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EDITORIAL:

Dear readers



Welcome to Nuance *Pulse*. Our newly created Newsletter addresses all those involved in providing a retail offer for travellers at their premises.

With some 400 shops across 60 airports and 20 countries,

The Nuance Group is one of the leaders in international travel retail. Our worldwide presence provides us with in-depth knowledge of the needs and aspirations of travellers of all backgrounds. By constantly updating and expanding our portfolio we make sure we meet our customers' diverse needs.

Pulse is not designed to provide you with news updates about our operations. *Pulse*, as the name implies, is about the heartbeat of our company, the DNA of our business. It's this essence we want to share through *Pulse*, illustrated by background stories regarding various topics but also by introducing the people behind our concepts and approach.

If you find you are interested in learning more about a specific topic, don't hesitate to contact us via pulse@thenuancegroup.com. Any feedback or input are welcome any time.

Yours truly,

Roberto Graziani
 President & CEO, The Nuance Group

OPERATION FOCUS:

Setting up in India

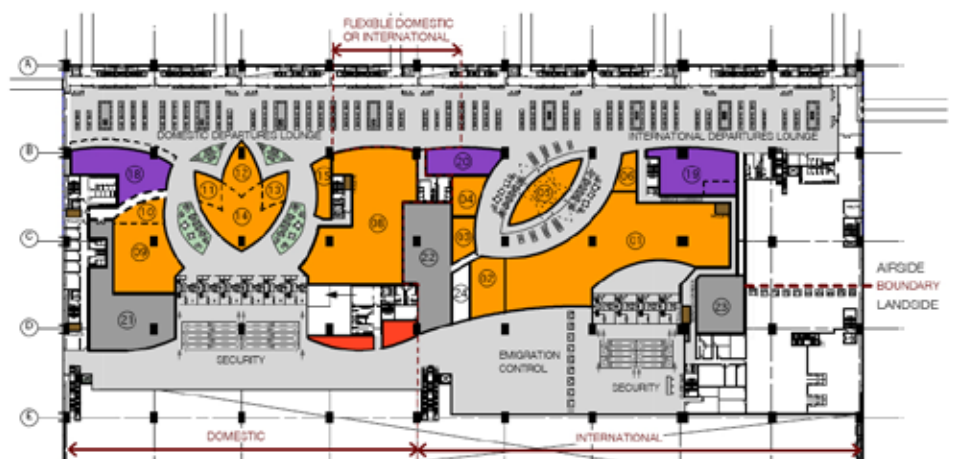
Spring 2008 saw The Nuance Group entering the Indian market. Following much acclaimed tender wins for the newly constructed airports in Bangalore and Hyderabad, Nuance successfully set up some 4,000 square metres of shop floor among the two locations and welcomed the first passengers with a shopping offer that is setting new standards for Indian airport retail. This article illustrates how the demanding process was managed internally.

a target for future business. The next decision regarded how to approach this new market – alone or with a local partner.

Step 2: Team up with the right partner

When entering a completely new market, getting to know the customer base and the specifics of doing business in the environment inevitably takes time – time which is usually scarce. It therefore often makes sense to

Bangalore Airport



Step 1: Market research

The Nuance Group defined India as a key growth market in early 2006. Thorough market research showed extremely promising growth rates for Indian air traffic as well as a clear demand for services and products not available in the market at that time. In addition to a careful analysis of existing research material, Nuance commissioned market studies designed to specifically identify the needs, demands and aspirations of the customer base at these airports. This research clearly defined India as

team up with a local partner who can provide experience and a sound reputation in the marketplace, geographical spread and a functioning logistics system. For India, Nuance chose Shoppers' Stop Limited, India's pioneer in organised retailing and the biggest departmental store chain in India, to set up a joint venture company in December 2006.

Step 3: Identify and approach target airports

Monitoring opportunities in a marketplace is part of a retailer's day-to-day business.



Setting up in India (ctd.)

