



GLOBAL TRAVEL RETAIL - GREAT THINKING REQUIRED

THE AIRPORT RETAIL BUSINESS MODEL – A SQUARE PEG IN A ROUND HOLE?

The following article appeared in The Moodie Report, the largest trade publication of the international Duty Free and Travel Retail Industry. It relates to the cooperation between airport operators, retailers, and brand owners in the airport travel retail business, which is known as the Trinity concept. [Published in The Moodie Report on March 4th 2010](#)



'Global Travel Retail - Great Thinking Required': Column 1

Published: 04/03/10

Source: ©The Moodie Report

By Mick Dawidowicz

INTERNATIONAL. The Moodie Report is pleased to announce a new outside contributors' column, sponsored by Diageo Global Travel & Middle East, dubbed 'Global Travel Retail – Great Thinking Required'.

Published monthly, it offers anyone inside – or outside – travel retail the opportunity to comment provocatively on any aspect of the industry in order to advance its progress.

We begin with an alternative and incisive look at the industry 'Trinity' from long-time Philip Morris International duty free executive Mick Dawidowicz.

NOTE: The views expressed in this column are not necessarily those of either Diageo Global Travel & Middle East or The Moodie Report.

THE AIRPORT RETAIL BUSINESS MODEL – A SQUARE PEG IN A ROUND HOLE?

It's good to see that the Trinity concept is still going strong and that there is increasing industry focus on the fundamental drivers of the business.

However, one of the most basic elements, which has received virtually no attention, is identifying what the airport retail business model is really all about.

Over the years, it's been my observation that the term 'business model' is bandied about pretty loosely. However, except for start-ups, I've found it rare for these models to be explicitly articulated – and redefined, when necessary. So it might be useful to try to do so with the airport 'retail business model' which exists today.

Whenever this business model is discussed, or when it's invoked in the context of the Trinity concept, it's usually in relation to an adjustment to the concession terms, especially when there's some sort of crisis, such as SARS or the 2009 economic woes.

However, I believe this is only one part of the overall airport model – the part I would call the financial model. This model appears to be broadly in line with that of shopping malls, at least in the US, which is usually based on a rent per square foot plus a percentage of sales.

The main distinguishing factor of the airport financial model seems to be the practice of awarding retail space to the highest bidder.

At first glance and from the point of view of the airport, this is a real estate management model, and it's consistent with the considerable property holdings managed by many airport operators. This has significant implications, but more on that later.

The second element is the retail model – *what sort of a retail environment is it?* I think it's pretty clear that the airport retail environment most closely resembles a domestic shopping mall. It's an enclosed space, with well-defined boundaries housing retail, service, and catering establishments.

So far so good.

However, the airport has at least two inherent drawbacks compared to a domestic mall. The average passenger is a lot more weighed down with briefcases, laptops, carry-on bags and the like, plus the check-out process at airports includes the additional step of requiring the shopper to show (and hopefully not forget) his boarding pass.

If you add in the impact of security requirements, which are likely to increase following the recent transatlantic terrorist incident, the airport retail environment is significantly more cumbersome than the domestic shopping mall environment.

The third and final element is the consumer behaviour model. And this is where things get interesting, because if there's one thing the consumer behaviour model at airports is **not**, it's a mall behavior model.

People generally go to shopping malls because they want to buy or eat something. Clearly, that's not why people are at an airport, at least not airside. If anything, the airport consumer behaviour model is more like the one in a major urban center like New York, Paris, or London, only worse – from the retailer's point of view anyway. In midtown Manhattan, a reasonable percentage of people are there because they do want to buy something, but that's not the case at airports.

Moreover, most passengers, even those who are open to buying are generally in a hurry (or feel they are.) If you factor in the added inconvenience of airport shopping I mentioned earlier, *it's actually pretty impressive how successful the industry has been in selling to people who aren't there to buy anything.*

So what does this all mean? First of all, it's pretty obvious that the financial model, while important in terms of how the pie is split, has absolutely no impact on top line revenue. However, the way an airport defines itself in terms of retailing vs. real estate management *does* have a very significant impact.

The spectrum between real estate manager on the one hand and pure retailer on the other hand is a very broad one. Exactly where an airport positions itself can be very difficult to establish.

Just consider one element: what are, or should be, the relative priorities between operations and retailing? And there are more considerations like this. Airports have to balance the competing pressures of their traditional core function of providing aeronautical services against today's non-aeronautical revenue needs, all in the context of the public service role they are expected to play. And let's not forget the political dimension.

However, the more an airport operator focuses on retailing, and the closer its objectives, strategies, and performance indicators are to those of retailers and brand owners, then the likelier it will be for the three of them to find common cause in building the business in a fundamental way.

One can see this happening at those airports which have positioned themselves closer to the retail end of the spectrum.

This alignment of interests is crucial in resolving the conflict between the airport retail model and the consumer behaviour model. Retail-friendly terminal design, passenger flow and time management, how the retail space is laid out, ease of check-out, lugging one's purchases, and dealing with security all require close cooperation by the Trinity players, particularly airport operators and retailers, not to mention the airlines.

There have been some attempts at addressing these issues, such as indications of time to gate, moving security checkpoints before the shopping area, opening up the retail space with walk-through shops, etc. But most of these have been adjustments at the margin rather than a quantum leap.

Instead of trying to adjust a domestic model, which in many ways is like trying to fit a square peg into a round hole, one could argue that it would be better to go back to the drawing board and create a tailor-made airport retail model which directly and comprehensively addresses the realities of the airport consumer behaviour model.

Building such a new model would also have to include a number of other fundamental elements, such as redefining the consumer proposition, targeting the retail offer, store and product adjacencies, as well as technology.

Anyone for changing the game?

Mick Dawidowicz

Mob: +41 79 217 20 16

Mail: Mick.Dawidowicz@Simoil.com

Mick Dawidowicz retired in Switzerland in 2007, after 35 years with Philip Morris International (PMI). For 17 of those years, he worked in the duty free and travel retail business, most recently as Director Business Development and Planning for PMI Duty Free, where he was responsible for the organisation's strategic planning process.

Mick continues to be a keen observer of the travel business. He was an early supporter of the Trinity concept and regularly discusses the concept's progress with The Moodie Report – particularly the fundamental issues raised at the last Trinity Forum in September 2009. This article (and possible further ones) are the outcome of those conversations and Mick's reflections on his many year in the business.

At Simoil Consulting, Mick provides advice to companies on strategy, market intelligence and consumer insight.