

# LUXURY RETAIL IS FLYING HIGH

Airport shopping has moved beyond souvenir stands and fly-by eateries

by CRAIG GUILLOT

**W**hile traditional bricks-and-mortar retail has been showing low single-digit growth for the past few years, there's a drastically different story happening in airports. With growing passenger volumes, airport retailers are seeing surging demand for luxury brands and stores in terminals.

There may be opportunity in airport retail but it's almost a sector unto itself. Barriers to entry, frequently changing and finicky consumer demands and a myriad of challenges in labor and operations can make retailing in an airport drastically different.



## UPSCALE TASTES

Over the past few decades, airport retail has moved beyond kitschy souvenirs and fast-food burger joints to full-blown shopping experiences with upscale dining, spa services and luxury retail. No longer places just to kill time, many airports are practically transforming some terminals into shopping malls.

The airport retail market is expected to reach \$90 billion by 2023, according to a recent report from Credence Research, and will experience “significant growth” as more middle class families from emerging countries take to the skies.

Credence also points to construction of new terminals in countries like Brazil, Russia, India and

China as an indicator of what's to come. The Asia Pacific region is the largest regional airport retail market, accounting for 41 percent of all revenue share in 2015. North America is also expected to witness significant growth with the rising sale of duty-free luxury products.

Credence said fashion and accessories are the largest product categories and account for more than half of all revenues in the global airport retail market. Luxury brands and retailers are battling for space and market share in airports around the world, showing growth in every subsector from jewelry and apparel to upscale dining and services.

Companies like New York-headquartered XpresSpa are expanding the luxury experience: It is the largest airport spa luxury player in the world with 50 locations in North America, three in Amsterdam and one in Dubai, and was recently acquired by FORM Holdings, a diversified holding company that acquires and develops companies with strong growth potential.

XpresSpa CEO Ed Jankowski says a growing number of business travelers and travelers from emerging economies have “redefined” airports, and that there has been a significant rise in requests for proposals spelling out “luxury” in their requirements over the past two years.

FORM Holdings CEO Andrew Perlman says while retail overall has a low growth rate, there's “significant upside and growth potential” in airports, much of it coming from international travelers. A Chinese business traveler at John F.

Kennedy International Airport in New York City waiting on a flight to Beijing can now enjoy fine dining, shop for luxury apparel and get a massage.

“Many [airports] now want luxury retailers and service providers because it’s a way to attract more passengers to fly through their airports,” Jankowski says — not just departures and arrivals, but connections as well.

XpresSpa offers massages, manicures, pedicures, waxing, haircuts and even hot showers. Jankowski says it offers travelers an opportunity to get some luxury “me time” in the confines of the airport; the company derives 20 percent of revenue through retail categories like neck pillows, blankets and massagers.

Flyers are growing more interested in luxury brands and are more willing to spend money on them. Verdict Retail’s Airport Retail Survey and Luxury Trends 2016-2017 report found that the most-preferred clothing and footwear brands to be purchased from airport retail stores in 2016 and 2017 will be Hugo Boss and Ralph Lauren/Polo.

Francis Gros, head of global channels for Italian sunglass maker Luxottica, said at the ACI Europe Airport Commercial and Retail Conference and Exhibition in April that airport stores are well-suited for its upscale brands. Gros said that of the company’s 3,000 stores worldwide, its 155 airport locations are some of the best performing. Luxottica opened nine new airport stores in Spain last year and recently opened one in Dubai.

“Not only are airports a fantastic platform for growing our own proprietary brands, such as Oakley and Ray-Ban, and our license brands,” he said, “but we’re also focused on building Sunglass Hut as a retail brand in its own right.”

### A CAPTIVE AUDIENCE

Retailers and brands are striving to meet the growing demands for the luxury experience. Gerry Savaria, executive vice president at Paradies Lagardère Travel Retail, says there is also a growing push to cater to the elite, or so-called “1 percent.”

A growing demographic of people with high incomes still fly on commercial flights; with money to spend and confinement in secure areas for hours at a time, those consumers are a lucrative market looking for unique products. And they’re often more interested in exclusivity than price.

Savaria says a Chinese national passed through one of his company’s stores at Charles de Gaulle Airport in Paris and spent \$150,000 on Domaine Airport in Paris and spent \$150,000 on Domaine de la Romanée-Conti wine. While this doesn’t



happen every day, he says large purchases are “not uncommon.”

“There is that exclusivity, and a lot of it is driven by the Asian customer base for airports with flights from China,” he says. “Airports like Vancouver, Los Angeles and even Toronto have seen that.”

