



## **Travel retail faces its moment of truth: strategies to reinvigorate the marketplace**

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Kearney wishes to thank the 40 industry executives interviewed for sharing their insights and perspectives on travel retail. We would also like to thank TFWA for allowing us free rein in the writing of the report and for providing helpful support throughout our study. We are glad to contribute to shaping the future of the industry and to support travel retail players in tackling the multiple stakes and changes the marketplace is undergoing.

# Executive summary

Travel retail has faced many disruptions over its history: economic, cultural, political, and—of course—the pandemic. The COVID-19 pandemic rewrote the travel retail rulebook, disrupting a decade of growth, amplified by the resurgence of inflation. The market recovered slightly in 2022, reaching approximately 75 percent of its 2019 levels. If initial recovery average spend increased in 2020 and 2021, it showed a decline starting in 2022, which is concerning. To better understand travel retail’s new consumer behavior, Kearney conducted a comprehensive study involving 3,500 customers across 10 countries, as well as in-depth interviews with more than 40 senior executives from global airports, carriers, travel retail, and brands.

Our research identified a crucial issue: there is a mismatch between duty free’s historical value proposition and consumers’ new expectations. First, price competitiveness is eroding. Fifty percent of traveler survey respondents perceive duty free prices as less competitive than domestic and online retail. Perhaps worse over the long term, product offer does not match the needs of evolving travelers with—depending on the category—20 to 40 percent of respondents reporting dissatisfaction with assortment.

An industry consensus is forming around the idea that, to regain growth and customer spending, travel retail must pivot its value proposition from being price-/value-centric to being traveler-centric. This new focus should be built on four key pillars:

- **Assortment:** compelling, sustainable, available, and distinctive product offers
- **Price:** enhanced perception of value for money
- **Service:** travel-friendly retail designed to solve common passenger pain points
- **Experience:** immersive and exciting consumer engagements that elevate the journey by moving from transactional to experiential

Successful implementation of a new traveler-centric value proposition depends on increased collaboration within the ecosystem. While the industry still thinks in terms of the well-known “trinity”—airports, retailers, and brands—our research shows it needs to evolve to a “pentarchy” model adding carriers (airlines, trainlines) plus digital and media partners (media agencies and display advertisers; tour operators, travel agencies, and mobility players; and tech companies) to the “trinity” as necessary transformation enablers.



Transformation is grounded in five strategies:

1. **Get the ABCs of retail excellence right.** Secure product availability, enhance visual merchandising, and upskill sales associates and brand ambassadors.
2. **Build strong marketing capabilities using data to segment value proposition.** Increase conversion rate and average basket with improved data monitoring and systematic analysis.
3. **Adopt a differentiated marketing strategy to enable a new travel retail value proposition.** Curate a dedicated product offer tailored to customer segments, supported by sophisticated pricing and real-time information flows.

4. **Elevate the operating model of each stakeholder to meet higher standards.** Optimize operating models around five key capabilities—product offering, price strategy, operations, commercial strategy, and governance.
5. **Envision long-term partnership with the “pentarchy.”** Foster a collaborative environment with equitable value-sharing models among the five stakeholders, with mutual benefits including unified understanding of traveler behavior and more attractive economics.







# The travel retail market has almost recovered and is close to reaching pre-COVID levels supported by passenger resurgence

While the travel retail industry has weathered many storms, from the 1997 Asian financial crisis to the 2008 financial crisis, nothing disrupted the industry as much as COVID-19, followed by inflation resurgence. The pandemic brought 10 years of steady market growth—which saw sales more than double between 2009 and 2019, a 9 percent compound annual growth rate (CAGR)—to a screeching halt.<sup>1</sup>

To understand where the industry is today, where it is going tomorrow, and—most importantly—identify pragmatic steps from bridging the past to sustainable future success, growth, and profit, Kearney has conducted a comprehensive study involving 3,500 customers across 10 countries, as well as in-depth interviews with more than 40 senior executives from global carriers, airlines, travel retail, and brands.

Our research identified a crucial issue. Despite a partial rebound, duty free's traditional value proposition is under attack. For one thing, price competitiveness—or at least perceived price competitiveness—is eroding. Half of traveler survey respondents see duty free prices as less competitive than those in traditional and online retail outlets. Perhaps worse over the long term, assortment is no longer matching the needs of rapidly evolving travelers. Depending on the category, 20 to 40 percent of respondents report dissatisfaction with existing travel retail propositions.

So, given these limitations, how do we account for the industry's past growth and at least partial rebound? Let's take a deeper look at the pre-COVID market.

## Travel retail growth was strong up to 2019

Much of the industry's growth was linked to the explosion of the Asia Pacific region that saw the market double between 2014 and 2019, a 16 percent CAGR.<sup>2</sup> Several factors contributed to this meteoric rise. First and foremost, the region saw a significant increase in outbound tourism, fueled by a burgeoning middle class with disposable income and a thirst for travel. Countries such as China, South Korea, and India emerged as powerhouses of outbound tourism, with millions of new travelers each year.

Secondly, recognizing the potential for revenue generation, airports in the region invested heavily in expanding and upgrading their retail spaces. Brands also tailored their strategies to cater to Asian consumers, offering products that resonated with local tastes and cultural preferences.

In mature markets, such as Europe and the Americas, growth had been steady, but far less dramatic. Between 2009 and 2019 the European market grew by a 2.7 percent CAGR and the Americas market experienced a 4.4 percent CAGR.<sup>3</sup>

Other geographies such as the Middle East also experienced strong growth (+6.1 percent per year) linked to airports such as Hamad International Airport in Doha, Qatar and Dubai International Airport. African markets rose by a 3 percent CAGR from 2009 and 2019.<sup>1</sup>

<sup>1</sup> TFWA, Kearney analysis

<sup>2</sup> TFWA, Kearney analysis

<sup>3</sup> TFWA, Kearney analysis

## COVID brought a sudden stop to growth

There is no question that the COVID-19 pandemic fundamentally reshaped the global travel landscape, leaving an indelible impact on both travelers and the industry at large. The well-documented decline in international air traffic in 2020 (-76 percent vs. 2019) continued through 2021 (-74 percent vs. 2019).<sup>4</sup> Border closures and fluctuating travel restrictions have created a labyrinth of challenges for international travel, often accompanied by mandatory quarantine measures that have made even short-term trips impractical. As a result, the overall market decreased sharply, but again the losses were not equally distributed across categories or geographies.

If we compare duty free and travel retail sales in 2020 versus 2019, we find an overall market decrease of 52 percent.<sup>5</sup> These losses were split by geography with Asian performance relatively well-preserved, thanks in part to domestic Chinese travel purchases, and other continents more affected.

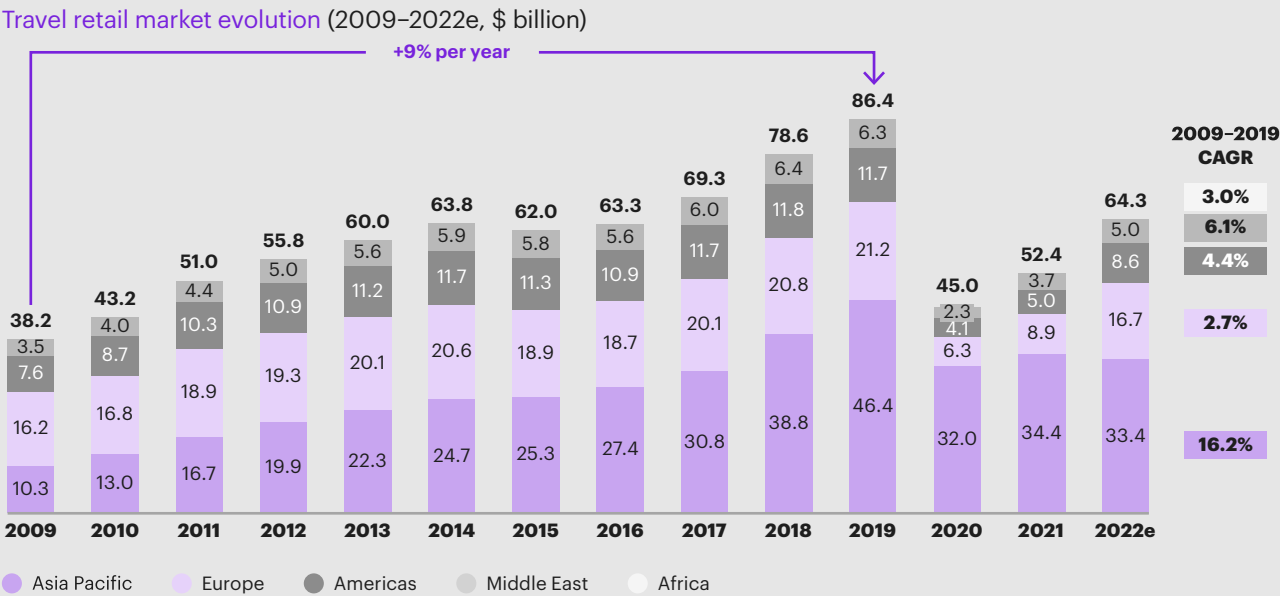
<sup>4</sup> Airports Council International  
<sup>5</sup> TFWA, Kearney analysis  
<sup>6</sup> TFWA, Kearney analysis  
<sup>7</sup> Airports Council International

## Since then, the market has been slowly recovering

Fortunately, air traffic is picking up again. Most air travelers are comfortable and glad to be flying. And, thanks to the return of passengers, the travel retail market is almost back to pre-COVID levels primarily driven by two categories, fragrances and cosmetics (13.4 percent CAGR rate over the period) and fashion and accessories (9.2 percent CAGR).<sup>6</sup>

Air traffic started picking up in 2022, reaching 74 percent of 2019 numbers.<sup>7</sup> The results from Q1 2023 showed an 82.5 percent recovery from Q1 2019, with 620 compared to about 750 million international air travelers. IATA is expecting the overall traveler volume to reach 2019 levels by 2024 with some regions reaching these levels before (North America in 2023) and some later (Asia Pacific, Africa) (see figure 1).

Figure 1  
**The travel retail market grew steadily between 2009 and 2019 before being strongly impacted by COVID-19, but is slowly taking off again in 2022**



Note: 2022 market value is a forecast, to be confirmed.  
Sources: TFWA. Generation Research: Kearney analysis

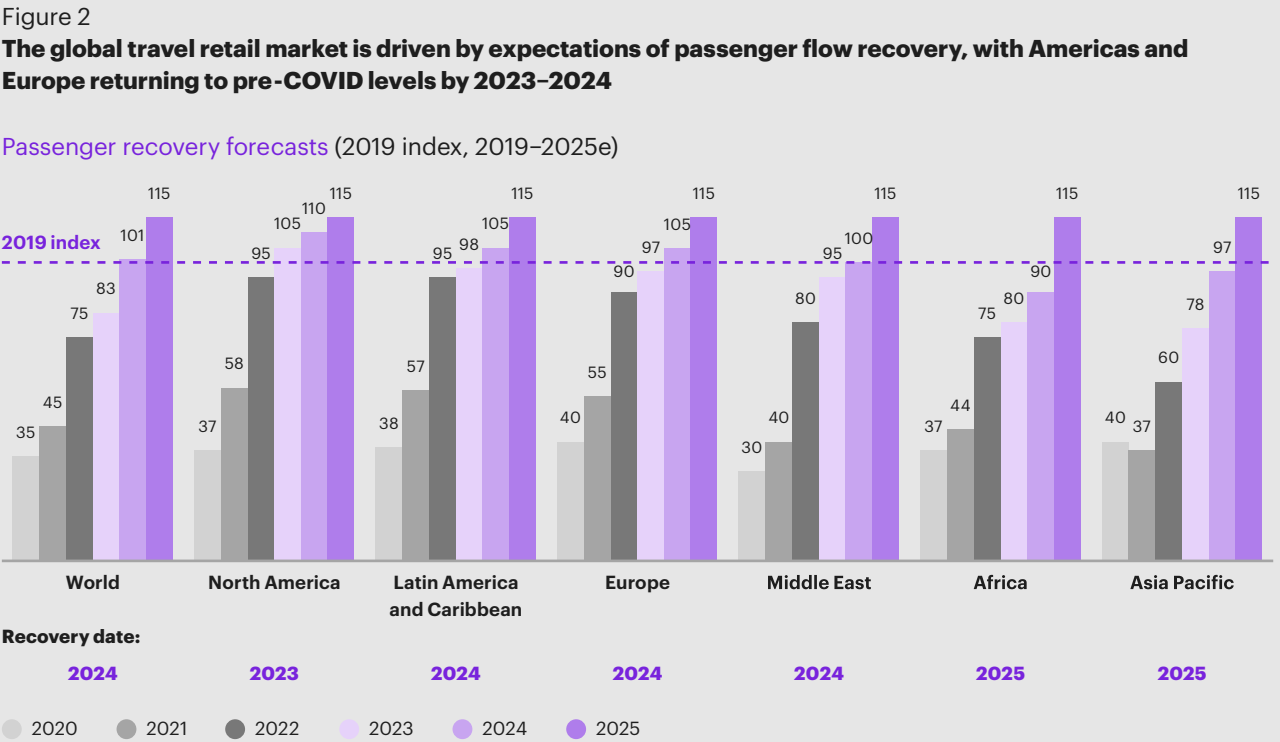
With air traffic picking up, the duty free market began to regain lost ground, reaching 61 percent of the 2019 market in 2021 and 74 percent in 2022 (according to first estimates), with some variation between regions (see figure 2).<sup>8</sup>

After an initial quick recovery (74 percent of the 2019 market in 2021), performance in the Asia Pacific region decreased slightly in 2022 (72 percent of the 2019 market in 2022), which was partly due to international travel bans being reinforced in key countries, especially China. Local market demand only managed to counterbalance part of this gap (for example, with Hainan).

Europe and the Americas followed a more progressive recovery trajectory reaching 42 percent of the 2019 market in 2021 and 75 to 80 percent of the 2019 market in 2022. Category-level recovery was far more uniform, reaching between 70 and 80 percent of 2019 market value in 2022.

There is a danger, however, that the ground the industry has fought so hard to regain may still be lost because of challenges to travel retail’s historical value proposition.

<sup>8</sup> Generation Research



Sources: IATA; Kearney analysis



## Passengers are flying more but spending less

Today's air travelers need to be understood and appreciated on their own terms, and advertised, merchandised, and catered to in much the same way they are on Rodeo Drive, the Champs Élysées, the Via Montenapoleone, Bond Street, Orchard Road, Hong Kong's Central, or the Mall of the Emirates.

