
 Source: A.T. Kearney analysis

Create a unique profile. For years, successful airports have put their faith in regional-style retail formats and unique offerings. Now, airports also expect the duty-free shops to contribute to the distinct character of the airport, with best-practice shops adopting regional and local aspects not only in product mix but also store design. Along with traditional

FIGURE 2: Planned layout for Gebr. Heinemann duty-free shop at Berlin Brandenburg Airport in 2012



Source: Gebr. Heinemann; A.T. Kearney analysis

duty-free products, there is a sophisticated regional assortment with product lines produced exclusively for duty-free operators. One example is Aldeasa, which opened in 2009 in Terminal 1 of Barcelona El Prat Airport. The design of the store's regional section is based on the architecture of Barcelona's Antonio Gaudí.

Build a strong brand. Another success factor for duty-free operators is a strong retail brand. Until recently, the retail brands in duty-free shops—in Europe, they are mostly variations of the overarching Travel Value umbrella brand—were not familiar to most customers. Increasingly, shop operators are coming up with their own trade brands to position their shops clearly with their customers. For example, the new Heinemann brand from Gebr. Heinemann is meant to be associated with uniform prices for travelers (single pricing for duty-free), a guaranteed price advantage, and three core elements: service-oriented, personal, and surprising. The objective is to increase customer loyalty and encourage shoppers to buy. Its financial success has proved the concept.

Get innovative. Airports are placing ever greater demands on caterers

Airports are always looking to add top-notch brands that are either not yet represented at other airports or that underpin their unique profile.

to match their offerings to individual airports and customers. Among the ideas is allowing passengers to check in to a flight from a restaurant and offering free Internet while they wait. McDonald's at Munich Airport has expanded its previous strategy in this respect (see sidebar: *McDonald's Gets Innovative*).

The Airport Business Model

Airports are often criticized for their interchangeable retail formats, so they are always looking for top-notch

brands to add to their retail mix—brands that are either not yet represented at other airports or that underpin the airport's unique profile. To get unique concepts, some airports are willing to take certain risks; for example, Singapore's Changi Airport created a young fashion and accessories concept together with students from Singapore Polytechnic. When airports plan new developments and extensions, they explicitly earmark about 20 percent of the retail mix for regional best performers. This means there are great opportunities for retailers that are not yet in an airport.

Airport locations are doubly valuable for brand manufacturers as they promise profits and provide a prominent location that supports the brand. Successful models may include independently operated shops and concessions allocated to retailers, which in turn may be the traditional duty-free companies. Luxury brands, such as Armani, choose different operator models in different locations.

However, merely having a strong brand and a successful business in high-street retailing does not guarantee success. The travel retail segment has its own business models and challenges and requires a certain kind of management. Consider, for example, the difficulty in developing retail strategies to attract the thousands of different passengers streaming through airports every day. While customer flow is predictable (aligned with flight schedules), managing such a large and diverse customer segment depends on matching specific concepts and merchandise offers with the terminal, destinations, and number of low-cost airlines. In addition, while floor plans

McDonald's Gets Innovative

The McDonald's flagship store at the Munich Airport is an example of what innovative restaurants are doing with their prime terminal locations. This fast-food leader offers a Lufthansa terminal so passengers can check in to their flights while they eat, is open 24-7, and provides free wireless Internet and laptop tables with power connections. And, for the first time in Germany, an airport has a "McDrive-through" for passengers and visitors. The airport restaurant launched in 2009 with a star-studded grand opening ceremony that included celebrities from the film and music industries.

are more compact and it is easy to get an overview of the competitive environment, distribution and logistics are more complicated and costlier.

Other things to consider:

- Rent, ancillary expenses, and personnel costs are considerably higher
- Tenancy agreements generally run for only five to eight years, and it is not uncommon for restructuring dictated by airport operations
- Similar to malls, airports are closely involved in developing their tenants' business

Breaking into the Airport Business

What does all of this mean for retailers and manufacturers that wish to break into the airport business segment or successfully expand an existing foot-

hold? There are three success factors to keep in mind:

1. Establish an independent management structure. Travel retail requires its own independent management, because the business model is far different from high-street retailing.

2. Adapt the market entry strategy to travel retail. The unique features of travel retail require a market-entry strategy with an appropriate format and product mix and a specific business model. Simply copying the high-street model will not work.

3. Align with a strong partner. In some cases, travel retail is more successful when run with a strong partner with airport experience. There are usually several established retailers at each airport that already hold licenses or franchises of various global brands.

Airports: A Profitable Destination

The non-aviation business segment continues to attract a more diverse group of retailers—extending beyond premium and luxury brands to also include mainstream brands. To operate profitably in this environment requires new business models, innovative strategies, and insights into a wide and diverse customer segment. Knowing your customers—their terminals, flight schedules, destinations, and preferred products—can prove lucrative. Developing a strong business intelligence function—particularly for duty-free operators—that uses the large amount of detailed information that is gathered is vital for designing merchandise strategies that get the most value from each potential consumer.

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