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EDITORIAL:

## Dear readers



For Nuance, 2008 was a year of contrast: a strong half offset by a weak second half. Nevertheless, we were able to deliver an increase in Operating Profit of 14.5 per cent. In the first three months of 2009, the economic downturn has become more pronounced. While I describe the outlook for 2009 as ominous, I am confident that we will cope better than most.

I believe that 2009 is the time to focus on delivering retail excellence and engaging with our suppliers and airport partners in meaningful support discussions. We are looking at all elements of the supply chain to ensure maximum flexibility in our business.

It is in challenging times that the meaning of “partnership” is really tested. Our business performs best where true partnership exists. As usual, Singapore Changi Airport is to be lauded for its speedy application of the spirit of partnership in the relief and promotional support it is providing. We also have true partnerships with Zurich and Geneva airports and we work closely with Sydney, Hong Kong and Antalya. More airports understand that working alone, a retailer cannot achieve the desired result in tough economic conditions and I am heartened by that.

Yours sincerely

Roberto Graziani  
President & CEO, The Nuance Group

OPERATION FOCUS:

## Walkthrough concepts driving sales

It may appear simple: Get as many passengers as possible to walk through your store and this increase in penetration will automatically drive sales. Especially in an airport environment where passenger flows can be controlled, more and more walkthrough concepts are being introduced. In order to do this successfully, however, there are certain prerequisites to be met. *Pulse* talked to an operator and a retail designer about the challenges of this particular type of store.

Walkthrough stores usually generate levels of sales of some 10 to 20 per cent above traditional stores. However, as David Odgers, Director, SYD Airport Tax and Duty Free, explains: “Just as there are great conventional stores, there can be poor walkthrough stores. The advantage of a walkthrough store is that it exposes potential customers to your offer. On the flip side, a poorly executed walkthrough store becomes an irritating obstacle on their way to the gate.”

One frequent mistake, according to Robbie Gill, Managing Director of London-based The Design Solution, is that due to constraints in available space passengers are dumped into the shopping environment too abruptly. “Your shopping offer simply gets lost on people still putting belts and shoes back on. The key is to create an orientation zone with shopping carts and screens.” David Odgers confirms this: “Whereas a conventional store can assume that someone entering the store is ‘ready to shop’ this is not the case in a walkthrough environment. Getting potential customers off the walkway into the store and into a shopping mindset is a challenge.”



How do you convert travellers into shoppers, then? “Visibility is critical,” David Odgers explains. “As is the intimacy of exposure, especially for impulse categories. Many of our customers are unsure what the retail offer is. Liquor, tobacco, fragrance, cosmetics are what most customers would define as duty free retail and so these categories need prominence. Generally, we would look to put these core categories at the front of the store and impulse and promotional items as close to the walkway as possible to entice customers into the store and into the shopping mindset. The challenge is to draw customers to all areas of the store, even though this can be in conflict with the natural flow of the walkthrough store.”

According to Robbie Gill, walkthrough stores aren't the ideal solution when your customer flow

## Walkthrough concepts driving sales (ctd.)

cannot be entirely directed through the store. If half of the passengers head into one direction and the others into the other you need to duplicate concepts in order to confront them all with the same shopping offer. This duplication will make you lose product depth and operational efficiency. Here, airports need to proactively plan their retail space in a way that will allow for maximum impact of retail, especially when designing new terminals. Gill adds: "You will require a minimum size for the store. Below 800 square metres, you simply lose too much space for walkways, space that can better be used in a conventional store set-up. On the other

hand, an area of more than 2,400 square metres becomes difficult to handle. Filling a store that size with enough interesting merchandise is a true challenge, especially when you're only dealing in core categories."

