



DUTY FREE SHOP



Trends in the International Duty-Free Retail Market

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Duty-Free shopping is one of the highest earning industries in retail, despite it being one of the youngest. Irish businessman Brendan O'Regan introduced the concept at Shannon Airport during the late 1940s, after being inspired by on-board shopping. He would have been baffled to learn that his idea is now implemented at airports around the globe and the industry generates over 70 billion dollars a year.

What does the future have in store for the International Duty-Free Retail Market? In this trend magazine, we will explore the most prominent trends.



Better customer experience

Airport terminals are designed to make the customer experience as convenient and relaxing as possible. Duty-free shops play an important role in this setting. A lot has changed in the last decades: in the past, duty-free shops looked very similar to travelers. They offered the same products, brands and atmosphere.

As the amount of stores increased, it became more important to stand out. That's why nowadays, many duty-free shops are mirroring the shopping center model. They become more sophisticated and focus on a luxurious customer experience. Some stores even add beauty centers and restaurants in order to appeal to a certain group of travelers.

TECHNOLOGY AND DUTY-FREE SHOPPING

Duty-free shops are making the most of new technology. At Munich Airport, you can find humanoid robot Josie Pepper (st)rolling the halls, helping travelers to find their way. Augmented Reality (AR) is also a very promising technique. For example, AR-apps can use arrows to point the customer in the walking direction of a desired store. AR can also be used to generate a 3D models of products sold in the duty-free shop.

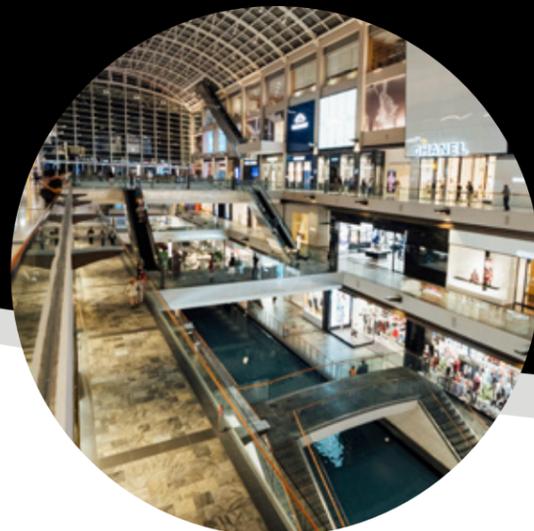
These techniques can drastically improve customer experience, as customers are entertained and informed at the same time. On a less futuristic note, many shops allow customers to pay with their smartphone and to use methods like Alipay, a very popular option with Chinese consumers.

THE RISE OF SELF SERVICE

Many customers look for convenience when shopping at duty-free stores. They want their desired products quickly and without any hassle. That's why self-service solutions like kiosks may result in happier customers. Many suppliers use this channel as a relatively cheap way to advertise new products to travelers from all over the world.



‘In China, the far east and Latin America, airports with a large number of duty-free shops are developing at a fast pace.’



Environmental sustainability of airports

As climate change becomes more and more apparent, airports are expected to play their part in making travel more sustainable.

HIGHER ENVIRONMENTAL AWARENESS OF CUSTOMERS

Sustainability is an important topic for governments and citizens alike. Consumers now realize that their choices have a significant impact on the environment. Subsequently, they have become more conscious of the impact of aviation on the environment.

This explains why the term ‘flight shame’ rose to popularity. According to Costas Christ in The New York Times, flight shame revolves around the following premise: *“Flying is bad for the climate, so if you care about life on Earth, don’t fly.”*

Customers that still want to travel by air, often try to do so sustainably. That’s why some airlines offer the option to pay for CO₂. These environmentally conscious customers also have high expectations from duty-free shops. For example, they expect shops to produce less waste, to offer plastic-free packaging and to provide vegetarian meal options.

ONLINE COMPETITION AND HIGHER DEMAND FOR PREMIUM BRANDS

Just like every other retailer with a physical shop, duty-free shops need to compete against online sellers. A tough job, since online competitors often have a much wider selection of products. To combat this trend, several duty-free chains are introducing online orders that can be picked up at the duty-free store.

TRAVELLING RESTRICTIONS/BANS (COVID-19)

The outbreak of the coronavirus (COVID-19) has had a dramatic impact on the aviation industry. Governments all over the world decided to impose restrictions on commercial flying, in order to halt the spread of the virus. This resulted in an extreme drop in passengers, which was problematic for the duty-free shops. No passengers means no sales. Shops need to decrease the amount of stock, but are not able to because they need to order full containers.

The international travel restrictions are expected to have a long-lasting impact. Experts are hesitant to make projections about when the cases will drop low enough to allow large-scale commercial flying again.



Changing spending habits

In the previous economic crisis, shops in the duty-free retail sector noticed a change in spending habits. Before the crisis, customers used to turn to duty-free shops for expensive goods, such as sunglasses, watches and accessories. During these times of economic hardship, buyers shifted their focus to luxurious food and beverages. Travelers still wanted to take something with them after their journey, but didn't want to spend too much money. The same pattern is expected during the corona crisis when commercial flying is allowed again. Business trips will most likely decrease, therefore, tourism will become the new focal point of duty-free shops. Tourists often have very different spending habits than business travelers. They usually travel with their family and tend to make impulse purchases. In this case, confectionary is the most important segment.

