

# Meeting today's challenges in travel retail with digital commerce marketplaces

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## Abstract

*Airports, airlines and the travel retail industry are facing unparalleled challenges. Rapidly changing purchasing behaviour by customers, the continuously growing impact of e-commerce and digitalisation are disrupting traditional revenue streams and business models of airports and airlines alike. Research shows that the traditional travel retail model of impulse buying at the airport has significantly decreased. Airports, airlines and travel retailers should embrace digitalisation and view it as an enormous opportunity to find new ways to generate core non-aviation revenues. To achieve this, though, they will need to collaborate and jointly create a digital airport commerce ecosystem, with the airport being the focus of an omnichannel marketplace. Airports have several competitive advantages when utilising e-commerce that can help them gain the pole position in omnichannel retailing. To create a digital airport commerce ecosystem and an online platform, the key players in aviation need full management support, a skilled team with a digital attitude, value-creating digital business models, enabling legal contracts and high-performance, scalable information technology (IT). This paper describes how stakeholders in the travel retail industry — airports, airlines, brands and duty-free operators — can benefit from digitalisation and how they can begin their journey on the way to a digital airport commerce ecosystem.*

## Keywords

*omnichannel, digital marketplace, travel retail, digital airport commerce ecosystem, travel retail quaternity, digitalisation*

## CHALLENGES

The travel retail industry has been undergoing major changes in recent years. Declining spend per head, despite steadily increasing global passenger numbers (more than four billion in 2017), changing purchasing behaviour, the rising importance of low-cost carriers and the omnipresence of smartphones are just several factors that are forcing airports, airlines, travel retailers and brands to rethink their business models. Non-aviation revenue is the most important financial source of income for

airports today. On a global average, nearly 50 per cent of the total airport earnings before interest, taxes, depreciation and amortisation are derived from non-aviation sources.

Two major factors influencing travel retail are e-commerce and smartphones. Passengers at airports are continuously on their smartphones, except when they check in, clear security or when they board the aircraft. Physical interaction with the passenger, therefore, poses a significant challenge.

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These, and other, changes will continue to affect the airport ecosystem for years to come. Therefore, airports need to be innovative in creating new non-aviation revenue sources. Travellers are increasingly spending their money online, thereby leaving less for airport shopping. Airports and airlines need to provide passengers with digital channels if they wish to stand a chance at improving retail revenues and securing the business of passengers. This disruption is well underway, but only a few major airports and airlines have already begun to digitalise their revenue streams.

### **PLANNED BUYING BECOMES INCREASINGLY IMPORTANT**

Looking at the statistics during the past five years,<sup>1,2</sup> the travel retail market has stagnated. The propensity to spend is dropping continuously because shopping has become easier (and often cheaper) online, coupled with free returns, easy and speedy deliveries, increased brand presence and direct marketing on business-to-consumer channels on the mobile, and online players such as Amazon and Alibaba have become direct competitors for travel retailers.

Pre-planned shopping is increasingly becoming the norm as more people fly more frequently and are therefore more aware of the limited time and opportunities they have available at the airport. Limited time also correlates to higher stress, as does worry about stock availability, price, size of packaging, the authenticity of goods, payments options, delivery and so on. More people, therefore, begin their search for products online and do not wait until they are in the store. These passengers do not want to browse as much anymore; they want to complete their entire shopping online

from the comfort of their home with an engaging and user-friendly digital airport marketplace solution.

Passengers with the highest net worth tend to correlate with top-tier airline frequent flyer or loyalty members, and they choose to spend their time in lounges as opposed to shopping. These are the very people who would much rather have the digital tools at their disposal to search, browse and order from the comfort of their seat, on their device with seamless fulfillment and payment across the entire ecosystem.

The numbers show that providing passengers with features to simplify planned buying is becoming increasingly important. Based on a recent global survey with high-income travellers, the share of pre-planned purchases is even higher than the overall share for all customers<sup>3</sup> (71 per cent, with only 29 per cent being impulse purchases). This is diametrically opposed to the traditional travel retail business model of impulse purchasing.

This does not mean, however, that airports and retailers should focus exclusively on planned shopping. The above example of nearly 30 per cent of purchases still being made on impulse, serves as a reminder that this model continues to generate significant revenues. Moreover, many of those customers who plan their shopping in advance will still pick up their purchases in the store. The key is providing passengers with a holistic and enjoyable shopping and dwell-time experience, offering both online and offline channels (ie retail locations), which customers can use at their convenience.

Asian passengers show the highest preference for planned purchasing. In fact, they are the highest spenders at most airports worldwide and appear to plan almost their entire spending beforehand.

Two reasons for this are the language barrier and lack of familiarity. American and European passengers, on the other hand, still tend to purchase more often on impulse. The impact on airports and retailers is that the communication- and sales approach needs to be adjusted according to the respective target audience as well as the airport of origin or destination.

