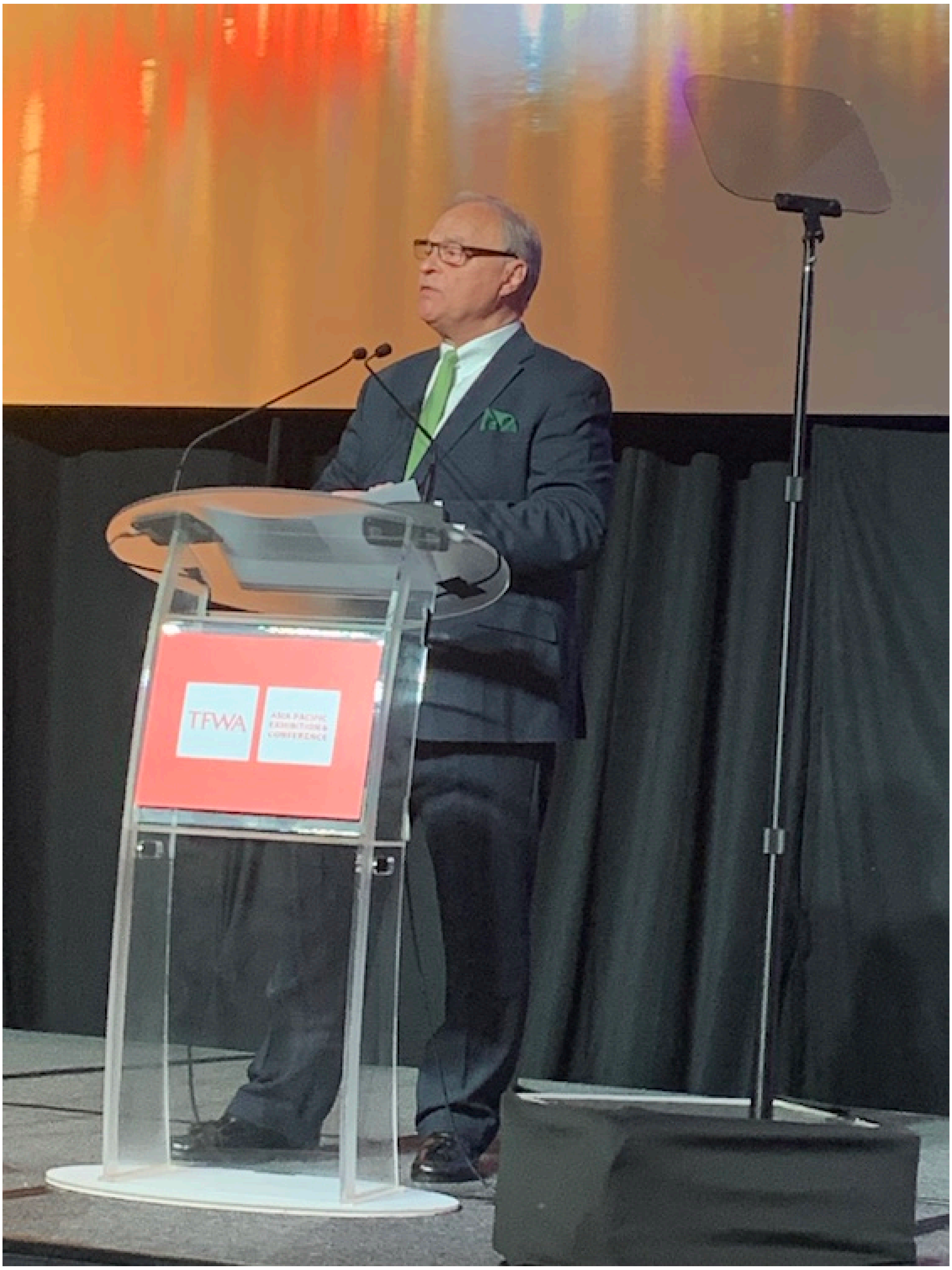
TFWA President shares optimistic outlook for GTR industry despite challenges ahead



TFWA President Erik Juul-Mortensen at the 2023 TFWA Asia Pacific Exhibition & Conference

TFWA President Erik Juul-Mortensen opened the 2023 TFWA Asia Pacific Exhibition & Conference in Singapore with an optimistic look ahead at the global travel retail industry.

“People say that absence makes the heart grow fonder, and over the last four long years, we have certainly missed being here in Singapore to bring together our industry for a full summit in its leading region. It's a real pleasure to be back and to reconnect with so many old friends and colleagues at long last.

"All of us at TFWA are grateful for the effort you've made, whether as an exhibitor or a visitor, whether you've traveled from near or far, to participate in this first full Asia Pacific summit for four years."

He went on to confirm that the TFWA Asia Pacific Exhibition & Conference will continue to be held at Marina Bay Sands Expo & Convention Centre until 2026.

"Duty free and travel retail is recovering," he continued, "but we still face significant economic and geopolitical headwinds. For a number of reasons, we shall need to be patient until passenger traffic returns in force.

"Firstly, international airline seat capacity from China stood at just 45% of its 2019 level in the second quarter of this year, according to ForwardKeys. That's an improvement on 21% in quarter one, but still a long way from full recovery. It will take time for airlines to repair their finances and gear up to meet growing passenger demand. Secondly, air fares are high, especially in long haul, and remain subject to volatility. Thirdly, health-related barriers to inbound travelers persist at some destinations. And fourthly, there is a limited list of countries authorized for Chinese group travel.