David Odgers' team are pioneers in working with walkthrough concepts and operate no less than eight of them throughout Australia. They are currently building the biggest walkthrough store yet in Sydney. What insights are they bringing to bear on the project? "We are trying to make customers as relaxed as possible from the beginning and give them clear cues on where to

### Are you ready to go walkthrough?

- Is the retail area larger than 800 sqm?
- Is there enough space to provide an orientation zone before entering the store?
- Can you direct all passengers through one big store?
- If the store size exceeds 2,400 sqm, can the retailer sell enough categories to fill the shop floor attractively?

go without encouraging them out of the store", explains Odgers. "With such a big footprint and broad range of categories we have looked to give character to each area and make the customer journey between categories as easy as possible. The design philosophy has been to get the best

retail offers in front of the maximum number of customers, to provide an engaging reason to leave the walkway and get to the heart of the store. We have also designed the store to work from both the front and the back so that customers are encouraged to re-enter the store. It's a tremendously exciting project and we're very pleased with what we've designed."

### 2003 – Walk-past



### 2004 – Walkthrough



Driving penetration: the Sydney Terminal 1 store converted into a walkthrough concept

### LANDLORD FOCUS:

## Hong Kong: Focus on customer demand at all times

When the new Hong Kong International Airport opened for business in 1998, so did Nuance-Watson (Hong Kong). The year 2008 saw the partners celebrate ten years of successful cooperation. Today, Nuance-Watson operates 43 shops under 18 licences, which makes it the largest retail operator at Hong Kong International Airport.

**Nuance pulse:** *What makes Hong Kong International Airport special?*

**Eva Tsang:** We are famous for our shopping offer – like Hong Kong itself. Also, our passenger mix offers a good balance between mainland Chinese, Japanese, Europeans etc. We need to please passengers of diverse profiles, and passenger numbers allow us to supply many different concepts. This dynamic mix is what makes us truly special.

*What has been the biggest achievement over the last eight years?*

Our airport has advanced together with the market. Our aim has always been to watch out for new developments and to anticipate them. Over this period, we have doubled our retail area, a quantum leap for the variety of our offer as well as revenues.

*What has been the biggest challenge?*

The numerous crises we were confronted with have taught us a good lesson. We learnt that we have to be very clear on how to best serve our customers and let ourselves be guided by customer demand, be flexible and creative. Crises will always come, but they will always go as well. We just need to get on with our business.

*What qualities do you look for in a retail partner?*

The starting point for a successful cooperation is a common vision. We have a very open approach when it comes to attracting partners, the result of which is that we have the best

professional retailers operating at our airport, providing the highest standards – such as Nuance-Watson with its very strong local team which totally understands the market.

### Evs Tsang

The General Manager – Retail and Advertising, Airport Authority of Hong Kong, looks back on nearly twenty years of experience in the airport commercial business and has held her current position for eight years. Her main responsibilities include establishing overall strategic retail and advertising policies, enhancing the airport's world class retailing standards, maximising retail and advertising revenue, steering and implementing all retail development as well as marketing the retail business.





INDUSTRY FOCUS:

## Risk and the changing value of airport concessions

**Ivo Favotto**, Executive Vice President, Strategy & Business Development  
The Nuance Group

The past decade has seen the travel retail industry rocked by a series of exogenous “shocks” which are fundamentally changing the way the whole trinity - suppliers, retailers and landlords - are approaching the business. Implicit risks are being made explicit and priced into retailer bids for airport retail concessions. And they have to be to ensure that the travel retail industry can keep on investing in our business and achieving its growth potential.

**By any definition, the past decade has not been a bad one for the travel retail industry, which has almost tripled in size during this time.** Not only has passenger traffic grown strongly but the amount of retail floor space at airports has exploded both in terms of duty free and specialty retail. Just imagine what could have been if we did not have the Asian economic crisis, the 1998 recession, the asset price bubble burst in Japan, the 9/11 terrorist attacks, the 2002 Bali bombings, the 2003 SARS crisis, the restrictions on the carriage of LAGS introduced in 2006, the huge surge in commodity prices and related currencies in 2007, the 2008 credit crunch, the associated wild currency swings and then the mother of all crises, the 2009 global economic crisis.