### **CHANGED PASSENGER EXPECTATIONS**

The days when the focus of aviation passengers was on duty-free alcohol, tobacco and perfumes at unbeatable prices are fading away. Passengers today have different expectations of travel retail shops and, above all, they purchase other goods, especially electronics and premium products. Today, researching, shopping and paying online 24/7 has become standard practice for passengers. To meet their expectations, tailor-made product promotions must be offered on a smart platform that enables cross-selling and upselling of products and services of all integrated shops and service providers.

To be able to address passengers in such a targeted manner, it is vital to know the customers and their needs and to present suitable offers. Business travellers and frequent flyers have different needs than passengers travelling for leisure; travellers from Asia or the Middle East have different requirements than travellers from Europe or the Americas. The acquisition and evaluation of customer data only works via digital platforms, especially in connection with loyalty programmes. Providers can offer loyalty members special conditions and services such as one-click fast-track booking or lounge access via loyalty points. Pre-qualified personalised marketing to existing loyalty members is convenient

for passengers and results in higher conversion rates. In addition, non-loyalty customers can be shown suitable offers based on demographic data such as age, gender or country of origin.

### **ALL PRODUCTS AND SERVICES CONSOLIDATED IN ONE MARKETPLACE**

A key aspect for the development of a digital airport marketplace to address customers in a targeted manner is the consolidation of all digital products and services on one platform. When all stakeholders — airports, airlines, retailers and brands — offer their own digital solutions, customers face a bewildering variety of e-commerce platforms. Passengers do not notice most of these and actively use even less. The redundant costs for operating and marketing these digital solutions are not even considered. A shared digital marketplace has the advantage that passengers only have to register once and then have access to all products and services from all providers.

An important factor for successful digital commerce is an attractive product range. Passengers use airport e-commerce platforms primarily to gain access to the entire range of luxury and high-end products such as jewellery, handbags, leather accessories, watches, laptops, cameras and noise-cancelling headphones. One reason for this is that these are the categories where stock availability is a real concern for global shoppers. Accordingly, an attractive product range with a focus on premium articles is highly effective in meeting passenger needs. This approach is also ideal for targeting advertising and marketing efforts.

It is, therefore, obvious that a more holistic solution is necessary if airlines, airports and retailers want to engage travellers digitally and convert them into

shoppers directly at the airport. A seamless retail experience within the entire travel ecosystem (from airline to airport to brand) needs to be digitally facilitated if the true retail value of a customer's journey is going to be unlocked.

### **LEARNINGS AND EXAMPLES OF USE CASES FROM EXISTING AIRPORT SOLUTIONS**

The range of use cases and corresponding benefits for digital marketplaces is virtually unlimited, especially if the solution is based on an application programming interface (API) commerce platform that allows easy implementation of new services. It is advisable to implement an integrated, scalable and easily adaptable solution in order to be able to take future needs and short- and medium-term challenges into consideration. Here are a few concrete examples of use cases at three major international airports that provide passengers with convenience and add value to their entire journey.

#### **Digital marketplaces at Frankfurt, London Heathrow and Auckland international airports**

As each airport is unique, each airport also has a different focus when implementing a digital marketplace. Frankfurt, as the pioneer, wanted to create an all-encompassing omnichannel marketplace, offering a complete range of products and services. The solution at Frankfurt airport provides on- and offline shopping for passengers with a variety of delivery options, including lounge and gate delivery, travel information, loyalty programme integration and more.

London Heathrow's aim, on the other hand, was to transform its Reserve & Collect service into an end-to-end

digital market place, with a strong focus on luxury brands, which make up more than 70 per cent of sales. Worldwide, Heathrow has one of the broadest ranges of luxury products available directly at any airport. Features of the solution include shopping via the online Heathrow Boutique, airport services, personalised concierge-style shopping and full integration with the airport's loyalty programme, which is a key factor in designing targeted, personalised marketing campaigns for specific user groups. The result is a significant increase in conversion rates and an average basket size that is more than five times higher than the retail average in the stores.

Auckland Airport's approach to its digital marketplace is very different, as the situation regarding e-commerce is unique to New Zealand. The domestic market there has been historically too small for the global players to set up warehouses, logistics and infrastructure. Same-day delivery of products purchased online is not commonplace, whereas purchases can be delivered within hours in mature e-commerce markets such as Germany or the UK. The idea behind the solution was for Auckland Airport to become one of the country's biggest e-commerce providers. The approach was to create a solution combining off-airport retail, e-commerce and on-airport fulfillment. By integrating downtown retailers, Auckland was able to expand the number of products offered to passengers significantly, without having to increase on-airport warehouse space. Passengers can shop at participating downtown retailers or make their purchases online. Purchases are delivered to a central collection point where they can be picked up before boarding the outbound flight or after going through immigration on arriving flights. In addition, the platform

provides a unique solution for the issue of tax refunds. With the marketplace, passengers do not have to stand in long lines or fill out complicated forms. Passengers save directly during purchasing, whether online or at the retailer.