Sustainable procurement policies

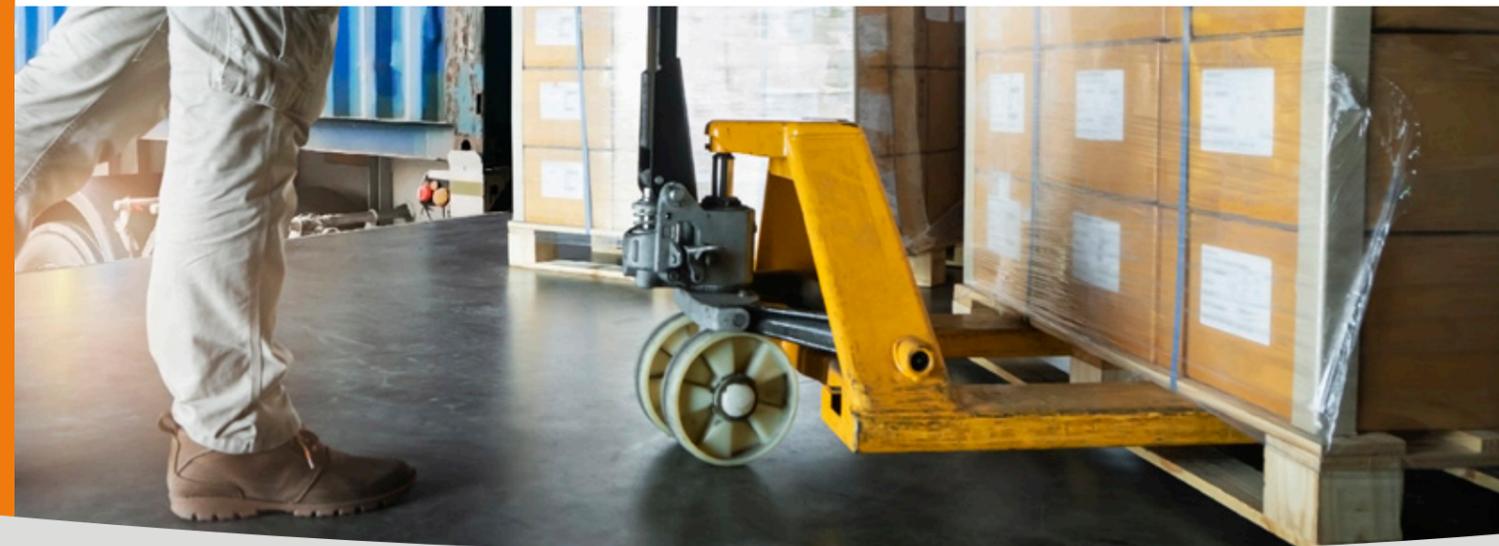


Encouraged by consumers, airports, sustainability has become an important factor for the duty-free retail market. How can duty-free shops implement sustainable procurement policies?

SELECTING A MORE DIVERSE RANGE OF PRODUCTS

When selecting products for a duty-free shop, it is important to offer customers a wide range of different products to choose from. Many shops also try to stock unique products in order to stand out from the crowd. However, few smaller companies offer the option to ship small quantities of their product. This is why premium brands often dominate the shelves.

In some companies, bundles of products from different suppliers are combined into a single container. This way, it is possible for duty-free shops to procure smaller quantities of special products as well as larger quantities of products from premium suppliers. This can help shops gain an advantage over other companies in the market.



Material requirements planning

When it is only possible to buy full containers with products from one certain supplier, inventory management becomes a nightmare. Duty-free shops often wait until they have almost run out of products from a certain supplier. Or, they order containers before that moment and their stock will overflow when it arrives. These methods are also very time consuming. When the products arrive, shop managers need to plan several moments for staff to empty a container.

Duty-free shops want to be able to buy smaller amounts of product instead of full containers. That's why certain partners consolidate products from multiple suppliers in one container. This way, stores can order a variety of different products at once. That allows them to order exactly what they need, at the right time.



‘Some consumers are looking for products that are easy to share, while others are more interested in gifts.’





‘The duty-free market is highly fragmented and dominated by a few companies.’

Sea freight versus air freight

Compared to air freight, sea freight is a more sustainable method of transportation. According to the British Department for Environment, Food and Rural Affairs, 2 tonnes of freight carried for 5,000 kilometers by a small container ship creates 150 kilograms of CO₂e (a measure of relative global warming potential). If the freight is carried by plane for the same distance, 6,605 kilograms of CO₂e is produced.

While traveling has plummeted in 2020, the effect of the corona crisis on sea freight has been negligible. Most large players in the market are even relatively positive about the future. Their optimism is a result of the surge in popularity of e-commerce. Consumers were unable to travel and go out, so they sought for other ways to safely spend their money. This increased the amount of parcels and therefore the demand on transportation of goods. Because capacity of air transport was severely limited, sea freight became a better option.



THE FUTURE OF DUTY-FREE SHOP DELIVERY



Less Stock



Save Costs



More Efficient



Sustainable



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1Freight
Havenlaan 25
5433 NL Cuijk/Katwijk aan de Maas
The Netherlands

1freight.com

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