I'm tired of reading articles by well-intentioned but nevertheless ill-informed pundits berating our industry for missing out on its vast sales potential. Sure, there is a lot more than can be done – a lot more - but considering all of the above, I think the industry has done a reasonable job.

**Crisis seems to be the new norm.** Gone are the days of the long boom where each year, passenger growth was high and spending growth was even higher. This decade of crisis appears to have fundamentally changed (or at least is starting to) the way in which the industry does business. For sure, the days of concessions with no wriggle-room contracts locking in 5 per cent passenger growth, 5 per cent spending growth, maximum variable concessions fees and MAGs set at 90

per cent plus of the variable concession fee in the business plan are gone. The stable economic and political environment that enabled retailers to enter such contracts appears to be gone, perhaps forever.

Well, maybe not gone altogether but these days, an offer on this basis would be materially lower than an offer made with a greater degree of flexibility in mind. This is because the risks that we now face are real. The implicit risks that retailers could previously choose to ignore now have come to fruition and can no longer be ignored.

### **Risk must be priced, and at a premium.**

Such concessions now cannot be accepted without force majeure clauses, material adverse change clauses, regulatory or operational change clauses and significant passenger drop clauses. With such clauses in place, retailers can make better offers to airports – offers that focus on investing in consumer engagement rather than offers where it is known that all time and effort will be spent on contract renegotiation.

Which brings me to this recession that the world currently finds itself in. As many people more expert in economics than I are saying, this recession is different is different to most of the ones we've had in the past. We haven't had this kind of systemic failure for a long time, when even highly bankable projects can't get banked. **This just adds to the uncertainty. And uncertainty has a price.**

**In the current global economic crisis, the value of many assets has fallen.** Stock markets are 50 per cent off their highs and even our homes – as safe as houses - are probably worth a lot less than they were before. What makes us think that airport concessions are immune from this value slide? I don't think they are. It's a brave retailer that is prepared to include strong passenger and strong spending growth in a proposal to an airport and back it up with an iron-clad guarantee. These are

not the kind of times when such bravery is likely to be rewarded.

So, to make the best of these unwanted difficult times that we must face, and to adapt to crisis as the new norm, airports and retailers must work together now more than ever - and not just in a planning sense or in an operational sense. This has always been required and is table stakes these days. I mean in a business model sense – the spirit of true partnership.

**I am not naive enough to call for an end to the concession model** – we've all been down that road before and I don't think it will happen in a hurry. But we do need to build a more flexible business model that can withstand the bad times and the shocks as well as the good times. A model that allows us not to take our eyes off the main game: focusing on, and investing in, delivering for the consumer. Delivering for the consumer after all is what our supplier partners want, what the retailers need and what ensures that airports get what they want, an increasing revenue stream to pay for the heavy infrastructure burden that comes with airport operation.



I am pleased to report that we have an increasing number of such true partnerships with airports in all regions. **It is these types of airports – airports that adhere to the concept of true partnership - where we are investing the most to deliver on the growth to the mutual benefit of both parties.**

This is not some radical vision for the future. Rather it is realisation of a new reality, born

of a new context in which we must operate. The current global economic crisis did not bring this about of itself – it has been coming for the past decade. It's just that in the wild upswing of 2007 and 2008, we nearly convinced ourselves to forget that crisis is the new norm, dreaming of the halcyon days, only to come crashing back to the most severe reality. ■

## MEET OUR STAFF:

## Peta Rounsefell: an iron will to succeed

Peta Rounsefell joined The Nuance Group's Sydney team in February 2008. One year down the line, she describes travel retail as "domestic retail on steroids", a fast moving environment presenting new and exciting challenges every day. Culture, Peta is convinced, is very important in the organisation. "We are team of people committed to achieving the one goal: profit", she explains. "A job title doesn't define who we are and what we do; our everyday actions and commitment to our teams does."