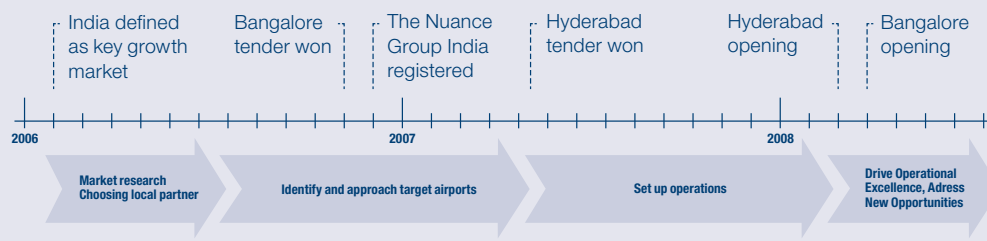
The correct timing for getting in touch with potential landlords is often crucial for a project's success. In the case of India, two completely new airports were being planned and constructed at that point: Bangalore and Hyderabad, the fourth and fifth largest airports in the country. The Nuance joint venture approached the airports and appealed to them to offer a sophisticated and unique airport retail experience – something quite beyond what the Indian market had to

Hyderabad (April 2007), the actual setting up of the company commenced. First, a local management team was recruited with The Nuance Group Zurich providing active support for all human resources issues. In a second step, infrastructure such as warehouses and a logistics system had to be put in place. Simultaneously, the necessary permits and approvals were organised. Building the actual stores in terminals that were themselves still under construction turned out to be quite a challenge,



improvements to the product offer, promotions etc. is an ongoing process as is staff recruitment, training, coaching, monitoring and incentivising.

Setting up in India: Process and Milestones



offer up to then. The idea of creating a sense of place, something unmistakably local, particularly appealed to Bangalore, where The Nuance Group India was chosen to implement a very unique commercial environment based on traditional Indian rangoli patterns integrating both retail and food services.

Step 4: Set up operation

Once the joint venture was awarded the contracts for Bangalore (November 2006) and

as was merchandising them just in time for an opening which kept being delayed. Hyderabad Airport opened on March 23, 2008, and close to 2,000 square metres of shop floor operated by our Indian operation with it. Bangalore followed on May 14 with operations on a similar scale.

Step 5 (ongoing): Drive operational excellence

With steps 1-4 concluded, the new business has now moved on to daily operations. Commissioning the stores, with constant adaptations and

Step 6 (ongoing): Address new opportunities for further expansion

At the same time as Nuance is fine-tuning its existing operation, the team is also on the look-out for new opportunities for expansion. The target is to grow operations in the region, thereby making optimum use of the infrastructure now available.

To discuss opportunities in India, please contact Ruth Roebuck at rroebuck@thenuancegroup.com.

LANDLORD FOCUS:

Making retail uniquely "Sydney"

The Nuance Group has been operating at Sydney Airport since 1991 and most recently secured an eight year concession for duty free shopping at Sydney Airport valid through November 2014. In early 2007, the new duty-free brand for Sydney, SYD, was introduced. *Pulse* spoke to Derek Larsen, Sydney Airport's General Manager Retail.

Nuance pulse: *What are the specific challenges of airport retail?*

Derek Larsen: Turning passengers into customers is the biggest challenge. Too often, airports have believed that they have a captive audience. In the past this has led to a level of complacency with the retail offer. There is a customer expectation for a significant retail offer that appeals to both the global and local consumer. We need to become a shop of first resort not last resort, especially

since we have the advantage of knowing who is coming through the door.

What is your ambition for Sydney Airport?

To create an environment and retail offer which is uniquely Sydney, with international appeal. As the gateway to Australia it is imperative that we present both a presence and an offer which captivates all cultures and provides a lasting memory of Sydney.

What are the biggest challenges?

Taking both the internal and external stakeholders on that journey. There are so many competing needs that it by necessity means that everyone must be onboard to ensure the best customer experience with the strategy including airlines, retailers and government agencies.



Derek Larsen

In the position of General Manager Retail, Sydney Airport Corporation, since August 2007, Derek Larson is responsible for the overall retail performance, including planning and development, marketing, leasing, duty free, advertising and other revenue streams. He has over seventeen years experience in all aspects of retail, commercial and residential property from hands-on to portfolio roles and operating within various countries and corporate structures. Outside business, Derek has a diverse and balanced life flying helicopters and breeding cattle.