In the three years before COVID, travel retail market growth accelerated faster than the growth of air traffic. Average spend per traveler increased by 6 percent between 2018 and 2019 thanks in large part to the burgeoning adoption of "premiumization" or trading up strategies by retailers, especially across such crucial categories as wine and spirits and fragrances and cosmetics.<sup>9</sup> The strategy was deceptively simple—sell more higher-end goods—and individual store sales will climb even if store traffic is static or, in some cases, declines. The problem was—and is—that consumers weren't simple or deceived, at least not for long.

In the short term however, it could not have worked any better. Fliers who had been trapped in their homes for almost two years broke free of lockdown restrictions with reckless abandon. Per traveler spend peaked in 2021, fueled by a phenomenon that came to be known as "revenge buying," which benefited almost every retail sector, especially travel retail. Anxious to get out of the house and reclaim as much of a sense of normalcy as possible, consumers danced down the aisles of stores, indulging themselves in experiences that, just a few months before, had been prohibited at worst or constrained at best by law, filling their arms and shopping carts with purchases that were previously off limits.

Traveling, and shopping when you traveled, became for many people equal parts adventure, emotional compensation, and statement of liberation from the constraints of the pandemic era. Not surprisingly then, travel retail experienced a particularly strong rebound, benefiting from this unique historical moment fueled by consumers with—what seemed at the time—an endless desire to make up for lost time. But even the best parties have to end sometime, and sometimes the pain of the crash outweighs the giddiness of the celebration.

<sup>9</sup> Generation Research

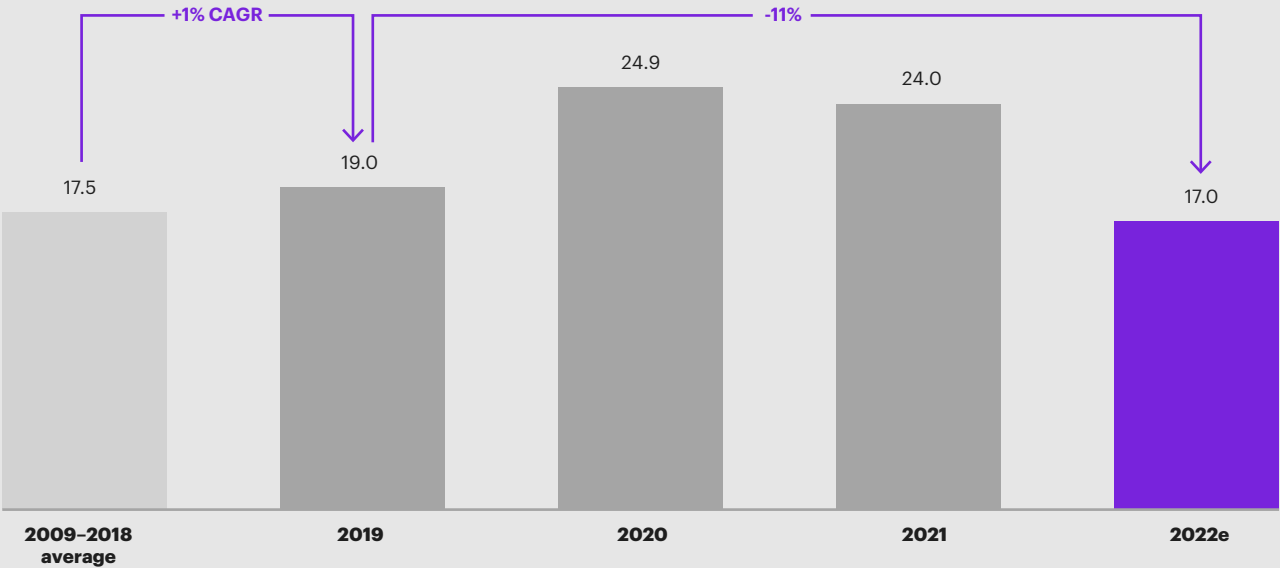
Revenge buying had its moment, but like all moments, it was over faster and more forcefully than anyone predicted.

As mentioned previously in figure 2 on page 5, 2022 displayed a high traffic resurgence. However, that same year, spend per traveler had not only declined from its previous high, but sank to levels last seen in 2017. Several factors contributed to this downturn, including the fact that the initial mania accompanying “the end” of COVID, or at least COVID-related restraints, was emotionally and economically unsustainable. Having survived both the party and the hangover that inevitably followed it, consumers went back to their lives—and spending patterns. That didn’t mean the industry itself was back to normal, or what generally passes as normal.

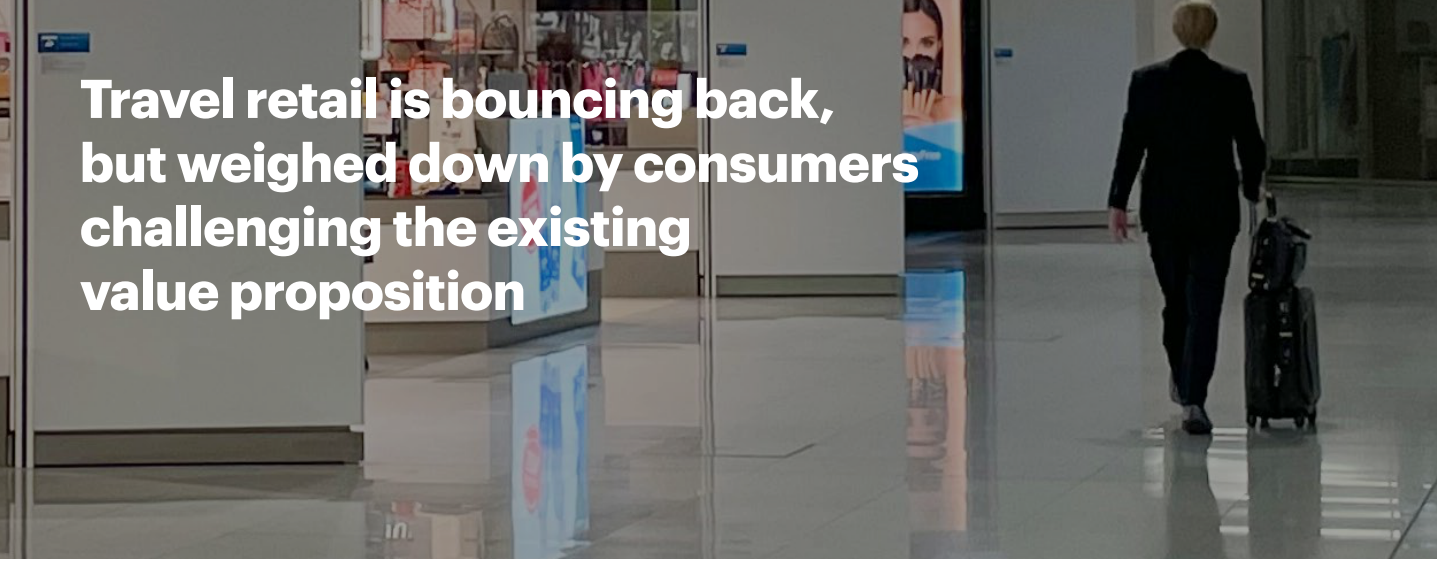
COVID might have gone away, but consumers were soon focused by a set of new enemies in the form of ongoing supply disruptions and inflation, which together delivered a one-two punch to household cost-of-living budgets. These new constraints caused recently promiscuous purchasers to become far more aware of, and cautious about, their increasingly shrinking discretionary spending capabilities. Travel retailers had to once again face a new consumer, one with far more conservative buying behaviors (see figure 3).

Figure 3  
**Despite market recovery, spend per traveler in 2022 is expected to be 11% below 2019 levels**

Spend per traveler (2009–2022e, \$ per traveler)



Note: 2022 is a forecast, to be confirmed.  
Sources: TFWA, Generation Research; Kearney analysis

A person in a dark suit is walking away from the camera through a brightly lit travel retail store. They are pulling a black rolling suitcase. The store has glass walls and displays of various products. The headline is overlaid on the top left of the image.

# Travel retail is bouncing back, but weighed down by consumers challenging the existing value proposition

## Overall, customers value price competitiveness and product assortment

For the majority of travel retail categories, price continues to be the most compelling factor influencing customer buying decisions—not surprising when you consider the inflationary forces all competing for an increased share of a shrinking wallet (see figure 4 on page 9). This is particularly true for heavily taxed categories such as tobacco goods. In the survey conducted by Kearney for this report, price is mentioned by 41 percent of respondents as among the top two reasons for purchasing tobacco goods, and for wine and spirits it is cited by 39 percent of respondents. Travelers are less focused on price in categories such as confectionary and fine foods and, to a lesser extent at least, electronics, gifts, and others. But price perception seems to have a geographic or cultural element. Our survey found price sensitivity for a given category varies, sometimes significantly, from one country to another. Travelers from France or Germany, for example, appear more price sensitive than those from China or Japan.

But, even in the most inflationary of times, it isn't all about price.

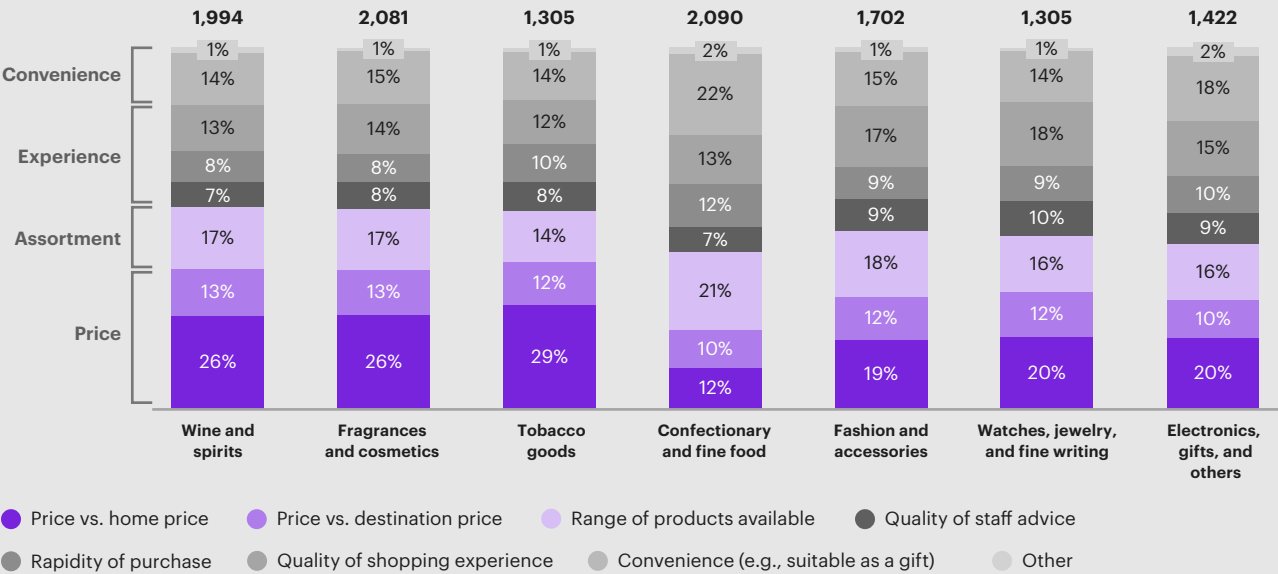
You can't sell what is not displayed, making getting product assortment the second most compelling factor shaping consumer travel retail purchasing behavior. Depending on the category, respondents mentioned assortment between 14 and 20 percent of the time as among the top two reasons for purchasing.

Travelers are increasingly sophisticated, discerning, and looking past “bargains.” Instead, they expect to find a wide and deep range of options that match their specific needs and preferences. The depth of product offerings, from limited-edition releases to a broad spectrum of SKUs, can significantly influence purchasing decisions. Moreover, availability—or the assurance that desired products are in stock—also plays a crucial role in the evaluation of individual travel retail stores.



Figure 4  
**Price and, to a lesser extent, assortment, are the two key reasons why customers purchase in most product categories**

Duty free consumer reasons to buy (Survey, N=3,570, as of July 2023)



Source: Kearney survey

## Consumers are increasingly challenging this value proposition

Let’s look across categories at what is stopping people from making a purchase when they fly. While respondents told us that high prices or high price perception—and they aren’t necessarily the same thing in the same way that low price perception doesn’t always mean actual low prices—is a crucial factor for purchasing, it is not the first purchasing concern for most of the categories (see figure 5 on page 10). So, let’s look at some specific reasons travelers don’t purchase certain goods:

- **Wine and spirits.** A third (33 percent) of respondents said they were unwilling to carry more items, the most in any category. This seems logical considering volume and weight compared to other categories, but also customs restrictions.
- **Fragrances and cosmetics.** High pricing is the top reason not to buy for this category, according to 37 percent of respondents.

- **Tobacco goods.** Assortment is the key issue in this category, with 39 percent of respondents reporting “not the right product” or “product out of stock” as reasons they didn’t make a purchase.
- **Confectionary and fine food.** Respondents indicated three factors negatively impact purchases in this category—assortment, which received 27 percent of mentions, service/ convenience (23 percent), and price (21 percent).
- **Fashion and accessories.** Assortment is the clear driver here. Thirty-four percent of respondents, the highest ranking for any category, cited assortment as a reason for not making fashion and accessory purchases.
- **Watches, jewelry, and fine writing.** This category has the greatest price sensitivity, with 41 percent of respondents citing high pricing as a reason not to buy, followed by assortment.
- **Electronics, gifts, and others.** With a 28 percent response rate, assortment is clearly the reason travelers pass on buying goods in this category.

“Carrying more items is a recurrent pain point, so there is a need for product exclusivity and uniqueness to entice customers in making this trade off.”

– Marketing director, wine and spirits company

“Electronic products are perishable, and travel retail is slow to adjust assortments on this category. This creates a mismatch between customers’ needs and the electronics duty free offer.”