Paradies Lagardère Travel Retail operates more than 850 stores in nearly 100 airports for dozens of luxury brands including Hugo Boss, Porsche Design, Brooks Brothers, Lacoste and Juicy Couture.

Teresa Curl, CEO of Avila Retail, a specialty retailer with seven store brands in terminals in the Southwest, says many of these high-income shoppers are also very busy and don’t have much time to shop while at home. Avila, which sells luxury Indian jewelry, even has “regular customers” who intentionally save shopping for when they’re passing through the airport.

She says because the company does such volume, it even has a deeper and wider stock of Indian jewelry than other places. “We actually have people that live in Santa Fe and Los Alamos [N.M.] and will only buy their jewelry from us when traveling,” Curl says.

Luxury retail is especially booming in airport markets that have direct international arrivals and departures, especially with China. Jankowski says Terminal 4 at JFK Airport is a prime example of a luxury experience, with a wide range of chic, upscale boutiques and brands such as Michael Kors, Hugo Boss, Coach, Guess, Tumi and Victoria’s Secret. The airport is even constructing a \$48 million luxury terminal for pets.

XpresSpa has four locations at the terminal and is preparing to open a fifth. Jankowski says the robust growth in luxury services and retail is





in airports,” he says. “There are a lot of passengers that are stressed, and the idea of having a 15-, 20- or 30-minute massage is very appealing.”

### GETTING INTO THE AIRPORT

Airport retail can present significant challenges, the biggest which can be simply securing a location. Due to the fact that airports are run by quasi-government institutions, there’s a complex and competitive bidding process that can take years of planning and require more capital investments than a comparably sized store outside of an airport.

Even most large retailers and big brands are unable to successfully do so themselves and contract third parties to secure and manage their operations. Savaria says there’s a strong business-to-business component in operating in airports that most retailers aren’t familiar with.

In 2015, after years of trying to win the process, 7-Eleven joined forces with Paradies Lagardère to open post-security airport stores in Dallas/Fort Worth International Airport.

“A lot of brands work with companies like us because we understand how to work with those standards,” Savaria says. “A brand who’s not already in airports today and is trying to come in is going to have a difficult time.”

The physical challenges go beyond simply

offering the ability to organically grow in terminals that they’re already in.

“It’s appealing because there typically aren’t a lot of services

to public bid, retailers must formally vacate the space during the end of their contract and re-bid on it. Avila is currently rebuilding four of its stores in the Phoenix airport, a process that must be repeated every seven years. Curl says it can add a significant layer of complexity and cost.

“A lot of your money that might traditionally go into marketing can go into the bidding process and capital improvements every seven years,” she says. “It’s very expensive and a piece of being in an airport that bites.”

Avila Retail has “regular customers” who intentionally save shopping for the airport. “We actually have people that live in Santa Fe and Los Alamos [N.M.] and will only buy their jewelry from us when traveling.”

— Teresa Curl, Avila Retail

### THE CHALLENGING MARKET

From demographics and the way customers move about a store to pricing, layout and optimizing the use of labor, retailing in an airport can be drastically different than in a stand-alone store.

Alan Gluck, chairman of Airport Economic and Concession Consultants, says airport retailers have annual operating hours that can be nearly double that of a similar store outside of an airport.

Many stores are open every single day of the year, seven days per week, from as early as 4 a.m. to as late as 11 p.m. Employees, and product, must also pass through security every day. Lines, schedules and airport traffic can also impact store traffic and shopping patterns. Some customers may blaze through a store with only minutes to spare; others may be wandering around the airport for hours with little to do.

The labor challenges can mount, Gluck says. Because airports aren’t always easy to get to, and because of the cost of parking, retailers have to work harder to recruit employees. Workers also have to go through a vetting process and extensive background checks. Gluck says the competition for workers can be so stiff that some retailers attempt to recruit other retailers’ workers with incentives like higher pay.

Another challenge is that third-party store operators put a “middleman” between the brand, consumer and airport. Savaria says retailers must strive to ensure their brand is properly positioned and presented in the right fashion, as it can get “broken down” through the layers. And while consumers may roam and shop about the airport



securing a location: Curl says many airports require retailers to completely tear down and rebuild stores at the end of every contract. Because every contract is required to go

freely, airlines, their schedules and gates can ultimately impact how a brand is perceived by the consumer.