INDUSTRY FOCUS:

Arrivals Duty Free: a winning formula

Arrivals Duty Free still isn't a common practice in many countries. There are markets, however, where buying duty free goods in arrivals before leaving the airport has long been part of the travel experience. As altered legislation starts to allow the introduction of Arrivals Duty Free in new markets, the obvious benefits of the sales channel continue to convince more and more airports and legislators.

as early as 1986 for the traditional duty free categories. In February 2005, after a lengthy ratification process actively supported by lobbying activities under the lead of The Nuance Group, duty free allowances for arriving passengers were increased to 2.25 litres of alcohol, and AUD 900 of other goods (the tobacco concession remained the same). Allowances are even higher in New Zealand

cosmetics. At the same time, customers are now able to select goods on departure from the full range of tax and duty free goods and use the Ready for Collection service to pick up their purchase on their return to Australia. "This is an excellent example of the government working closely with the industry to create an improved environment for consumers," comments David Odgers, Business Development Director, The Nuance Group Australia & New Zealand. "When you have spare time on departure you can shop for the products you want, whether it's the latest iPod or camera or your preferred cosmetics regime. Then carry only what you need on your trip and know you'll be able to pick up your purchases quickly on your return to Australia. You get all the fun of duty free shopping but minimise any hassles or queues."



Events like September 11, 2001, and the UK bomb threats of 2006 have had a lasting effect on the travel retail industry. The restrictions on liquids, aerosols and gels (LAGs) imposed since August 2006, in particular, have forced travel retailers to completely rethink how to approach the business. Among the answers to this question, Arrivals Duty Free has been one of the most successful.

The Nuance Group has extensive experience in operating Arrivals concepts. In Australia, for example, Arrivals Duty Free was introduced

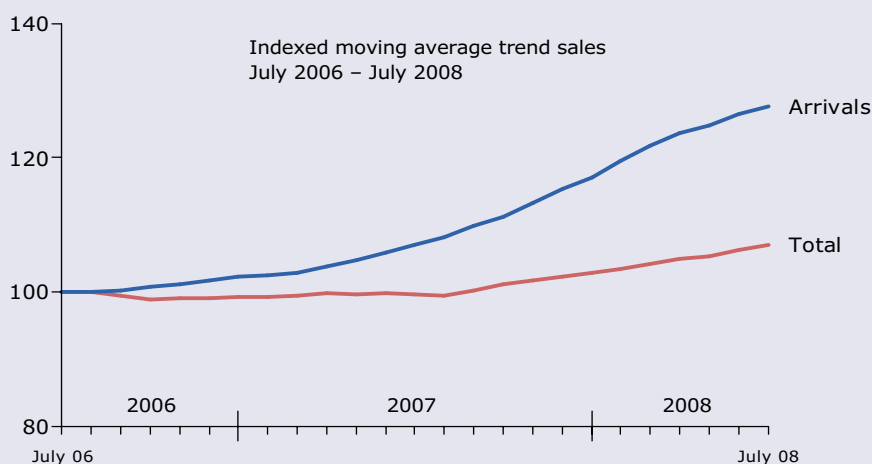
where the concession allows three bottles of spirits and six bottles of wine. In October 2007, Australia introduced new regulations, similar to New Zealand's, enabling customers to be able to purchase all product categories, including technology, watches, sunglasses and fashion accessories on arrival into Australia.

This has resulted in a broader range of tax and duty free merchandise being available in Australian Arrivals stores alongside the perennial favourites of liquor, tobacco, perfume and

Ivo Favotto, Executive Vice President, Strategy & Business Development for The Nuance Group, therefore underlines the importance of further promoting Arrivals Duty Free at existing and new destinations. "Arrivals Duty Free is a sales channel with considerable potential. Where legislation doesn't foresee this concept as yet, it is crucial airport operators and retailers team up to convince governments of the benefits of the concept. We have a strong track-record of doing just that."

For further information on how Nuance can help your airport lobby for Arrivals Duty Free, please contact Ivo Favotto at ifavotto@thenuancegroup.com.