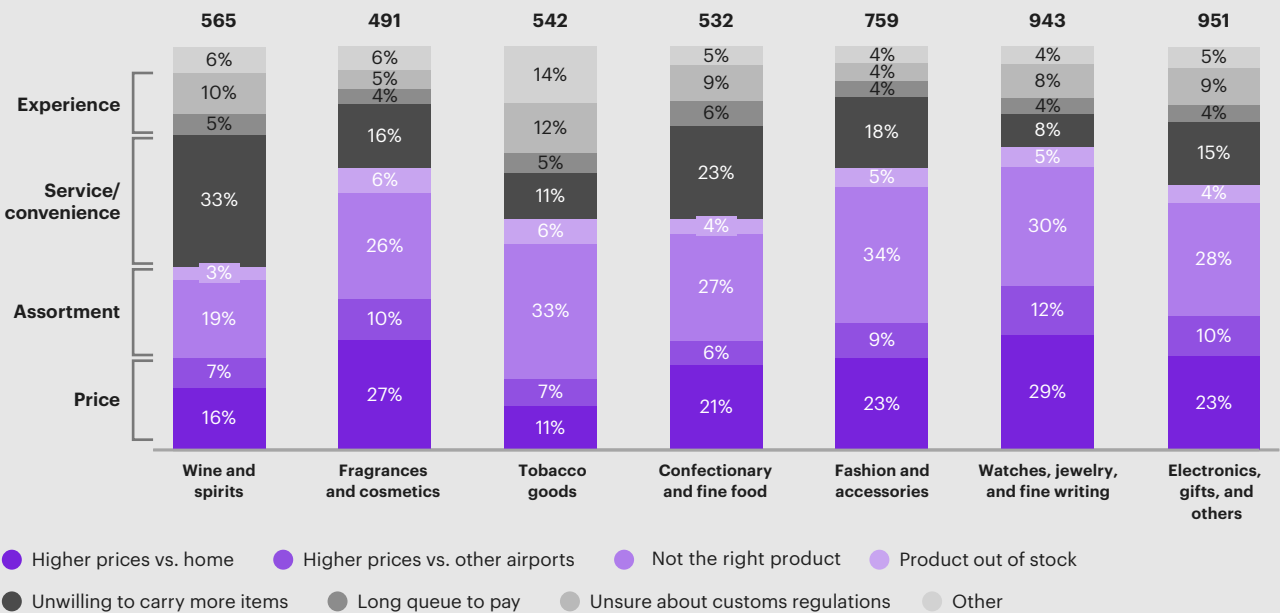
– Executive, electronics group

“Erosion of tax advantages in many countries urge for shifting the strategy to widening assortments to maintain customer retention.”

– Head of sales, tobacco goods group

Figure 5  
Uncompetitive price and unsatisfying assortment are the two main reasons why travelers do not shop

Duty free consumer pain points (excluding lack of interest) (Survey, N=3,570, as of July 2023)



Source: Kearney survey

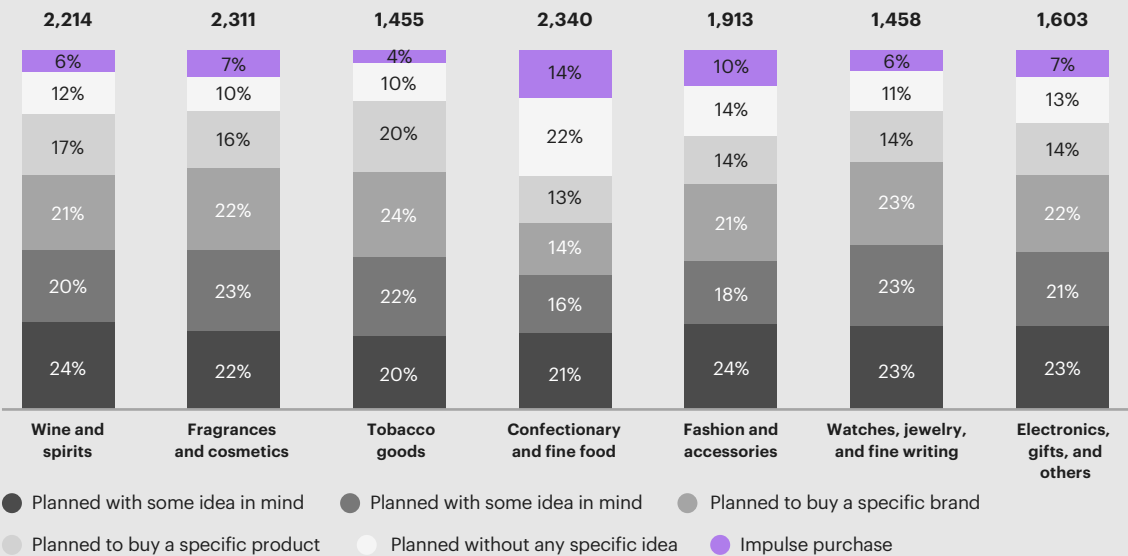
## The buying pattern is still driven by planned purchase

Travel retail heavily relies on planned buying. Our survey results show that today less than 10 percent of customer respondents make an impulse purchase (see figure 6). Across categories more than 40 percent of customers come into a duty free store with a specific brand or product (or both) in mind, leaving little room for new experiences or building relationships. Today’s duty free shoppers just aren’t looking for an opportunity to be surprised with a shopping experience, which creates a significant opportunity for travel retailers to expand the consumer shopping experience, a move that will appeal to more spontaneous customers and may begin to change traditional consumer mindsets.

Travel retail heavily relies on planned buying. Our survey results show that today less than 10 percent of customer respondents make an impulse purchase.

Figure 6  
**Purchasing in duty free remains a planned activity—across all categories, less than 10% of customers buy spontaneously**

Duty free buying patterns across categories (Survey, N=3,570, as of July 2023)



Source: Kearney survey



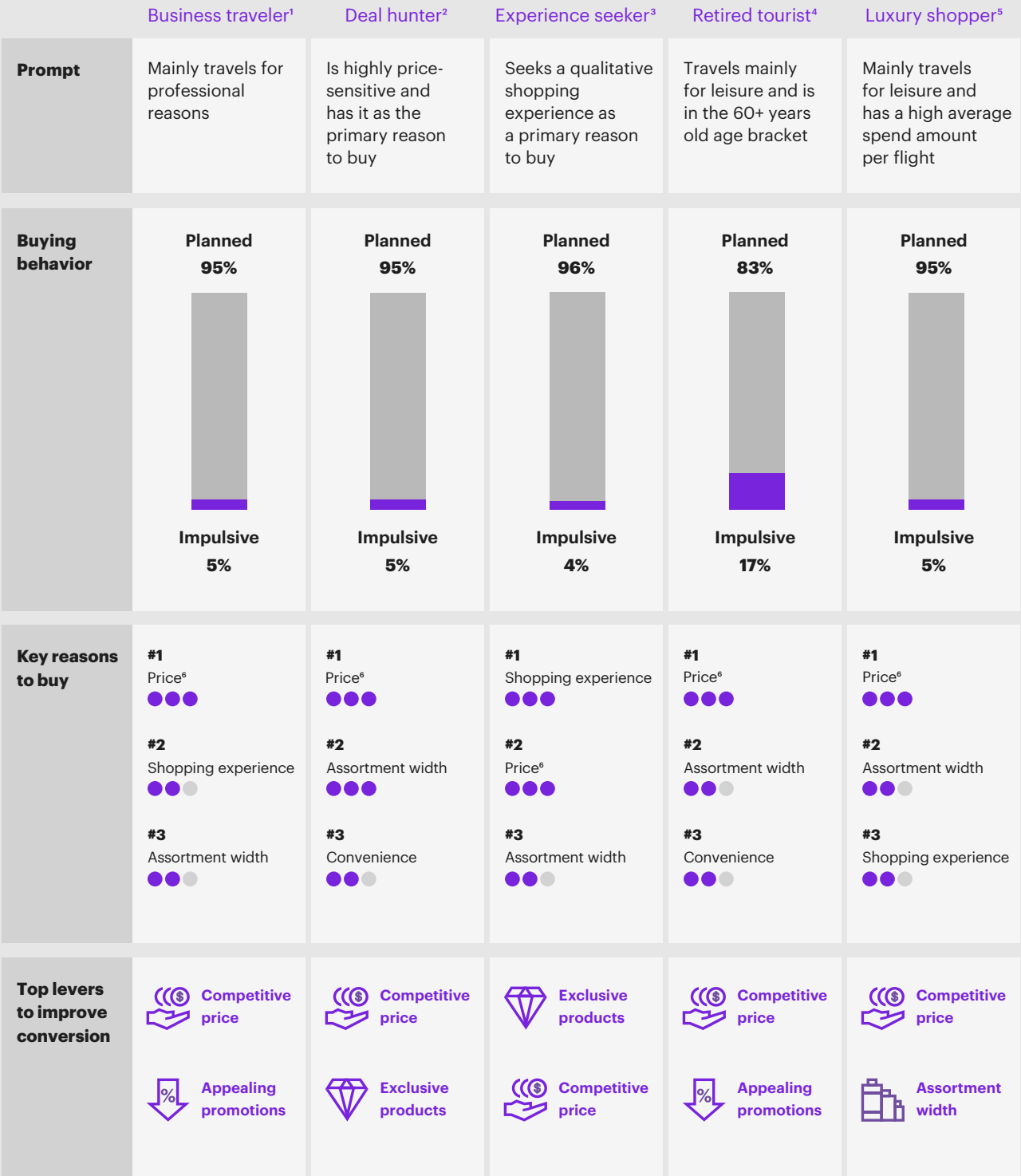
## Five personas represent 70 percent of travel retail customers

Through our survey, we identified five key personas representing 70 percent of travel retail customers (see figure 7 on page 13). Each persona has specific patterns of attraction, shopping, and conversion:

- **Business travelers.** Those in this group are typically price- and experience-motivated frequent flyers, drawn to attractive promotions.
- **Deal hunters.** These are primarily and intensely price-oriented buyers who also value broader assortments.
- **Experience seekers.** These shoppers seek exclusive experiences and products, most represented among younger generations (Gen Y and Z).
- **Retired tourists.** These customers shop with price in mind, always looking for bargains compared to their domestic market, and are attracted by wide assortments of convenient products. This is the only category for which impulse buying is frequent (around 15 to 20 percent of purchases), mostly when shopping for local souvenirs or gifts.
- **Luxury shoppers.** Luxury shoppers want a wide selection of competitively priced products.

The only category for which impulse buying is frequent (around 15 to 20 percent of purchases), mostly when shopping for local souvenirs or gifts, is retired tourists.

Figure 7  
**Five key personas represent 70% of the customer panel**



●● High – 25%+ of total mentions    ●●● Medium – 15–25% of total mentions    ●●● Small – below 15% of total mentions

<sup>1</sup> Business travelers are aged 25 to 65, fly primarily for business reasons and at a medium to high frequency.  
<sup>2</sup> Deal hunters are flying primarily for leisure and are highly price-sensitive.  
<sup>3</sup> Experience seekers are aged 18 to 40, fly primarily for leisure, and are highly experience-sensitive.  
<sup>4</sup> Retired tourists are aged over 60 and fly primarily for leisure.  
<sup>5</sup> Luxury shoppers are aged 27 to 40, fly primarily for leisure, and at a medium frequency.  
<sup>6</sup> Price gathers two elements: price vs. home and price vs. destination.  
Source: Kearney survey

# Even in top international airports, fewer than half of travelers view duty free as a lower-cost shopping alternative

Our survey also found between 50 and 60 percent of respondents don't consider duty free stores price competitive but comparable, more expensive, and much more expensive than other retail alternatives (see figure 8). This negative price perception was as high as 60 percent for categories such as confectionary and fine food; fashion and accessories; watches, jewelry, and fine writing; and electronics, gifts, and others.

Although it varies considerably from country to country and airport to airport, overall, travelers are skeptical about exactly how price competitive duty free really is.

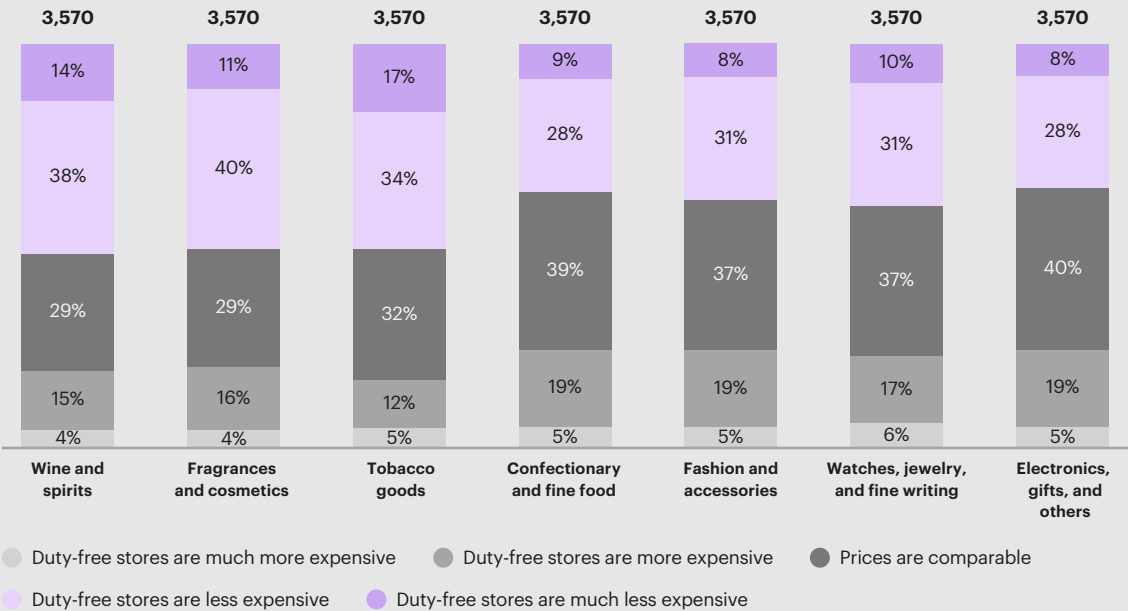
In early September 2023 we analyzed online reviews of 12 major international airports. Our goal was not to critique any individual airport but rather to understand what's driving customers' attention and their positive vs. negative feedback. Experience was the number one traveler discussion topic, with 45 to 50 percent of analyzed reviews concerning either queuing, staff, or display/overall visuals (see figure 9 on page 15). Price came second, figuring in 25 to 30 percent of reviews.

The analysis showed significant room for improvement across the four key pillars of the value proposition, especially on price: almost 50 percent of price reviews were negative (see figure 10 on page 15). Service is also lagging behind, with 31 percent of negative reviews. Assortment and experience showed better performance as both had 73 percent of positive reviews, but there is still potential for growth.

We then took a deep dive into the main pain points and positive points expressed per category to understand what's important for customers (see figure 11 on page 16).