According to Peta, success is very much down to two key principles. This is as true for her professional life as it is in sports, which play a very important part in Peta's life. "I did my first triathlon in September 2006", she explains. It consisted of a 500m swim/20km bike/5km run. I had the biggest smile across my face once I crossed that finish line and that smile is still with me." Peta has since crossed start lines all over Australia and this November, she will be competing in the Cozumel Ironman (Mexico),

over 3.8 km swim/180 km bike/42.2 km run. "There are two things that are the key for racing well: consistency and focus. By applying good habits every day I am building a stronger base to race from; at work, thanks to good habits, we will become a stronger business. Also, I need to accept what is given and focus on what I can control, e.g. put on an extra layer in cold weather. At work, we need to accept the passenger flow. What we need to focus on is developing our teams and providing exceptional customer service."

Obviously, all of this requires a lot of discipline, which is triggered by keeping her eyes on the target, Peta says. "Some days, the alarm goes off at 4 am and it would be very easy to turn it off and go back to sleep. However, you can't catch up on a missed session, just as you can't catch customers' spending power once they have departed."

Asked about her objectives for this year, Peta's answer is immediate: "At work: to meet all our business targets. For my athletic ambitions, it's to

walk on to the start line in Cozumel later this year knowing I have put the effort in to have a great race - and then to enjoy the day!" ■



Peta Rounsefell, Retail Operations Manager - Pier C, Sydney Airport, and "Iron Woman", describes herself as, a high energy person that loves a challenge and overcoming mental fears

## SUPPLIER FOCUS:

## Lindt: Tempting impulse purchases

Swiss-based Lindt & Sprüngli is one of the most successful manufacturers of premium chocolate in the world. For over 150 years, the company has focused uncompromisingly on quality. The Nuance Group and Lindt have successfully worked together for many years and in 2004 introduced the award-winning "Boutique du Chocolat" concept at Zurich International Airport.

**Nuance Pulse:** *How important is travel retail for you?*

**Hansjürg Klingler:** Travel retail is a shop window to the world and as such a fascinating, yet challenging task. Shopping isn't a traveller's primary objective. Chocolate, in particular, is purely bought on impulse and you only have seconds to convert travellers into buyers. This is why the cooperation with retailers is of supreme importance in this channel. In order to invite impulse purchases you need concepts, visions, attractions.

*What are you looking for in a retail partner?*

Travellers are expecting to be tempted by something special. In order to achieve that, you need the right retail partner to design attractive concepts and successfully operate them.

Nuance has been very innovative in this sense, and particularly in Zurich we have implemented fantastic concepts that have revolutionised the category – with more to come in the future.

*Do you approach travellers differently from domestic customers?*

Domestic customers are usually buying at a supermarket for self consumption, and we inform them about new products through advertisements. In travel retail, people expect to find premium products, often as a gift. In order to be exclusive and not comparable to the local market, travel retail needs unique products. People are curious and want to be tempted by novelties. This is why innovation is equally essential and we keep developing new products, new packaging and new assortments specifically developed for the travel retail channel.

*How has the confectionery market developed over the past fifteen years?*

Fifteen years ago, the confectionery market was rather boring. In travel retail, in particular, confectionery used to be an "etc." item. Today,

the category is among the fastest growing in the market and profitable. We are also seeing a lot of innovation with new developments usually following general trends, such as the boom of "fleur de sel" inspiring chocolate creations.

*How is the current economic downturn impacting chocolate sales?*

We find that people are becoming more demanding. They are looking for quality – the percentage of cocoa used and the provenance of cocoa beans are big topics these days, as are ecological and social responsibility issues - but not at any cost. For us, this means we need to be flexible and adapt the assortment towards a value for money proposition without becoming cheap. For 2009, we'll have to carefully monitor our pricing strategy. ■



Hansjürg Klingler, Member of the Group Management, joined Lindt & Sprüngli in 1994 in a marketing function and subsequently built up country organisations for Canada and Australia as well as the company's travel retail division.