Australia: arrivals growth outstrips overall duty free growth



Why Arrivals Duty Free is a good idea

Currently, more than fifty countries in the world have Arrivals Duty Free, with many considering its implementation due to the benefits it generates.

- ✓ Increase passenger convenience
- ✓ Reduce baggage load for aircraft
- ✓ Reduce fuel costs and carbon emission
- ✓ Create additional employment at airports
- ✓ Promote domestic products
- ✓ Increase total duty free sales benefitting airports, consumers and tax revenues for governments
- ✓ Enhance duty free sales within the new security environment

MEET OUR STAFF:

Chillie Por: Managing expectations on all sides



Chillie Por, Category Manager Perfume & Cosmetics for Nuance-Watson (Singapore), joined the company in 2001.

Nuance-Watson (Singapore) is praised time and again for its outstanding perfume & cosmetics offer. The P&C category management team reports to a very experienced lady who has been with the company in Singapore from day one and has been instrumental in driving this very successful business.

What does Chillie Por love about her job? "The interaction with brands, with the airport authorities and with my team", is the immediate reply. "And the room for innovation." Nuance-Watson has an impressive track-record of introducing new brands and products to travel retail. All this involves not only hard work, but also diplomacy, as Chillie explains. "We work in close partnership both with our airport and brand partners, with expectations diverging considerably at times. Managing them realistically without letting the good ideas get lost in the process is the art behind our business."

To illustrate this, Chillie gives an example. "To introduce innovation in a highly regulated environment like an airport a lot of interaction with different authorities is required. When designing our T3 mega store, for example, we had no less than forty rounds of updates till both brands and airport authorities were happy. The brands wanted maximum branding for their shop-in-shops with specific ceiling and wall elements; the airport wanted a completely open shop. Negotiating between those needs – ceilings yes, walls only at half-length – involved a lot of time and effort."

This is where the strength of teamwork comes in. "We maintain a constant dialogue, both with CAAS and our brand partners. It's our job to take up ideas, pursue opportunities, push the business and make sure both brand and airport partners are happy," Chillie sums up the biggest challenge of her job. And her biggest pleasure? "When we succeed." ■

SUPPLIER FOCUS:

American luxury leathersgoods maker COACH

Founded as a family-run workshop in a Manhattan loft, Coach today is a \$3.2 billion company offering chic and fashionable product that stands for innovation, quality, authenticity, value and a truly distinctive American style. The brand made its European debut in March 2008, at London Heathrow's newly opened Terminal 5 with a Coach boutique operated by The Nuance Group.

Nuance pulse: Why did you choose a travel retail location for your European launch?

Andre P. Cohen: European travel retail locations typically offer exposure to opinion-leading and generally affluent customers. Launching in Heathrow was an efficient way to accelerate the building of brand awareness with European customers.

"A true brand building channel"



What is the function of travel retail within your distribution network?

The travel retail channel is a commercial channel where we capture business with travellers from established source markets. In addition to that, and maybe most importantly, we see travel retail as a true brand building channel. With increasingly premium and well managed retail environments, travel retail provides us with a unique opportunity to create a powerful brand experience for travellers and, in the process, to strengthen brand equity and awareness.

Do you approach travellers differently from domestic customers?

The days where travel retail had more simplified "entry price" assortments are long gone and we feel that customers' expectation is to find the same high quality assortment in travel retail as in domestic channels. Still, we would typically adapt our store environment and merchandising to account for certain differences. Travellers are often looking for gifts and may have more limited time, so we would use an easy-to-shop "giftables" fixture with a larger assortment of gift items to cater for that need.



Andre Patrick Cohen, Senior Vice President of International, joined Coach in February 2008. Prior to that, he held various executive positions with leading luxury brands, mainly in Asia/Pacific. Andre is passionate about: "Travel, of course!"

What are the criteria when choosing a retail partner for travel retail?

We are obviously looking first and foremost for a partner who can share our vision for the brand, and who is willing to execute to the high level which Coach expects of itself and its partners. We have been very pleased with our partnership with Nuance so far. The operational issues we all faced in the first few weeks after the opening of T5 have clearly been a challenge, but they have also brought Coach and Nuance closer as we've tried to work through the issues and plan for the future. ■