Figure 8  
**Fewer than 50% of travelers perceive duty free stores as less expensive than traditional stores**

Perception of duty free prices compared to traditional retailers' prices (Survey, N=3,570, as of July 2023)



Source: Kearney survey

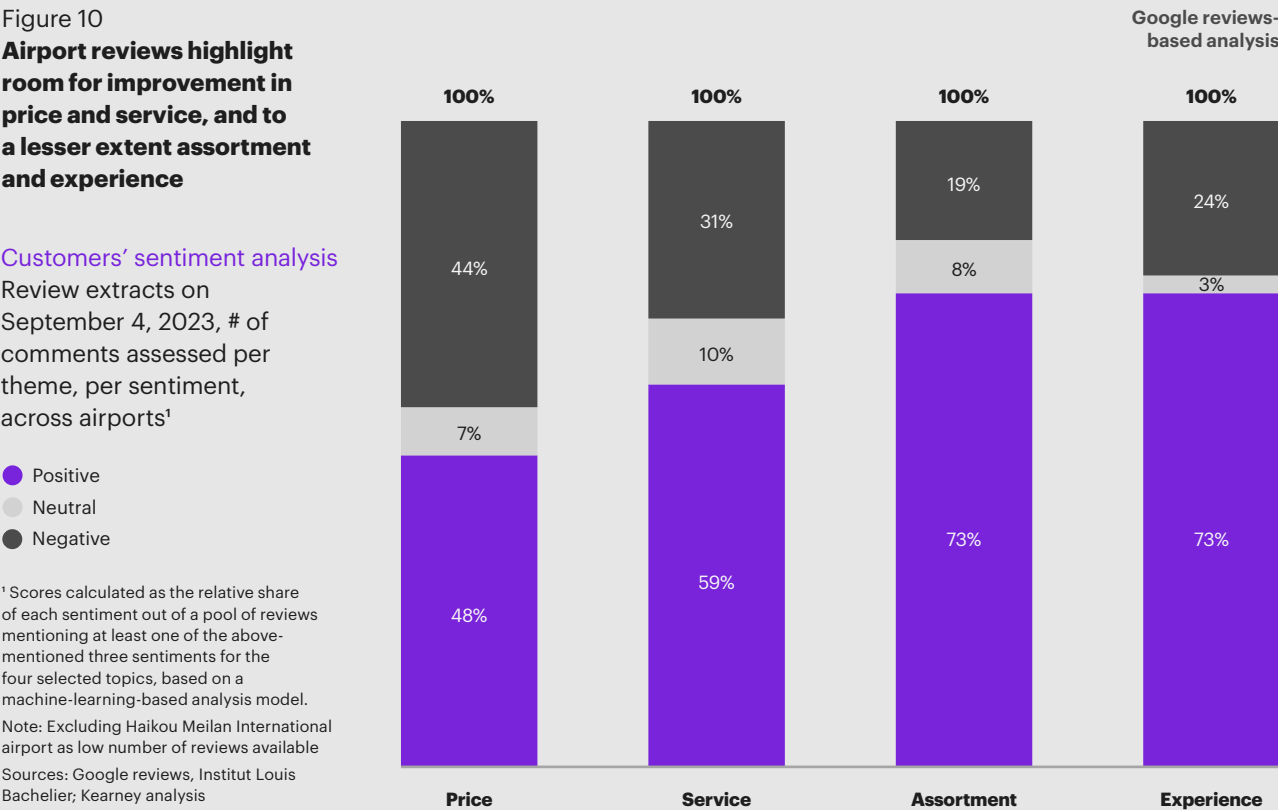
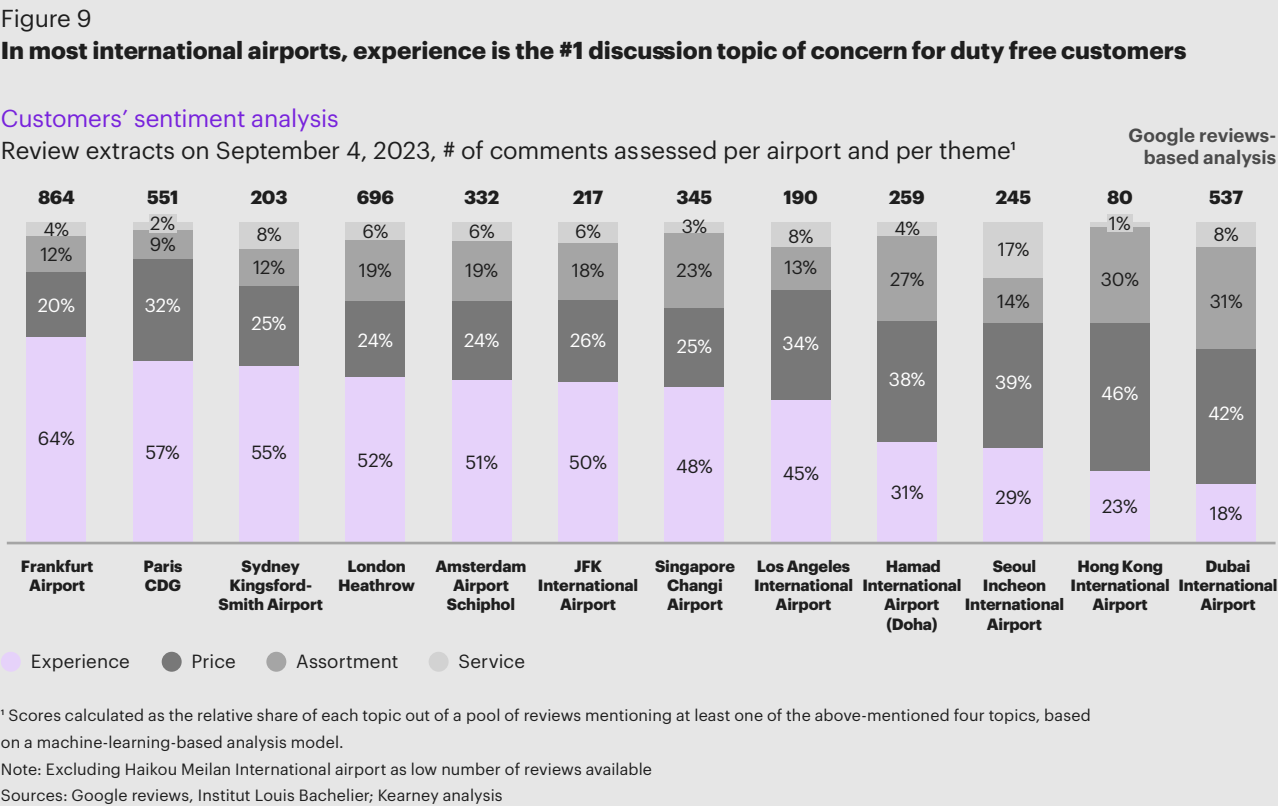






Figure 11  
Main pain points and positive points expressed


Customers’ sentiment analysis  
Review extracts on September 4, 2023, selection based on studied themes and airports

Google reviews-based analysis

	Positive	Negative
<div>Experience</div> <div></div>	<ul style="list-style-type: none"><li>— Welcoming staff member/salesperson</li><li>— Useful and constructive advice by sales associate/brand ambassador</li><li>— Spacious and tidy stores</li></ul>	<ul style="list-style-type: none"><li>— Lack of staff</li><li>— Long waiting/queuing time</li><li>— Indifferent or incompetent staff</li></ul>
<div>Price</div> <div></div>	<ul style="list-style-type: none"><li>— Reasonable prices</li><li>— Discounts available all year</li><li>— Bundle offers available</li></ul>	<ul style="list-style-type: none"><li>— Price levels too high</li><li>— More expensive than downtown shops</li><li>— Misleading pricing and promotional display</li></ul>
<div>Assortment</div> <div></div>	<ul style="list-style-type: none"><li>— Wide range of available products</li><li>— Exclusive products</li><li>— Local assortments</li><li>— Selection of products from all over the world</li></ul>	<ul style="list-style-type: none"><li>— Limited assortment of brands</li><li>— Product not matching interests or needs</li></ul>
<div>Service</div> <div></div>	<ul style="list-style-type: none"><li>— Efficient click-and-collect/pre-order service</li><li>— App and membership discounts</li><li>— Good customer service: return policy, reservation</li></ul>	<ul style="list-style-type: none"><li>— Sealed packaging defaults</li><li>— Limited or nonexistent return policy</li><li>— Poor Wi-Fi connection</li><li>— Delivery services not available</li></ul>

Note: Excluding Haikou Meilan International airport as low number of reviews available  
Sources: Google reviews, Institut Louis Bachelier; Kearney analysis





# Post-COVID, travel retailing's value proposition is failing; new approaches are needed to better serve new consumers and bolster stakeholder profitability

Sadly, the industry's historical value proposition, which worked so well for decades, is under attack from multiple forces and simply doesn't match today's shoppers' expectations and demands around products, price, assortment, and service. The market's equilibrium, which so successfully balanced consumer demand and market supply, has been broken thanks to a shift in traveler profile, the near ubiquitous penetration of mobile devices competing for their attention, and an ongoing profitability war which is degrading the overall quality of the shopper experience. The result is a battered, and overall poor, value proposition, an almost total lack of personalized services and items tailored to the traveler, no effective efforts to build retention or loyalty, and unacceptable out-of-stock levels.

The industry's future will be determined both by the changes being forced on it and its response to those changes. Perhaps the most potent of these change agents are air travelers themselves, so let's start by looking at how a change in passenger mix is impacting sales and growth potential.

## The traveler profile is changing

### The passenger mix is shifting

Post-COVID we see a significant change in passenger mix in terms of nationalities, generational cohorts, and—most profoundly—consumer values, changes that have been building momentum for years.

An analysis of passenger nationalities on international flights reveals a dynamic blend of countries, with the share of passengers from any one country fluctuating every year. This dynamic mix closely mirrors the changing socioeconomic and geopolitical dynamics of their respective nations. Some new nationalities are emerging as prominent players in the travel industry. Germany, France, and the United Kingdom, for instance, did not feature in the top 10 nationalities list before 2019, yet now each represent a significant 6 to 8 percent share of all international travelers, according to IATA. The United States, which held a substantial 25 percent share of total passenger nationalities in 2018, has seen a notable decline, representing only 14 percent in 2021, reflecting shifting travel trends.

Much of this volatility in passenger numbers and mix is due to external social and political phenomena, such as Russia's war against the Ukraine and China's ongoing domestic travel restrictions, which have taken many Chinese citizens off international flights leading them to a local duty free alternative such as Hainan.

Younger travelers have different traveling habits

Before COVID the Asia Pacific region was driving significant travel retail growth. As restrictions in China continue to relax, the region is still vital to the health of the global industry. That said, at least over the past year or so the Chinese have been traveling less internationally, although we are confident they will be back, and when they are it's likely that the faces travel retail stores will see will be younger.

As American and European Baby Boomers and Gen Xers age, Millennials and Gen Zers have become increasingly significant segments of the traveling population. The number of Millennial and Gen Z fliers increased following COVID, and is expected to represent more than half of all air passengers in 2025.<sup>10</sup>

<sup>10</sup> Airport Technology

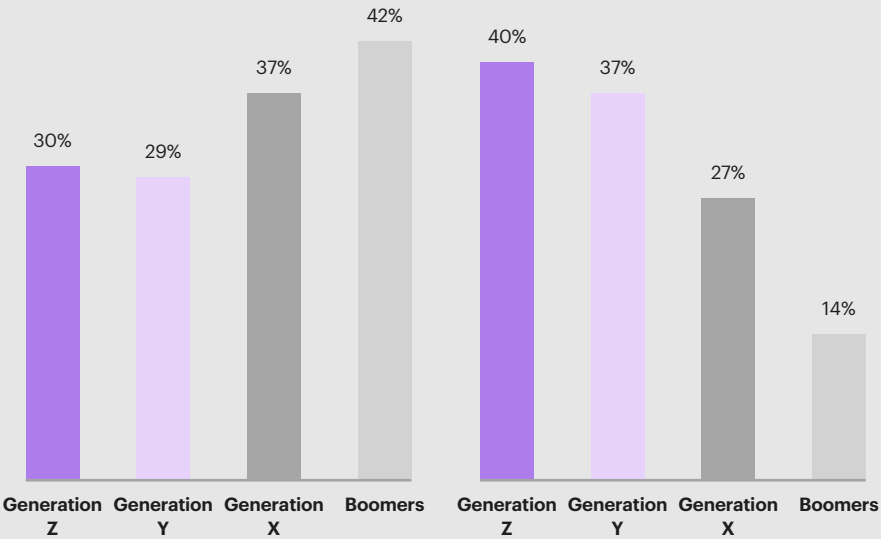
These younger fliers want different things from travel retailers than their grandparents, parents, and even older siblings. Generations Y and Z travelers are strongly drawn to food and beverage outlets, particularly those offering local, organic, and authentic options. While it is always dangerous to generalize about consumers, younger fliers value enhanced shopping experiences over simply acquiring products (see figure 12). This puts pressure on retailers to change the store environment, their merchandising, and the entire sales process from customer service to technologically assisted seamless points of sale.

The majority of these new shoppers use technology to research and source goods and services, read peer or influencer social media reviews, and compare prices and assortment. This means the travel retailer's real competition is anyone selling anything to anyone they might want to sell something to today or in the future. If Amazon can get a product to a shopper in Paris the same day they order it in New York, shouldn't travel retail offer airport-to-airport service?

Figure 12  
**Shopping experience has become a key reason to buy among younger generations, while the pricing factor has lost its decisional influence**

Respondents that mention "price" as a key reason to buy  
By generations, % of total responses, survey N=3,570, as of July 2023<sup>1,2</sup>

Respondents that mention shopping experience as a key reason to buy  
By generations, % of total responses, survey N=3,570, as of July 2023<sup>1,2</sup>  
Mentions of "quality of shopping experience," "quality of staff advice," or "rapidity of purchase"



<sup>1</sup> Generational categories are divided as: Generation Z (18-26 yo); Generation Y (27-40 yo); Generation X (41-60 yo); Boomers (61-100 yo).

<sup>2</sup> Responses pooled over a selected range of products sold in airports' tax-free zones and categorized using an age-based split of the respondents' populations

Source: Kearney survey

While older generations tend to prioritize cost over experience, the opposite is true for younger consumers. Thirty percent of Gen Z survey respondents cited price as a primary factor influencing their travel retail purchasing decisions, compared to 42 percent of Baby Boomers. Conversely, 40 percent of Gen Z participants highlighted the importance of the shopping experience, a sentiment shared by only 14 percent of Baby Boomers.

### **Low-cost carriers are increasing their market share**

Multiple external and internal factors, which may be justified, led to an increase in the price of air tickets. Broadly speaking, those factors could be inherent to the operation of an airline (for example, aviation fuel costs, advertising costs, costs associated with compliance, costs of airport gates, increases in and availability of labor, and maintenance costs) or discretionary factors (for example, service levels, provision and type of foodservice offerings, general marketing spend, product and service portfolio).

Whatever the reasons, pre-COVID, many major air carriers continued to raise fees and reduce services and experiences. This and other dynamics including route and frequency rationalization opened the door for the growth of low-cost carriers.

As a result, “budget” airlines enjoyed consistent growth, capturing approximately 16 percent of the market in 2006 and expanding to 35 percent by 2020.<sup>11</sup> The rapid growth of low-cost carriers also impacts overall infrastructure development. The creation of dedicated low-cost terminals or airports—built with low budgets and minimum investment—drastically limits the options to improve stores and merchandising or innovate the shopping experience.

