

Airport Terminal Retail Takes Off

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Key Insights:

While bankruptcies and store closures have become all too common for brick-and-mortar retailers, one physical marketplace is flipping this narrative: airports.

With airports across the country renovating to address both infrastructural needs and the rising number of travelers, the stage is set for terminals to become a high-growth area for retailers.

Bain & Company estimates that, in 2019, global sales of personal luxury goods in airports grew by 11%, from \$17.5 billion to \$19.4 billion. Only online (+22%) and monobrand outlets (+12%)—retailers that sell just one brand—experienced more growth. In comparison, sales at specialty stores remained essentially flat (+1%), while department stores declined (-5%).

“There’s lots of emotions associated with people traveling in airports, so there’s something to capitalize on,” said Michael Payne, president and CEO of the International Association of Airport Duty Free Stores. “There’s a cachet about airports—there’s an energy, an excitement.”

Special sensations aside, a big part of what’s propelling the rise in travel retail is the sheer number of people flying. Between January and September of 2019, cities around the globe received 1.1 billion international tourists, up 4% compared to

the same time period in 2018, according to the United Nations World Tourism Organization. This trend isn't likely to slow down, either: The UNWTO estimates that 1.8 billion tourists will be traveling the globe by 2030.

Payne called "dwell time"—the hours and minutes between clearing security and boarding the plane when passengers have little else to do besides watch Disney+, eat a sandwich and shop—an asset for airport retailers. Given that these consumers have enough disposable income to buy plane tickets and take trips, they likely have enough to purchase gifts and souvenirs, too.

Another reason behind travel retail's success, Payne explained, is that more cities and countries are investing in building bigger and better airports with much improved facilities. New York's LaGuardia Airport, for example, recently opened a new \$3.9 billion concourse, part of a larger \$8 billion upgrade that's expected to be completed in 2021.

In 2018, for the first time ever, cosmetics colossus Estée Lauder collected more revenue from airports around the world than at U.S. department stores, according to the Wall Street Journal.

Diageo, the spirits maker behind brands such as Smirnoff vodka, Don Julio tequila and Captain Morgan rum, told Adweek its travel retail division saw a 5% year-over-year increase in 2018, with especially strong sales growth coming from its Tanqueray gin and Johnnie Walker Scotch whisky.

Ross Swanson, global travel insights manager at Diageo, explained that the company is trying to win over fliers with products not found anywhere else.

"We want to provide consumers with unique offerings, such as personalized Johnnie Walker bottles, travel retail exclusives [and] innovations associated to the country they are

visiting—giving travelers a reason to purchase in travel retail [stores] versus domestically,” Swanson said.

While security concerns and potential overcrowding make it difficult for terminals to open their doors to the general public, in 2017 Pittsburgh International became the first major U.S. airport since 9/11 to try it through a program called myPITpass. Between 9 a.m. and 5 p.m. on weekdays, non-traveling visitors, who must still undergo the same security procedures as ticket holders, are allowed to shop, dine, and say goodbye to friends and family at the gate.

In 2019, Tampa International Airport debuted a similar arrangement that allows non-fliers access to its shops and restaurants on Saturdays between 8 a.m. and 8 p.m. Seattle-Tacoma International Airport also experimented with a similar pilot program that ran in late 2018.

What could hinder travel retail’s growth? Fewer people flying because of sustainability concerns and another economic crash are both potential hurdles. The UNWTO noted that the last time international tourism experienced a year-over-year decrease was in 2009, following the 2008 financial crisis.

For now, however, the potential for further growth is keeping airport retail top of mind for brands. Kering, maker of luxury brands such as Gucci, Yves Saint Laurent and Bottega Veneta, stated in its 2018 annual report that travel retail sales “rose sharply,” and that the company planned to increase its presence in duty-free stores.

In an interview, Severine Lanthier, travel retail director at Kering, said she’s optimistic about the future of shopping in airports because “travelers will always have to go in person to catch their plane.” Airport stores, she argued, will be “the last bastions of brick and mortar.”

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