"ACI says that last year, international passenger traffic in Asia Pacific reached just 27.4% of its 2019 total. That compares with 66.1% for international passenger traffic worldwide. Of course, China's reopening will accelerate the recovery in this region, but many predict that a full return to pre-pandemic traveler levels will take until 2024."

Changes in traveler behavior

The TFWA President then discussed the changes in consumer and traveler behavior over the past four years, informing the audience of his belief that flexibility and the ability to react will be key to success in the coming years.

"The duty free and travel retail marketplace has changed since 2019, and so has traveler behavior. Among Chinese outbound passengers, there is now a clear move towards direct flights versus gateways or hub airports. ForwardKeys data from this year's first quarter shows 74% of bookings for international departures from China being direct flights, and only 26% destined for gateways.

"Travel is also moving upmarket, with international business-class arrivals recovering faster than those from the leisure-oriented, economy cabin. And anecdotal evidence from retailers in the Middle East suggests spend per head among some nationalities has risen to the point where it outweighs lower passenger numbers, pushing turnover back above pre-COVID levels. It seems that many of today's travelers have an appetite for luxury."

Juul-Mortensen went on to acknowledge the benefits of both digital and physical elements, and highlighted the importance of combining the two to create a personalized experience.

"Digital development remains a core component of the traveling shopper experience, but offline and in-store engagement matters too. Indeed, a recent study in the UK shows online sales falling 26% last year as shoppers returned to high streets and shopping malls.

"It's interesting that, while forging ahead with its digital marketing plans, the world's second-largest travel retailer, Lotte Duty Free, is also teaming up with beauty brands to host physical, offline events for its VIP customers. In Europe, Groupe ADP's new airport and retail hospitality brand Extime employs hundreds of human hosts, called Maîtres de Maison, to deliver the upmarket experience it promises travelers. There appears to be no substitute for analog, face-to-face contact, something to remember as our industry starts to rekindle its relationship with travelers in this region.

"Adopting a more flexible, traffic-driven approach is a key part of that process, and we urge other airports to take a progressive attitude when organizing future tenders."

The Asia Pacific recovery

Juul-Mortensen continued by stating his belief that while travel in Asia Pacific is behind other regions, the lifting of restrictions in China has set the scene for a faster recovery.

"Our business is bouncing back, passenger traffic is growing, and travelers are shopping again. Asia Pacific has been slower to recover than other regions, but the lifting in January of most travel restrictions for outbound Chinese citizens was a major boost. Early indications show that Asian destinations, such as Thailand, Japan and Korea, are benefiting first, with long-haul travel at scale likely to follow later.

"For many Asian-based retailers, the immediate priority will be winning business that's close to their bases, but their arrival in Europe and the Americas is likely before long. As early adopters of digital technology to enhance the traveler experience, Asian retailers have helped our industry respond to the expectations of younger travelers. This expertise will enrich the retail offer in other regions."

The TFWA President then went on to hail Hainan for the domestic success it was able to achieve throughout and beyond the pandemic, stating, "In the dark days of COVID, one beacon of hope burned brightly in this region. Hainan Island, the centerpiece of China's ambitious offshore duty free sector, drew domestic travelers in their millions to shop at a glittering array of airport and downtown outlets. Brands thronged to organize innovative, striking pop-ups in one of the few parts of the world still open for duty free shopping.

"The Chinese authorities, along with the retailers and brands present on the island, are to be congratulated for their investment, which has driven Hainan's success. Even as international travel restarts for China's citizens, Hainan is expected to retain its appeal with mainland passengers. Quarter one flight bookings for Sanya this year were already back at 2019 levels, according to Dragon Trail.

"Multiple new flagship brand stores and regional office openings confirm supplier belief in this market. The island's next big challenge lies in reaching out beyond its base of loyal domestic consumers, to attract travelers from outside China."

Juul-Mortensen then turned his attention to what could very well become the region's next major market.

"Any discussion of Asia Pacific duty free and travel retail naturally focuses on major markets like China, Korea and Japan. But we shouldn't overlook growing forces in the region – countries like India.

"Last month, India overtook China as the world's most populous country, based on data from The Economist. India has a young population that's expanding fast, and the State Bank of India predicts the economy will be the world's third largest by 2029. The Airports Authority of India lists 144 airports in use, 29 of them international. Press reports mention plans to add a further 50 airports and heliports during the 2023-24 tax year. A rising middle class, combined with a strong duty free purchasing reflex, bode well for the future. Delhi Duty Free and Mumbai Travel Retail, operating at the country's two busiest airports, achieved record monthly sales in November and December respectively. Large infrastructure developments are underway at Bengaluru and Hyderabad International Airports, too. India is evidently a major duty free and travel retail market in the making."

The TFWA President rounded off his address by stressing the multiple reasons the industry has to be confident going forward. "To conclude, we have every reason to be optimistic about the current state and outlook for our industry in Asia Pacific. Traveler numbers are rising, the region's retailers are ambitious to expand, Hainan will continue to prosper, and potential powerhouses like India are coming to the fore. It may take a year or two, but I'm sure the region will regain its position as the global leader in sales to travelers, and we at TFWA are determined to play our part in the renaissance of Asia Pacific duty free and travel retail."