So, taken as a whole, how are these generational, nationality, and occupational changes impacting the travel retail market? The answer is that the level of change is, in a word, nothing short of transformational.

## **Travelers have increasing sources of distraction/occupation in airports**

At the same time many airports are expanding their range of amenities and services, travelers are facing an increasing number of attractive distractions that compete with their shopping time, from gourmet dining and wellness centers to digital entertainment zones and their own smartphones. Like all of us, whether we travel or not, passengers spend significant time on their devices, at least some of it shopping for purchases that, in a pre-connected world, might have been made at a travel retail outlet.

This evolving commercial and technological landscape once again underscores the need for travel retail to innovate as never before, finding new ways to capture the passenger attention and effectively compete with the convenience of mobile shopping.

The numbers don’t lie: our industry expert interviews taught us that only 10 to 20 percent of passengers are entering the stores, and ultimately only 5 to 10 percent of travelers are buying.

Creating experiential retail spaces—immersive and, to the degree possible and practical, unique destination experiences that transcend the transactional level by creating value for the consumer in and of themselves—is just one potentially effective strategy for cutting through the fog of distractions competing for a flier’s attention. Other options might include more innovative ways of interfacing and communicating with fliers whether online or in the airport.

<sup>11</sup> OAG



# Interview with Katie Thomas, director, Kearney Consumer Institute

## How are consumers adapting to inflation?

As inflation lingers, consumers are becoming increasingly savvy about their spending, but where they spend versus save will vary by individual consumer or at least consumer segment. Consumers have more shopping, service, and experience options than ever to choose from. And they are able to easily compare prices online, so they are always evaluating what the right product/price/service mix is for them.

This does not always mean they will automatically opt for the cheapest price. Consumers are looking for the best bang for their buck. Nearly three out of four consumers tell the Kearney Consumer Institute they are willing to spend more on a product if they know it is higher quality and will work better for them. The same percentage of consumers tell us they spend in one category to save in another. Broadly, the categories where consumers have been most stressed about inflation are day-to-day categories such as groceries, gas/petrol, and restaurants. That said, we’ve seen consumers increasingly notice the higher prices of travel when comparing from April 2022 to July 2023.

## How has the pandemic impacted tourist travel behavior?

Many consumers continue to make travel a priority given the inability to travel during the pandemic and the desire for experiences over material goods, particularly for Millennials and Gen Z. We’ve seen pent-up demand for travel continue through 2023. There were vacations canceled in 2020 or avoided in 2021 that are still being rescheduled. However, this may begin to stabilize given increasingly expensive flight prices, excessive cancellations, crowded airports and train stations, and staffing challenges and other factors causing unpleasant travel experiences. While fewer people traveling may initially hurt travel retail, a stabilization could ultimately help the industry as consumers will have better experiences in less-crowded stores along with an increased willingness to spend if ticket prices decline. As we’ve seen with younger generations, while price is always a factor in theory, many embrace a “vacation mentality” where their willingness to spend is higher and their sensitivity to prices is lower.

## How can retailers answer to consumers’ likelihood of purchase?

For retailers, having the right mix is paramount. We’ve seen retailers benefit from a straightforward, curated mix of core products, as opposed to trying to have a little something for everyone. Done correctly, curation simplifies consumers’ options, facilitates easier decision-making, and increases the likelihood of purchase. An engaging experience with attentive store associates also helps convert shoppers into buyers.

## The trinity's profitability equilibrium is under challenge

Recognizing both the impact of the past few years on the travel retail industry and the need to provide more attractive shopping and dining alternatives to travelers, airports are increasingly willing to limit retailers' operational risk through advantageous contract structure.

### Contradictory directives degraded the value proposition

In a perfect world the commercial goals of all stakeholders would align and there would be total agreement as to the best ways to achieve them. This is, however, not a perfect world, and in the natural course of business individual stakeholders occasionally look at the world differently based on their own proprietary interests and the demands of their individual competitive markets. This is natural and understandable, and it doesn't have to be a deal breaker. In fact, the more time each stakeholder invests in understanding their partners' issues, the more likely they are to develop solutions that work, to varying degrees of success, for everyone.

When, by contrast, everyone insists on viewing the world through their own conceptual blinders the result can be contradictory strategies that lead to inflationary shelf prices, decreased or inadequate investments, and the overall commodification of the business and a decline in customer service and experience.

In the past, travel retail required a significant financial commitment from the airports which, justifiably, were then concerned with maximizing the return on their investment. This, in turn, forced retailers—which see themselves stuck between brands and the airports—to increase prices, limit investment in order to meet their financial targets, and generate traffic to develop their top line.

For their part brands have a complex economic equilibrium. While travel retail remains a small activity for most brands, the cost of doing business is higher than other business lines. In the meantime, brands are anxious to follow global strategies that standardize pricing across countries. This creates contradictory injunctions: price inflation to meet global standards, exclusive assortments and experiences tailored for travel retail, and pressure from consumers to remain price competitive compared to domestic markets.

While perfectly understandable on a stakeholder-by-stakeholder basis, these efforts on the part of all stakeholders to improve their post-COVID profitability have ultimately come at the travelers' expense and, in the end, that will cost all stakeholders the increased sales and profits they need to recover from their losses during the pandemic.

**“Current times have been challenging the traditional trinity framework as stakeholders do not collaborate and the customer's experience is not at the heart of the reflection.”**

**– Senior executive, distributor**



## Key insights on contracts

Prior to COVID, minimum annual guarantee (MAG) contract models, which stipulated a minimum amount of rent retailers would pay airports, were widespread across the industry. Obviously, the loss of business during the pandemic caused many retailers to default on their MAG-stipulated guarantees, jeopardizing many of the perceived benefits to retailers and airports.

**“The industry has been talking about customer experience for a long time but is still stuck in its old transaction-based reality, especially due to the concessions ecosystem they evolve in.”**

**– Director, beauty player**


The MAG contractual framework affects the travel retail sector in two significant ways. First, it forces retailers to concentrate on operational efficiency as a means to preserve their profit margins. Second, it generates financial pressures. This impacts stakeholders as they are discouraged to invest, innovate, and mitigate against long-term strategic planning. There’s a compelling need to agree on a new global industry contractual standard.

Multiple parameters play into creating a challenging environment, of which one is the multiplicity and diversity of contracts, limiting the ability of all value chain members to improve travelers’ options and experiences, with significant disparities between airports.

Alternative contracting models have begun to emerge, from retailer proposals to eliminate year one MAGs altogether to moving to some form of per passenger traffic or performance-based approach. Like any contractual model these suggestions each have their positives and negatives for every stakeholder. To date, there is no general industry consensus on contracting models nor on the value of shared risk. Viewed from this perspective contracts become potential opportunities for growth and not a punitive tool to be used against each other.

In the past few years various industry stakeholders have become creative in terms of the contracting process. We are seeing more advanced models that are moving toward value enhancement and sharing such as integrated models (for example, airports integrating the retail activity) or concession fees contracts (based on variable fees defined as a percent of retailer revenue, rather than fixed allowances). But it’s not all about the contract’s nature, it is about the parameters and their threshold that you define in your contract.

**Finding the right level of mutual benefits in trinity contracts is crucial to reinvigorate the marketplace.**

A photograph of an airport-style bench with a person sitting on it. The person is wearing a colorful patterned shirt and brown shoes. A shopping bag is on the floor next to them. The bench is made of dark metal and has a black bag resting on it. The floor is made of large, light-colored tiles.

# Create a consumer-centric travel retail value proposition based on four capabilities

All travel retail experts we interviewed agreed on one thing—one size never fits all. Today, the industry is trying to balance sales, profit, and growth on the top of a single “pillar”—price—but one pillar is clearly not strong enough by itself to support all that weight. Although price is, and will likely remain, an important factor in many travelers’ decisions to buy or not buy, our experts agree there is an immediate need to move toward a more traveler-centric value proposition. In addition to competitive pricing and promotion that transition requires three more pillars—having the right assortment, creating personalized engagement and a tailored shopping experience, and offering top-notch services.

Let’s examine each of these pillars in a little more depth, starting with assortment.

## Assortment: unlock the power of choice and discovery

### Curate brand lineup

At the airport level, curating the right mix of brands, categories, and retailers in a terminal is a key starting point to attracting duty free customers and driving conversion. Understanding and catering to passenger demographics and the ability to merchandise items that reflect the local character also help increase the average basket size and drive both revenue and profit. Effective brand curation boosts passenger engagement and enhances the airport’s reputation, helping it become the go-to stop for connecting flights. Here is an example.

In Marseille Provence Airport, a typical tourism destination, priority was given to local and artisanal brands inspired by the Provence region that appeal to visitors. These included a curated selection of restaurants—such as a French-style bakery and patisserie—and shops including Relay L’Occitane en Provence offering a range of cosmetics and fragrances featuring the natural scents of Provence. The airport worked with Lagardère travel retail to curate brands that reflected the region’s identity.

Using a variety of tactics including featuring local artists, creating signage that references a specific locale, developing interactive digital storytelling kiosks, and other relatively cost-effective approaches can play up localization and use local assets, helping an airport create a unique blend of environment, experience, services, and products that further differentiate it in ways that appeal to customers whether they are shopping for last-minute gifts, dining at renowned restaurants, accessing local culture, or, depending on the market, exploring luxury boutiques.

Shift from replicating domestic offers to building exclusive travel retail assortments

Despite the fact that domestic and travel retail are quite different in fundamental ways—complexity, competitive set, assortment, price, channels, media usage, and targeted consumers—historically, brands’ duty free assortments mirrored their local offers, with little to no tailoring to travelers’ needs. Shifting to a dedicated travel retail assortment is key to rebuilding a compelling value proposition. The cost of not shifting is measured in lost sales, profits, and customer loyalty. Almost four out of 10 (37 percent) Kearney traveler survey respondents told us they would increase their spend if more exclusive products were offered (see figure 13).

From an inventory mix perspective this means retailers need to align their portfolio offering with passenger flow data, targeting their mix on a location-by-location basis, making sure consumers can easily find the products they are looking for. One crucial step in accomplishing this is making sure your portfolio resonates with your customers’ growing demand for exclusivity. Just offering them the same selection they can find at home or online is not enough and may, in fact, turn some shoppers off to buying anything. What’s needed—across categories—are products that are new, especially those that aren’t available anywhere else.

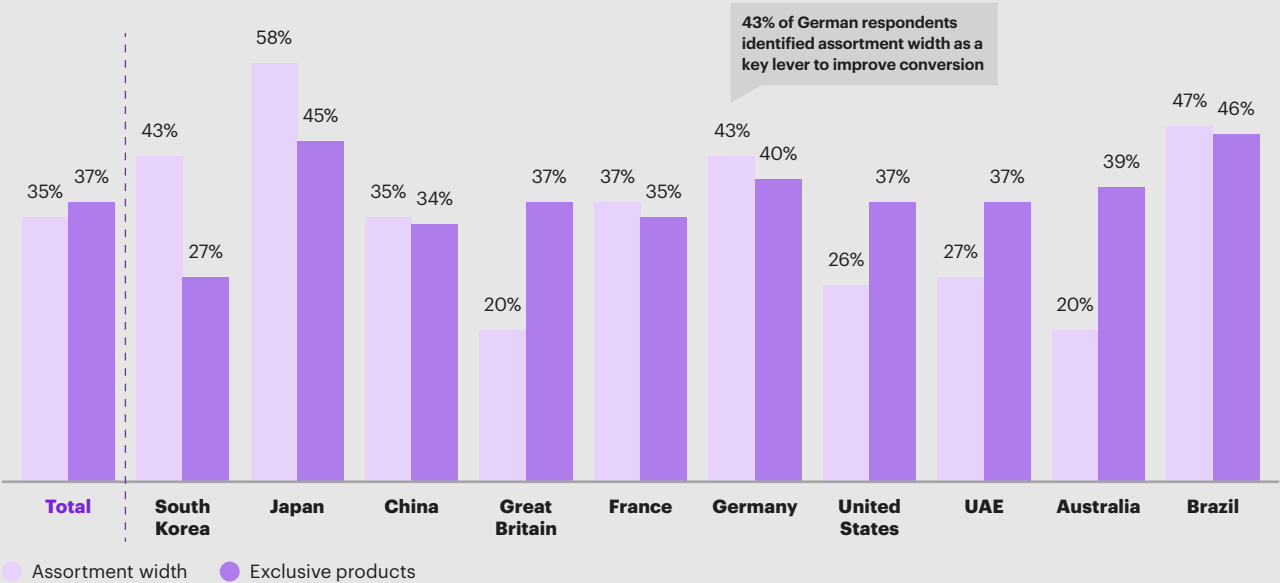
“Airports are for us a window to the world to showcase our products in a very attractive way. We take assortment to another level by aiming for exclusive products in each country we operate in.”

– Travel retail director, confectionary and fine food group

Brands hoping to attract travelers have designed exclusive travel retail offers in multiple categories. Exclusivity can be created at three levels—container/packaging, product format, or content/product. Examples of these exclusive offers include dedicated Martell Cognac product lines with unique packaging in the wine and spirits category. In beauty and cosmetics, products with specific formulations have been developed by all the main brands including Dior, Estée Lauder, and Benefit. Other examples are found in the tobacco goods category where exclusive products such as electronic cigarettes, not available in some domestic markets, are available in specific locations.

Figure 13  
37% of respondents would increase their spend if more exclusive products were introduced

Key assortment-related levers mentioned by passengers to increase their buying incidence  
Survey, N=3,140, as of July 2023



Source: Kearney survey

## **Offer segmentation has become crucial**

As we know from the fashion industry, one size never fits all. When you insist on this approach you end up with a garment that not only doesn't fit everyone, but also doesn't really look all that good on anyone. The same holds true for assortment. Cookie cutter approaches to inventory selection, shelf sets, promotion, and so on don't work in retail in general and certainly not in travel retail in particular. What does work is catering to customers by building specific assortments tailored to their travel needs and expectations.

Assortment segmentation—tailored to location and customer demographics and expectation—is key across categories, with some disparities according to price segments. For commoditized categories, customers expect to find value for money offers similar to what can be found in domestic retail, with low to no demand for customization. In high-end categories, however, retailers need to focus on assortments that balance some numbers of value-for-money options and selections of exclusive products and experiences.

**“We have been forced to reinvent ourselves to survive, to embrace new nationalities, to become more universal. The travelers' landscape is more heterogeneous than ever, with volumes being driven by new nationalities all around the world.”**

**– Senior executive, fashion group**

Multiple successful industry examples show the importance of segmenting your offers and tailoring them to targeted passenger characteristics. These examples include Nestle's Eid al-adha celebrations and exclusive products in Dubai airports, as well as products designed to be gifted such as the Walker's shortbread gift boxes with custom illustration of iconic landmarks like Burj Khalifa or Burj Al Arab available in Dubai airports. Other examples include Burberry Goddess' perfume pre-launch at Heathrow Terminal 4, which targeted EMEA passengers wanting to bring an iconic British brand home as a gift.