Airport stores can also have significantly different footprints and layouts. Gluck says most don't go deeper than 30 feet as passengers tend not to walk too far into stores for fear they'll miss an announcement. Shoppers can also have drastically different motivations: Unlike a mall where consumers visit with the intention of shopping, people go to airports to travel.

Gluck says travelers can rapidly change their intentions, calling it a "bell curve of stress" as they move through the airport. Passenger stress levels usually grow as they move through ticketing, then "drop like a cliff" once they find their holding area. The crowds, length and speed of the lines can all have an impact on the shopper experience and bottom line.

"It's normal for people to be stressed like that and it impacts retail," Gluck says. "When people are happier they tend to spend more. When they've had a bad experience at [security], they tend not to shop."

### OPPORTUNITIES FOR GROWTH

With small footprints, high sales per square foot and high growth rates, airports are still prime for retail growth. Many airport retailers have also yet to fully tap the potential of the mobile and omnichannel experience for passengers.

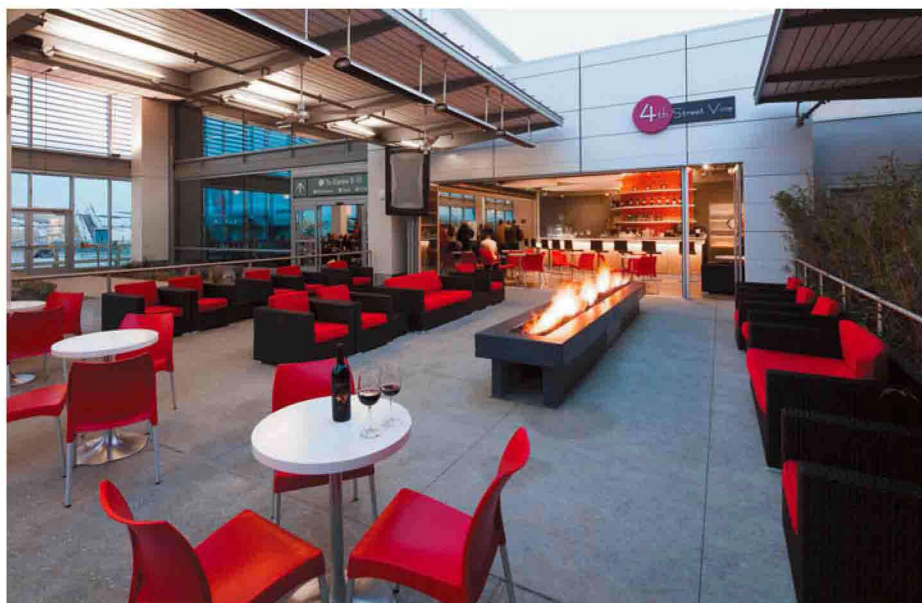
Savaria says while many retailers are investing in the technology and "moving in that direction," mobile in airport retail is "still in its infancy" because most shopping is done on impulse. Shopping patterns and the propensity to buy can even be influenced by the purpose of the trip, whether the passenger is coming or going and even the carry-on limits of the airline they're flying.

"If I'm traveling on business to New York, my [shopping] behavior is going to be different than if I'm traveling on a vacation with my family," Savaria says. "And it's going to be different when I'm departing my home airport as opposed to returning from the airport I'm visiting."

Retailers are also taking advantage of walk-through duty-free shopping in arrival halls where consumers are funneled through stores on the way out. Gluck says while such placement is barred in the United States, it's a growing opportunity

because it reduces the need for consumers to carry these items on the plane. As consumers may be limited by what they can (or want to) carry, some retailers could benefit by increasing shipping options as well.

While it may be challenging for retailers to pin down changing demand in this environment, mobile could offer a platform to expand the airport retail experience. Gluck says one emerging trend is consumers using apps to order food or retail goods, then have the items delivered to them in hold rooms.



Grab, an app already on the market, allows passengers to order food in advance and pick it up at a designated time. Gluck says while these concepts haven't yet fully taken hold, there is a "huge opportunity to grow business without adding space or employees" that is bound to take off in the coming years as a means to grow store revenues.

Jankowski says XpresSpa is making mobile and omnichannel functionality a priority for 2017. The plan is that customers who are in one airport and traveling to another will be able to book a service through the app.

"Omnichannel isn't a term most [airport] retailers use but we're seeing more of it," he says. "Airports are even working on apps where it's easier for travelers to navigate it once they get there. There's a lot of buzz in the industry about it." **STORES**

**Craig Guillot is based in New Orleans and writes about retail, real estate, business and personal finance. Read more of his work at [www.craigguillot.com](http://www.craigguillot.com).**