# Interview with Angela Hultberg, global sustainability director, Kearney

## What role can sustainability play in travel retail?

In order to keep pace with younger, more sophisticated, and more ethically engaged fliers, travel retail needs to provide environmentally conscious travelers with options that align with their values by making air travel seem more sustainable. Like all retailers, travel retailers must cater to a broad range of different types of consumers, some hyper-concerned with ecological issues and others almost totally apathetic to them. Consumers concerned with the environmental issues want to see more sustainable product options whether in the form of materials used, packaging, production techniques, supply chain partner practices, or social impacts.

Retailers in the travel market have an unparalleled opportunity to take the lead on ensuring the international products they promote and sell are more sustainable. They are also perfectly positioned to boost consumer education efforts, using POS storytelling aids to demonstrate how shopping choices impact the environment. For example, you might create display materials that read something like, “By producing this product with renewable energy we have saved the equivalent of ‘XXX’ Copenhagen to Miami flights”—a variation on a green dot campaign.

## What does sustainability mean for an airport or retailer in terms of assortment strategy and brand lineup?

There are two major groups of sustainable products. The first includes products that help the consumer live a more sustainable life, such as a water bottle which eliminates the need to buy single-use plastic beverage containers. The second is made up of products that are, in and of themselves, more sustainable, such as notebooks or other products made from recycled materials. In many cases the two can be combined as in the case of a water bottle made from recycled cans. Both kinds of products should be on offer, especially in the case of products meant to enhance the travel experience.

Additionally, there is always an opportunity to promote local artists and craftspersons, small local businesses, or small destination businesses. Examples of this could include items produced by female entrepreneurs, handmade crafts, limited edition collections, and other items seen by shoppers as having a positive social and environmental impact either directly or through the solutions they provide.

## How can brands and retailers navigate the ambiguous link between travel retail and aviation and its impact on customer behavior?

To whatever degree possible, transparency is always the best approach when dealing with consumers. Today’s traveler is sophisticated and technologically enabled so he/she/they can check any claim at any time.

By the time they visit a duty free shop a flier has already formed a fairly complete internal narrative around their trip—positive or negative. And in addition to their carry-ons, every passenger has their own unique experiential, intellectual, and emotional “baggage” with them on every flight. Environmentally oriented travelers may board a plane filled with guilt at the carbon footprint of a trip that, for example, might have been handled by a Zoom call. Travel retailers can make them feel at least a little better about their decision to fly by offering sustainable products and education materials that can explain how the purchases of a product or service offsets part of their carbon footprint or helps fund local or global sustainability efforts.

## What other industries’ best practices in sustainability can travel retail draw inspiration from?

Travel retailers can look for inspiration from any number of industries, but I would begin with other forms of retail in terms of services offered, creating experiences, product qualities, services, data sharing and analytics, alternative packaging options, and merchandising, marketing, and advertising.



# Pricing and promotion: maintain a perception of value for money

There is a sometimes-significant gap between actual price and price perception and two factors can exaggerate or reduce it. The first we call new price equilibrium. Inflation and regulation have reduced the competitive gap between the travel retail and domestic retail markets. A significant portion of passengers no longer recognize travel retail's price competitiveness. In fact, half (50 percent) of respondents perceive duty free prices as less competitive than those in traditional retail (see figure 14).

The second involves the Internet and its role in increasing price transparency by providing—at least what most shoppers believe to be—full transparency of prices and the channels where buying products is cheaper.

To restore its price perception and attractiveness, travel retail needs to find other ways to build attractive price/promotion impressions. So, how do you do that?

## Restore price attractiveness vs. domestic retail

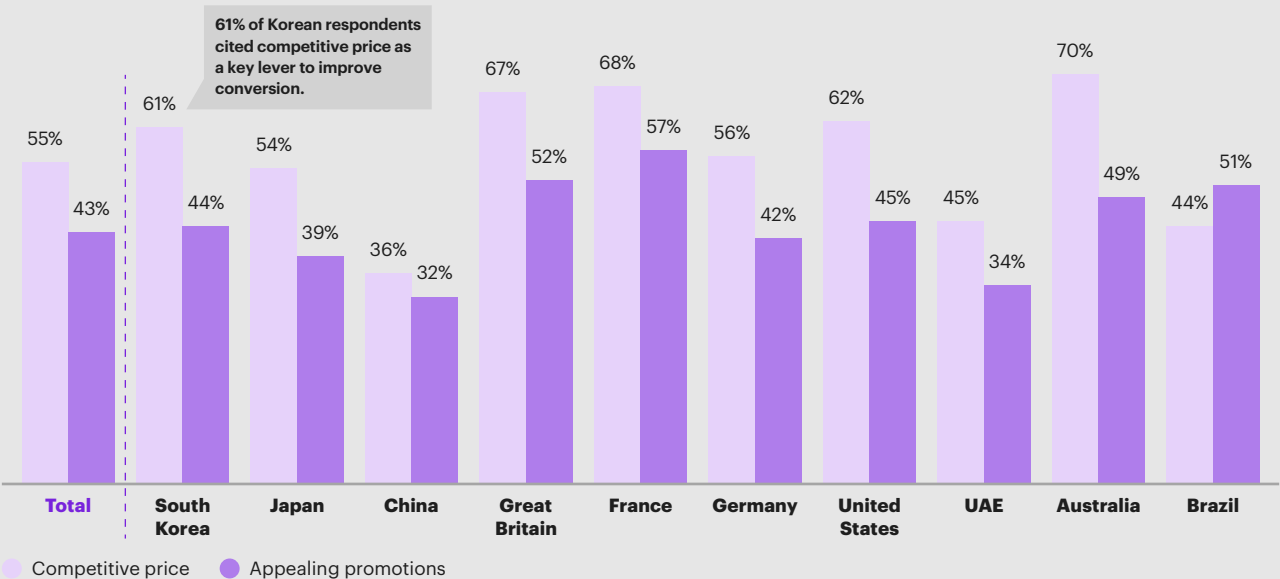
Brands and retailers need to define a clear pricing strategy, defining consistent prices that incorporate domestic markets' economy and dynamics. As of today, most brands do not follow a systematic price indexation logic between travel retail and domestic retail; there is no defined system for savings allowed.

It is also important for retailers to improve and use their understanding of how certain categories operate in local markets. It's hard to compete when you don't know what your competitors are doing.

Finally, on their own or working with their brand partners, retailers need to establish a pricing corridor—that is, create a coherent range of price levels that provide cost savings for customers. The model should allow retailers the flexibility to navigate within this corridor and adjust their strategies based on their capabilities and understanding of passenger and traffic flow.

Figure 14  
**55% of customers would increase their buying incidence with more competitive prices**

Key price-related levers mentioned by passengers to increase their buying incidence  
Survey, N=3,140, as of July 2023



Source: Kearney survey

## Rethink the promotion model

Too many travel retailers' overall promotional models lack strategy, clarity, or both. It's vital to shift to a model where promotions are not the norm, but rather a strategic tool for promoting specific products and categories. It is crucial that promotional models be designed and evaluated on a category basis. Offering a 10 percent discount across categories won't do anything but shrink the bottom line. Growth requires effective and category-appropriate promotion. Of course, none of this is possible without sharing good, clean, and complete data.

## Consider dynamic pricing

In the past, several retailers built partnerships with airports to enforce dynamic pricing, powered by digital price tags, with data provided by the airport allowing retailers to tailor promotion campaigns to passenger flows. Dynamic pricing is a great tool to manage customer price perception and ensure you remain competitive in a traveler's mind. For example, you could raise or lower a shelf price at the highest demand peak. Raising it allows you to capture more gross revenue and—given that consumer demand is already high—if you don't get too greedy you will raise your margins, not a shopper's blood pressure. On the other hand, lowering prices in a few key categories, or on a few key items in those categories, during high demand periods can create an impression that every item in the store is a good bargain. And obviously, lowering cost when demand decreases is one approach to boosting volume.

## Service: streamline for effortless shopping

Kearney's traveler survey shows travel retail's service offer is misaligned against travelers' needs and perceived as too stodgy and not innovative. That gives shoppers the sense that the store was built with their parents—or worse, grandparents—in mind.

In several categories, respondents said consumers claim they didn't buy because they were unwilling to carry more items, a sentiment reaching up to 33 percent in the wine and spirits category. With only a minor effort these kinds of service pain points could be easily anticipated and addressed by replicating domestic retail best practices.

## Improve current service value proposition

Customer service isn't just a retail problem, but it is a huge problem for retailers. Before we can effectively overhaul the customer experience and create a more attractive consumer value proposition, all travel retail stakeholders must develop their own vision of the customer service model using innovative, customized solutions. Hopefully, these individual solutions will complement rather than battle each other.

Today's consumers expect personalization and demand it when it isn't offered. There are a number of effective strategies for improving personalization. Let's look at custom packaging for example. In Istanbul, Toblerone (Mondelez) launched a Gift with Edge pop-up in partnership with Gebr Heinemann and Unifree, allowing customers to buy products with customized packaging that targeted the gifting and souvenir markets.

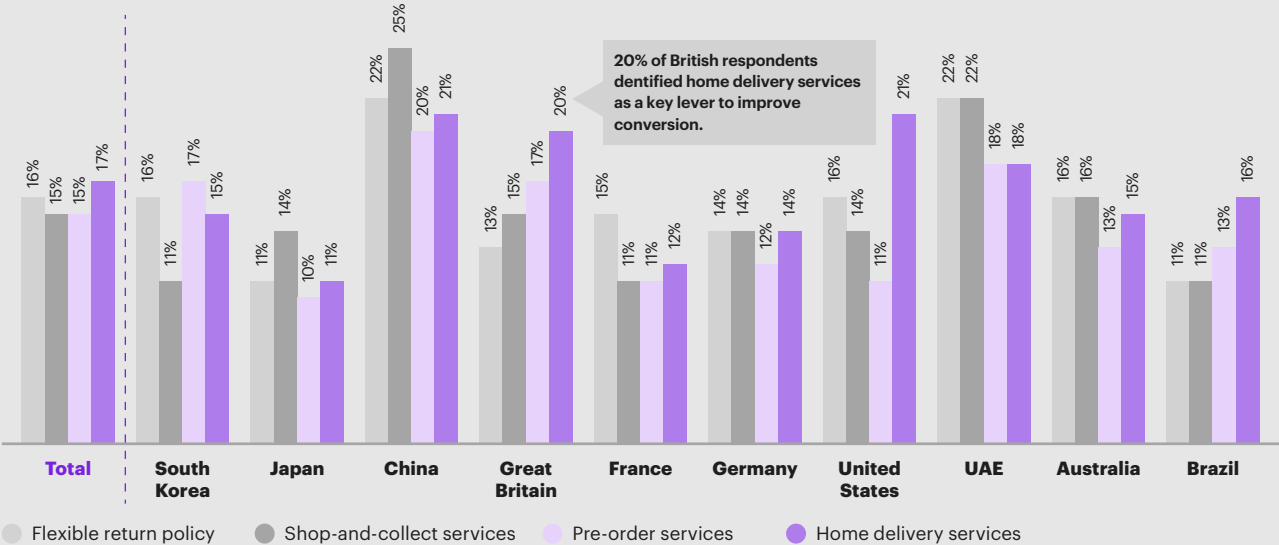
Given how large a role gifting plays in travel retail, offering gift wrapping is also a must.

Offer services to unload customers: develop new streams of revenue

New services focused on increasing customer convenience offerings such as click and collect are viable options for creating potential new revenue streams. You might also consider offering shopping services including pre-order services (click and collect), digital e-commerce, personal shoppers, and service desks. Delivery services are also booming, with home delivery of purchases or luggage delivery. Payment services and guarantees are becoming increasingly important given the proliferation of easy and flexible return policies and product guarantees found in domestic retailing and online shopping. Loyalty programs offering exclusive deals and promotions for members have been effective across a variety of retail categories and channels. Packaging services, ensuring a secure and sealed package up to destination, is another possibility as is offering other services such as meeting room booking (see figure 15).

Figure 15  
**16% of respondents would increase their spend if shops had a more flexible return policy, home delivery, or shop-and-collect services**

Key services-related levers mentioned by passengers to increase their buying incidence  
Survey, N=3,140, as of July 2023



Source: Kearney survey

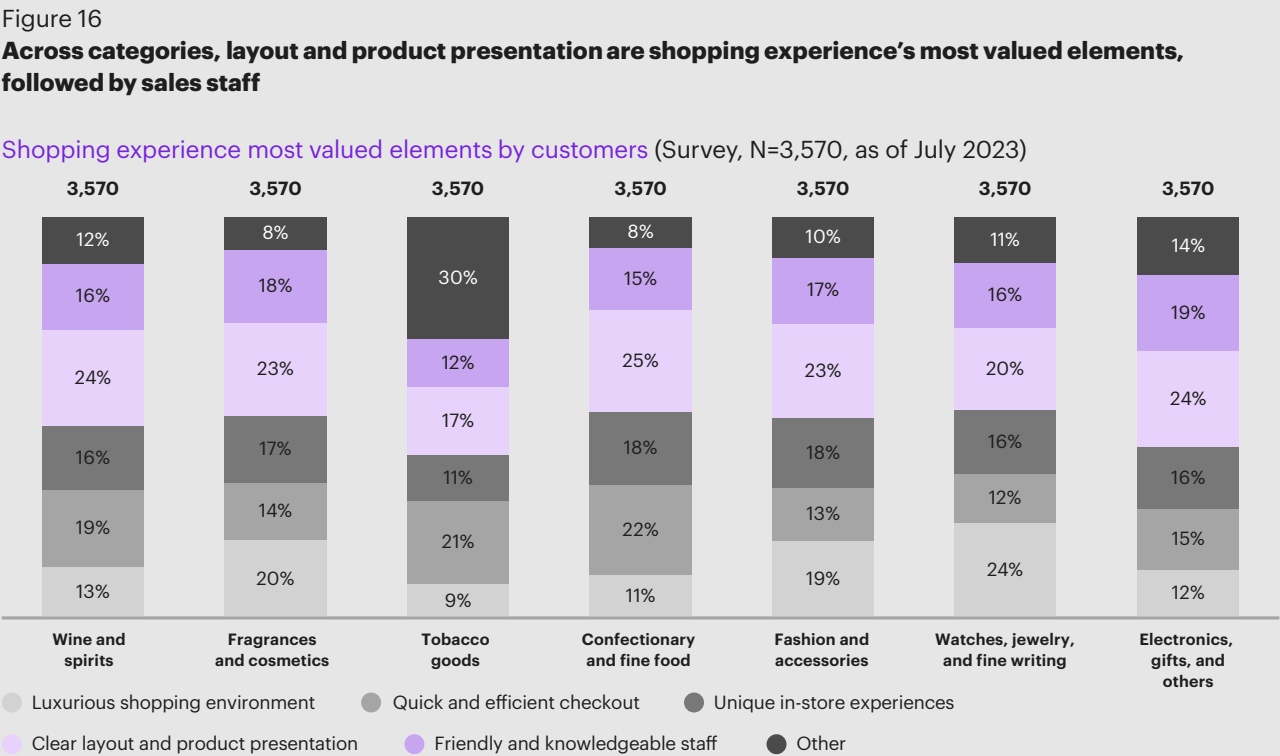
Experience: elevate the journey from transactional to experiential

The same consumer dynamics—including a preference for experience and retail and brand engagement—drive customers to look for enhanced shopping occasions whether in domestic or travel retail. Our survey shows this is particularly true with younger shoppers. Of Millennial and Gen Z respondents, 37 to 40 percent cited experience as a key reason to buy travel retail. Respondents said they increasingly expect surprises during their time at an airport. Whether in the form of entertainment, animation, digital interfaces, gourmet or local food pop-ups in an airline lounge, or anything that helps break the monotony of air travel, the ability to provide an unusual or unique experience clearly drives consumer engagement.

With the exception of the tobacco category—which remains highly price driven—respondents told us that, when evaluating a shopping experience, they most valued product layout and visual merchandising, followed closely by retail excellence, and more specifically, staff quality and wait times (see figure 16).

“Price is not the only variable of the equation anymore. The story for the customer needs to evolve to include experience, sense of belonging, and a deeper understanding of brands.”

– Senior executive, beauty player



Source: Kearney survey

## Engage before and after travel

### Engage early and keep up afterward

Travel retail doesn't come close to owning the whole consumer journey; it is just one part of the experience. For example, the industry has limited influence on pre- and post-travel. However, integrating these periods of time is key to building a stronger consumer engagement and improved customer journey, making early engagement more crucial than it has ever been. The experience should start before the sale and continue afterward.

As an example, in 2023, L'Oréal launched its Beauty for All Travelers partnership with TripAdvisor. The objective was driving engagement and conversion for L'Oréal travel retail through digital media activations at every step of the customer journey. The brand believes the campaign will enrich the traveler's experience and meet or even exceed their expectations in terms of products, services, and experiences.

**"We see a trend of people spending more in airports and less in the plane—taking more time in their travel and hence in the airport. This way, airports are developing sense of place and time, and it is our role to be agile and adapt to each consumer."**

– Senior executive, beauty player

## Create an improved experience at the airport

### Advertising/communication: ensure travelers know

Nobody will shop with you if they don't know you are in business, so one key to boosting customer count is to improve consumer communication with better targeted advertising at airports. But getting consumers in the store is just the first step. Converting a "browse" into a sale requires in-store advertising and communications which, for many categories, significantly improves the potential for conversion. So, how do you do this? Here are two examples.

At Heathrow, JC Decaux launched a near real-time digital-out-of-home advertising effort tailored around passenger flow data, which allowed better and more targeted advertising. Philip Morris International introduced a massive ad campaign at Dubai Airport, using 250 screens to advertise its electronic cigarette. The campaign was designed to drive customers to the POS where digital screens delivered content—on a shopper's mobile via QR codes—and let them play digital games to learn about new categories.

### Maximize time dedicated to purchase

Whenever possible use operational efficiency and high service levels to maximize the time travelers can dedicate to shopping. Ideally, guarantee a "golden hour" after a passenger passes security, where customers are captive and don't have anything to do. Some airports, including Dubai, introduced technologies and apps to provide real-time information on passenger flows and dwells and anticipate bottlenecks, allowing for footfall analysis and traffic optimization.

**"After security controls, retailers have access to what they call a golden hour, when the client is captive—which is a tremendous opportunity."**

– Senior executive, wine and spirits group



**In store: create a unique, personified experience**

In our survey, 23 percent of respondents indicated an enhanced in-store shopping experience would make them spend more, highlighting the potential key role infrastructures can play by elevating visual merchandising and using digital tools to build storytelling and customized experience in store (see figure 17). We are also beginning to see the rise of single-brand stores and their expansion to new categories beyond fashion and accessories, such as wine and spirits (for example, Macallan, Hennessy), tobacco (IKOS), cosmetics (Chanel, Coty), electronics, and so on. Lounges are also having good days, with numerous and highly mediatized openings (for example, Louis Vuitton’s lounge at Hamad International).

In response to questions in the category section of our research, 15 to 20 percent of respondents across categories (excluding tobacco) picked “friendly and knowledgeable staff” as the most important element of the shopping experience, highlighting the brand ambassador’s key role. Reducing waiting lines and improving customer service are also key. Nearly one in five respondents (19 percent) mentioned reduced waiting lines as something that would improve conversion. It’s not all hard work. Gamification and building in a sense of play from testing products or being part of an experience/game during the time at the airport also puts shoppers in the mood to spend.

In fact, gamification is peaking, with industry players introducing sense of play in their travel retail outlets/ pop-ups, inviting travelers to discover, test, and adopt or even win products by spinning a wheel or racing each other (for example, Pernod Ricard’s “New Time Zone, Same Cocktail Hour,” and many more).



Source: Kearney survey

# From commercial trinity to a traveler-centric “pentarchy”: opportunities to unleash the untapped potential



The trinity model based on the interactions of airports, retailers, and brands has worked for years. As an internally focused industry model, the trinity tends to underestimate the disruptive power of external factors. Sitting around restfully unmasked in 2023 it is easy to assume that COVID was the most significant disruption the industry has faced. That would be wrong.

True, COVID wreaked havoc on supply chains, air travel, customer confidence, and so on, but the real disruption was, as we described earlier, the emergence of a new model of air traveler. This new traveler is no longer content to be a passive purchaser of whatever duty free goods are offered.

When existing paradigms prove insufficient to explain or address a challenge or challenges it is time for a new paradigm. In the case of travel retail that paradigm has to extend beyond the trinity. It's time for a new model, one we call the “pentarchy,” which incorporates the original three trinity elements (airports, retailers, and brands) and adds in two other vital pieces—carriers and digital and media partners (media agencies and display advertisers; tour operators, travel agencies, and mobility players; and tech companies) (see figure 18 on page 34).

The first historical reference to the term pentarchy—from the Greek for five leaders—emerged in the early Christian Church to describe the then five major cities in the Roman Empire that shared certain characteristics. While each of these cities was led by a single leader—the patriarch—they agreed to band together to form a single universal empire to strengthen their individual positions and facilitate the spread of new ideas in an often hostile world.

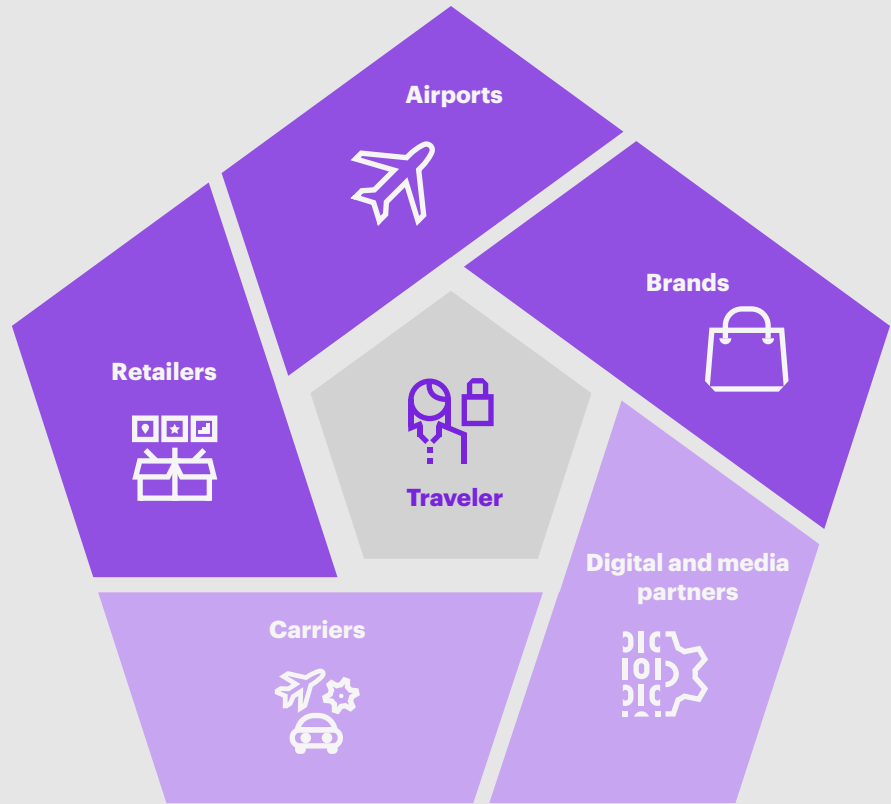
We are using the term—albeit in a far more modern and secular sense—to describe how five distinct forces need to be present to be in position to better serve the air traveler who exists at the very heart of our commercial pentarchy. What we are talking about here goes far beyond clichéd discussions about how the industry would be so much better if we all just learned how to communicate and cooperate. Like most clichés that is true, but what we are suggesting is not painting a rosy picture of some abstract utopia. Instead, we are talking about a pragmatic, profit- and growth-driven, 21st-century approach to travel retail that allows the five crucial links in the value chain to better serve the ultimate consumer. It is mission critical that the traveler remains at the center of the pentarchy at all times.

Obviously, that involves improved cooperation and communication, but it also requires—on the part of all parties—a willingness to compromise and clearly stated mutual and individual benefits.

**“The trinity lacks stakeholders’ cooperation and is not customer centric—moving out of it will allow brands to build a better customer experience. We need to think beyond the trinity of retailers, brands, and airport and include media companies and airlines.”**

**– Senior executive, international airport**

Figure 18  
**Transitioning to a  
pentarchy paradigm  
is a must to enable  
traveler-centricity**



Note: travel data and media partners include the following stakeholders: media agencies and display advertisers; tour operators, travel agencies, and mobility players; and tech companies  
Source: Kearney analysis

## Get the ABCs of retail excellence right

The road to this pragmatic brave new world of sustainable growth and profitability begins with a commitment to getting the “basics” right—on the ground, in the store, where sales are won or lost. These basics are having the right products, in the right stores, at the right times; visual merchandising that can capture a passenger’s attention and credit card; and best-in-class staff training and retention. It may seem obvious, but our research and interviews show significant gaps to be closed.

## Secure product shelf availability

Multiple industry executives we interviewed first cited product shelf availability as a crucial retail basic. You cannot sell what's out of stock. The travel retail industry, like most other retail sectors, still has a problem with maintaining inventory levels both in terms of supply chain and what is on the shelf. Many passengers will only have one or two opportunities to stop at a travel retail store depending on whether or not they are returning to the destination. Miss an opportunity to attract them or sell to them and you may have lost a customer for life. Catch them, and deliver what they are looking for, and they may stop in every time they are in town.

Here are two simple examples of how, working together, the pentarchy can shift the odds more in their collective favor. First, work with carriers and airports to anticipate passenger forecasts (traffic flow and characteristics) and tailor the inventory management rules based on a curated assortment strategy, using an advanced sales and operations planning (S&OP) process, and efficient logistics. Next, retailers and brands can work together on practical shelf replenishment procedures such as visual alerts and automated alerts to avoid shortages and out-of-stocks.

## Enhance visual merchandising

Visual merchandising—ideally in stores that are appealing and easy to shop—is another “basic” travel retail stores need to get right. Given that many travelers are in a hurry, products must be displayed prominently and attractively. Our panel of industry experts agreed that high-quality visuals and placing bestsellers or exclusive products at eye level increases their visibility and promotes sales. An efficient merchandising strategy with a clear statement drives customers to the products you want to sell from the moment they enter the store. But merchandising strategies are only as good as compliance with defined planogramming. Retailers' specific planograms and rules for product display must be rigorously followed.

## Upskill and retain staff

Finally, since we are talking of building a people-centric system, it's important that we pay careful attention to the other vital human link in the chain: brand ambassadors and sales associates. Travel retail's success depends on rebuilding capabilities and staffs lost after COVID, meeting today's demands. Training, retention, and recruitment are all critical challenges.

The goal should be to attract people comfortable with variable passenger demographics. Retailers' goals should include having adaptable, culturally sensitive, multilingual sales teams with the ability to understand products. This makes proper onboarding programs more crucial than ever, especially in terms of retention of high-quality employees. Product knowledge is one specific example of this. Store staff need to be extensively trained, online and in store, on assortment and how to tailor suggestions to different demographics in a culturally respectful way.

**“Travel retail is a strategic driver for brand image, which is why it is crucial for us to control the quality of the contact with customers. This begins with comprehensive field staff training.”**

**– Senior executive, beauty player**

If all you are offering new employees is a paycheck and a benefits plan, you risk losing them the moment they get a better offer. Retention is about making sure that you have an early warning system in place where employees can surface issues before they become translated into problems or reasons to leave. Having the proper incentives system and compensation package structure is also important.

# Build strong marketing capabilities through data to segment value proposition

## Improve demand signal reliability

Today, one of the things we know about consumers is that 90 to 95 percent of air travelers are not buying anything from travel retail outlets and this is where bringing carriers and digital and media partners into what used to be the trinity starts to pay off.

Working more closely with airlines helps improve passenger traffic forecasting. Having daily or weekly detailed air traffic forecasts offers brands and retailers the opportunity to adjust their offerings and rapidly cater to projected passenger loads. These forecasts don't need to be nominative. Aggregated data—age, gender, nationality, country of origin, loyalty program membership, destination, routes, and reason for travel—provides a good starting point for meeting anticipated consumer needs. Airlines could share this aggregated data either through an airport data platform or a trusted third party. How would this work in practice?

Imagine that a significant number of travelers from a certain country are expected to travel to an airport in the upcoming week or month. With enough prior notification, retailers at that airport could use that information to spotlight popular products from, or related to, that country. Or they could build large displays of products they know are scarcely available for these passengers domestically.

**“There is a need for a regulator, which would ensure data neutrality and ethical usage. That is the only way that we would collectively implement a true data sharing system.”**

– Sales director, digital and media company

Data sharing is an obvious way for airlines to monetize existing data in a new way, but beyond that, sharing augmented data within the pentarchy could develop customer loyalty by facilitating a curated traveler experience.

## Monitor traveler footfall to better serve them

Footfall analysis, which provides detailed insights on the passenger's path in the airport terminal, is another potentially profitable data utilization exercise. This includes monitoring and analyzing such diverse data points as how long travelers spent in the security queue, the dwell time available for passengers in the tax-free area, how many stopped in front of the store, how many got engaged in the store, and how many bought something. Let's go one level deeper on three of these topics beginning with queue time insights.

If security checks are consistently taking too long, it reduces the time passengers have to shop. Streamlining airport processes or adding more security checkpoints during peak times would ultimately benefit the travel retail market.

The same is true of dwell-time measurement. If, for example, passengers spend a long time in tax-free zones without significant purchases, it indicates a potential mismatch in product offerings or store appeal.

Engagement metrics (for example, stop ratio, product touch ratio) provide key insights on the conversion funnel and facilitate merchandising and marketing decisions, including display, average quantity, product assortment, and so on.

## Systematize data analysis to increase conversion rate and average basket

Systematizing the utilization of transactional data (for example, detailed sell-out, customer profiles) and travelers forecasts at a granular level, combined with footfall data, increases the potential to raise both average basket value and conversion rate. Pinpointing the specific point at which traffic drop-offs happen is the first step on the path to eliminating them.

That analytical output should be regularly reviewed on a monthly or quarterly basis and used to guide operational decisions. But getting shoppers to the store without having what they want does you no good. That's where the basics of marketing and merchandising come in.

**“Access to data will give a substantial edge over competitors.”**

– Senior executive, beauty player

# Adopt a differentiated marketing strategy to enable a new travel retail value proposition

## Segment and tailor the assortment

Correct segmentation combined with tailored assortment is the foundation of successful in-store marketing. There are a variety of ways to accomplish this. While offering global bestselling items is obviously key, it's also essential to tailor the assortment to local tastes and preferences of predominant traveler demographics. The same applies to offering exclusive products.

Travel retail is a unique space where many consumers have come to expect exclusivity. Brands should consider creating specific travel retail assortments (exclusive editions, specific sizes), providing an added incentive to purchase. There are additional costs associated with the development and distribution of exclusive products. We need to bear in mind that for many brands travel retail may only represent a few weeks' worth of sales in terms of their total business, but it remains a very important tool for building brand equity and enhancing the consumer experience. If you can't go exclusive, think about going small.

There are five steps to successfully tailoring assortment:

- Determine what's core vs. non-core within your assortment.
- Define your assortment's width and length, tailored to both the point of sale (localization) and forecasts of passenger flux.
- Define how you balance the floor between categories, brands, and products (dedicated spaces vs. corners vs. shop in shop vs. animations).
- Define your strategy between impulse categories and planned categories.
- Define which part of your assortment you will dedicate to local specificities.

You can also merchandise against customers' values and sensibilities. Take sustainability for example. Why not think about merchandising a line of low-carbon products, products that sit on a shelf with no or minimal packaging or are locally sourced?

## Sophisticate pricing and promotion

Throughout this report we have stressed the importance of developing tailored pricing and promotion strategies. Once again, there are several practical ways to approach creating these strategies.

Ensure a consistent pricing strategy compared to domestic rates and in relation to passengers' destinations and immediate origins. Products that are significantly more expensive than domestic rates should be avoided.

Adjust and optimize pricing according to passenger demographics. For instance, adapt a dynamic pricing model based on passenger traffic and which cohort will be in which terminal at a specific time.

In terms of promotional strategy, utilize promotions as a means of engagement, tailored to categories and demand trends. Test a discount hours program where you offer special discounts during non-peak hours to encourage sales and manage the flow of travelers during off-peak times.

There's even room to bring personal values into the pricing model. It might be hard to imagine, but there are ways to implement a marketing program around what we call sustainability pricing. Such a campaign might include a tagline such as, "Buy two of 'item X' and we will offset 50 percent of your travel emissions."



**Activate real-time data and synchronize information flows**

It's amazing what happens when you begin to activate real-time data and synchronize information flows. Using programmatic advertising buying capabilities empowered by digital and media partners, brands and retailers could improve customer reach with dynamic, optimized campaigns within terminals.

Tailoring content and offers to each step of the customer journey and its associated mindset is key. Both messaging content and delivery have to change according to the mindset. Try simple messaging in high-stress areas (check-in, security controls) versus post gates where passengers are more receptive to stories, experiences, or promotions. Communications should be tailored to changes in the passenger mix—nationality, destination, native language—in real time.

Before we move on it's important to remember that while we have been discussing data usage and analytics and technology interfaces you shouldn't underestimate the importance of effective storytelling. Letting passengers know why you are doing something is at least as important to brand building as telling them what you're doing.

**Elevate the operating model of each stakeholder to meet higher standards**

Five vital pieces—and the necessary capabilities and organizational models needed to optimize them—need to seamlessly come together to create a healthy, efficient, and sustainable operating model:

- Product offering and assortment
- Price strategy and its execution
- Operations (supply chain capabilities, S&OP, logistics)
- Commercial strategy and its execution.
- Governance (accountability of travel retail and partnership management)

It is crucial for all brands to understand what's going on in a duty free store and master the underlying operating data.

Finally, it is mandatory to ensure the organization and governance reflect diversity and inclusion, which form the essence of travel retail. If, say, as a pentarchy member, you operate or interact with five continents, the makeup of your team should reflect it.

The right operating model should empower travel retail teams, especially those associated with brands. Team members should own their P&L and business unit and take end-to-end responsibility in front of the customer.





## Interview with Christophe Chaix, Kearney senior advisor, former luxury goods and travel retail senior executive

### **Travel retail's historical value proposition is struggling. Is now the time for a paradigm shift?**

Travel retail's value proposition has eroded continuously over the past decades. In the '90s, products could be three to five times more expensive in some countries than in their country of origin. Taxes were equally disproportionate between different countries and regions. Over the years brands have standardized their price structure to be more homogenous and countries have reduced tax differences from one another.

Over the past 10 years the Internet and mobile apps created unprecedented transparency, allowing travelers to instantly check prices in different parts of the globe and creating another important challenge for brands and retailers.

Today, more than half (55 percent) of travelers expect to save when buying in an airport, which only highlights the importance to be competitively priced versus the traveler's country of origin. That also means that 45 percent of travelers are looking at factors they see as more important than price.

This is where I see a major paradigm shift. Indeed, we need to transform travel retail environments to enthrall and delight travelers with the best value proposition, service, and experience.

Unlike malls and department stores, which have a captive crowd of customers, airports and train stations do not attract travelers to shop. So, it becomes the role and responsibility of the airport, operators, and brands to create an immersive environment, curate the assortment, and elevate the shopping experience in ways that encourage travelers to shop and buy. Today, fewer than 10 percent of travelers buy in an airport compared with 40 to 60 percent of mall visitors, and among the ones buying, fewer than 10 percent are impulse purchasers—which emphasizes the lack of traction from current assortments and offers. Bringing airport conversion rates anywhere close to a mall's represents a huge opportunity for growth.

### **How can travel retail move toward a more equitable value-sharing model between stakeholders?**

I think this is a trend that has already started, and it's a very positive one. We are now seeing more and more airports, operators, and brands working together to become traveler-centric instead of being just focused on the top and bottom lines.

Indeed, it is increasingly clear that when value sharing is unbalanced by heavy rents or margins, or unfairly shared, it's the consumer who suffers in the end through low-quality services and a poor traveling and shopping environment. Ultimately, this leads to an overall poor performance for all stakeholders. Any war fought between stakeholders over terms and conditions leads nowhere, except to loss of customers, sales, profits, and reputation. There is a near-infinite set of potential parameters for innovative contracts between the different parties and we see progress for increased profitability at all levels. There is still a lot of work to do, but a more positive trend has started.

### **When we talk about the transition from trinity to pentarchy, what opportunities come with integrating carriers and travel data and media partners to the existing travel retail ecosystem?**

It is a huge opportunity for all. We see how data and analytics have allowed Google, Facebook, and others to generate incredible revenue levels. Airlines should get inspired by them. After all, they already have tons of data on their clients that they could monetize. By merging that data with other shareholder data—always bearing in mind consumer data privacy concerns and regulations—the power of those existing bases could be amplified through media partnerships to better target a captive traveler audience and inform them of a promotion, travel retail exclusive, or other capsule pop-up and product launch.

When you travel in an airport, how do you know that your favorite whiskey or a newly launched cosmetic is exclusively available in this airport? Today, the answer is you can't unless pentarchy stakeholders are working together to maximize effective communication to consumers who are—or might be—interested in an offer.

## Envision long-term partnerships with the pentarchy

Bargaining in bad faith or playing for temporary advantage is the fastest way to pull the rug out from the feet of the pentarchy. Effective partnerships are anchored in trust, and trust takes longer than one contract cycle to build. So, what can you do to make sure all stakeholders continue to operate with the good of the entire pentarchy in mind?

### Equitable sharing model among the five key stakeholders

The most obvious first step is to promote an equitable value-sharing model among the five key stakeholders. This model should foster a collaborative environment by incentivizing each member to contribute to enhancing the overall traveler experience. Equitable value sharing models between the pentarchy will reinforce the ability to provide high-level experience. This requires committing to long-term partnerships to make strategic decisions for the mid- to long term based on better servicing the traveler and not maximizing short-term profitability. Here's what that might look like for each member of the pentarchy.

### Long-term strategic partnerships—where to start?

**Airlines** are reluctant to share data. It's not natural for them to share data because of the stakes and challenges in negotiating airport landing costs. But the ability to create a virtuous stakeholder circle depends on it. Monetizing detailed passenger forecast volumes could create an additional source of revenue. Beyond that, airlines have an opportunity to improve their customers' experience by collaborating on joint marketing campaigns promoting pre-flight shopping or loyalty programs. Data sharing benefits airlines in the form of improved customer loyalty and sense of belonging as well as being linked to a positive travel retail experience in the customer's mind.

**Airport authorities** need to provide high-quality infrastructures that are modern, clearly signed, tech-enabled, and communicate a sense of playfulness. Such a fluid and efficient airport infrastructure would serve as the physical foundation upon which immersive and exciting customer experiences can be built, from retail spaces to experiential zones. Additionally, airports should voluntarily provide footfall data to the pentarchy using sensors and digital platforms to monitor traffic and identify insights on peak times, dwell times, and footfall patterns. When possible—and it sometimes isn't due to weather and a range of other

factors—airports should, to the degree they can, ensure fluid passenger flow to maximize a passenger's experience and time use, giving them enough time to focus on shopping. They also can use artificial intelligence (AI) and data analytics to manage and predict passenger flow, minimizing congestion and helping travelers have a relaxed shopping experience.

**Retailers** must learn to be better collaborators with brands, to be less divided and benefit from brands' expertise by working together on commercial animation, experience creation, digital initiatives, targeted promotions, and additional services. Today, retailers lack clarity on their commercial strategy and value proposition, mixing up categories to maximize sales per square meter. They need to make offers that consumers can read and understand. For retailers, defining their value proposition and targeting the right audience can be big challenges. Better collaboration with brands is also a key path for improvement, starting with key data exchange like sell-out data.

**Brands** need to clarify their reason for being in travel retail. Do they see it as a window into the consumer, as a showroom for established products, or a new product testing ground? Underlying this is the need to clarify the associated business model. As a whole, brands need to claim and embrace travel retail's specificity in terms of assortment, business, and profitability models.

**“Airport retails are a test lab for new products as they expose them to all nationalities, ages, and genders.”**

**– Senior executive, international airport**

Last, but by no means least, is working with **digital and media partners**, which can be viewed as three distinct groups—media and display advertisers; tour operators, travel agencies, and mobility players; and technology companies. Each contributes to the whole ecosystem as key information providers, allowing for improved forecasts on passenger flux characteristics, consumer personas, and how to reach them.

# A word from TFWA: John Rimmer's point of view

John Rimmer, managing director, TFWA



**As the marketplace has to reinvent itself in the coming years, what are the priorities for travel retail?**

As for any retail industry, the priority for duty free and travel retail is to understand current and future customer behavior, anticipate their needs and expectations, and tailor the retail offer and assortment accordingly. It sounds simple and it is indeed the most basic requirement of any retail sector, but in one as international and complex as ours, in which the interchange between stakeholders has such an impact on the customer experience, it is sometimes worth reminding ourselves that the customer must remain central to everything we do.

To my mind, as an industry we have not yet been able to position duty free and travel retail as an integral part of every traveler's journey. To achieve this, we need to communicate with the traveler from the moment they plan their trip to the moment they get home. That will require cooperation and coordinated efforts among all the stakeholders mentioned in this report. It will also need more imaginative use of the technology and media available, along with better harvesting of the vast array of data that is at our disposal.

**What are your main takeaways from the report?**

The thread that seems to run through many of the ideas and recommendations in this report is the more effective sharing and use of data. Data is the fuel that propels our industry forward. We have an abundance of information on the customers we serve and on the millions of transactions that take place in travel retail every hour, but we don't always have the resources to use it to its fullest extent. Nor is that data always shared in a way that enables positive action from all stakeholders. That needs to change, as this report suggests.

From a TFWA point of view, it is frustrating that getting reliable data on the size and scope of the global duty free and travel retail industry remains so challenging. It is difficult to promote our industry when we are unable to accurately define the level of sales it generates, and therefore the contribution we make to the travel industry worldwide. Initiatives such as the ETRC Index are a step in the right direction, but it needs a coordinated global approach, with the cooperation of all stakeholders.

**How can TFWA contribute to the travel retail marketplace's strategic pivot?**

TFWA will continue to provide a forum for exchange between brands, retailers, airports, airlines, maritime companies, and all those with an interest in marketing to travelers. We trust that this report will make a useful contribution to the debate over our industry's future, and it is part of our mission at TFWA to facilitate such debates.

# Conclusion

As we come to the end of our study, we wish to look ahead rather than merely revisit where we've been. As we have established—driven by new, more global, younger, and more sophisticated and technologically enabled fliers—travel retail is facing fundamental, and perhaps even existential, challenges to its historical value proposition. We want to leave you with a few closing thoughts.

First, the future of all retail will be driven by data and data analytics. In travel retail, there is a crucial need for a neutral third party to secure and manage data—a centralized independent body that can facilitate the pentarchy working together.

Second, the rise of mono-brand boutiques is a disruption that could reshuffle the role of retailers. Given these and other kinds of disintermediation (for example, airports integrating the retail activity), advocating for new contract forms is more important than ever. Duty free operators, brands, advertising experts, airlines, and airports need to see past the notion of “control is good, and more control is better,” and finally put all those clichés about improved communication, partnerships, “win/wins,” and similar buzzwords into practice.

Finally, as discussed, the industry needs to rethink its attitudes. The future is becoming more and more volatile, with potential headwinds due to geopolitical and economic risks, and sustainability challenges that need to be assessed and anticipated with mitigation plans.

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