The examples above are just three specific use cases for the implementation of digital marketplaces at airports. Other possible uses include:

- **Support for planned shopping:** Asian passengers in particular value product reservations and online shopping in advance and in their own language. Consequently, an overview of the product range with special offers is an important factor. Shopping list features, personalised offers and cross-/upselling functions in combination with convenient payment and delivery options support passengers in their shopping.
- **Convenient frequent flyer services:** Frequent flyers and business travellers often have similar itineraries, little time and are interested in convenient solutions. Stakeholders can offer special services accordingly. If the traveller is late, a fast track service is offered. If the flight is delayed, the appropriate information is accompanied by an offer for lounge access and discounts for online shopping with delivery to the lounge. Travellers receive additional points on their loyalty programme account for service bookings or shopping.
- **Creating attractive sales offers:** For high-priced electronics or luxury items, discounts or duty-free offers might exceed the price of the flight. For example, the duty-free purchase of an Apple computer on a trip from Auckland to Sydney is so much cheaper that the flight to Sydney is virtually free. Merchandise discounts on flights from London Heathrow to European

destinations might also exceed the airfare savings when purchasing a premium watch. Such offers are extremely attractive to passengers and can be advertised accordingly.

- **Online as advantage:** With duty-free offers, the online presentation of special premium products makes more sense than classic duty-free offers such as alcohol or perfumes, as passengers can also buy the latter as they pass by. In addition, shopping for these items online offers no additional benefit. Instead, the focus online should be on special brands and premium products, accompanied by discount campaigns.
- **Subscriptions as services:** Recurring services can be offered as subscriptions. For example, parking can be conveniently arranged as a monthly statement so that the traveller does not have to worry about travel expenses.

## **MORE THAN JUST RETAIL AND E-COMMERCE**

E-commerce and retail are just the beginning of the benefits and possibilities that digital marketplaces offer. They open the door to a much broader digitalisation of services and other items the airport can provide. The key here is to carefully consider the customer journey. A digital marketplace must provide the easiest possible access for the passenger — one login, one set of credentials, one set of payment details. For this approach to be successful, airports need to take an omnichannel approach, where they might provide one point of entry for domestic passengers, who are primarily focusing on convenience and speed of service, and another point of entry for frequent international flyers, who might want to pre-order goods or book a personal shopper, limousine service or

hotel. The important thing is that, as an airport, once we have direct communication with the passenger, we can create a seamless user experience and sell virtually anything because we have that single view of the customer.

If all stakeholders collaborate and contribute their strengths to such a marketplace, they can create a digital airport commerce ecosystem offering an outstanding customer experience, with benefits for everyone. These benefits are greater than those that would be possible with individual solutions, as various synergy effects can be achieved. For example, products and services of all stakeholders are no longer scattered across various apps and websites; instead, passengers can find and buy all services and products through one solution without having to spend too much time familiarising themselves with each individual platform. Single sign-on creates the best-possible user experience and helps in increasing customer retention. Savings on websites, logistics, payment and fulfillment reduce costs. Moreover, the total revenue can be increased through cross- and upselling and by linking commerce with loyalty programmes and airport services.

In summary, the following are the most important factors for successful omnichannel commerce on digital marketplaces:

- Multiple touchpoints before, during and after the trip.
- Sufficient free traffic in relevant channels.
- An attractive premium product range.
- Targeted personalised marketing promotions at the right time and in the right channel.
- Features supporting planned shopping, cross- and upselling.

- Convenient service offers.
- Infrastructure, logistics, payment and fulfillment.

## MEASURING SUCCESS

There are three main ways to measure the success of digital platforms at airports:

1. The financial success of the transactions generated through the platform: This is driven by how much relevant traffic an airport can generate on the platform. Partners, marketing and an airport's reputation also influence this factor. An airport such as Heathrow, that has had a reputation as the best shopping airport for ten years running, has a much easier time drawing people to a digital shopping site than an airport that is not known for the quality of its shopping.
2. The Webrooming effect: Planned purchases have increased massively over the last five years (82 per cent according to travel market research expert m1nd-set). Customers are using digital platforms to research products and prices but still buy a product in the retail store because they know it is available and know the price yet want to look at the product. According to research, this accounts for up to 14 per cent of all visitors to similar sites.<sup>4</sup> Viewed in this way, one may only be making US\$10–20m revenue digitally but is also adding another US\$30m on top of that in incremental sales to retail. This factor is important to keep in mind in a return on investment (ROI) calculation. It has been shown that there is no cannibalisation between the two channels. The beauty of omnichannel is that the channels enrich each other. On the other hand, if only pure e-commerce is carried out, and there is no physical aspect, cannibalising takes place to a certain degree.

3. The third element in measuring success is that airports increasingly have to position themselves as places with real customer experiences, with great service, with being modern, being digital and being ready for the new millennials. Today, it is just as important for airports to build a digital sales channel as it was to build a retail channel 50 years ago.

### **THE TRAVEL RETAIL 'QUATERNITY': COLLABORATION OF ALL KEY PLAYERS**

To achieve a holistic digital end-to-end solution that offers customers a seamless omnichannel experience, the key players in the aviation industry need to redefine their business model along the lines of what we call 'The new Quaternity of Travel Retail', which includes the four major groups of stakeholders: Airports, Airlines, (Duty Free) Retailers and Brands.

Airports, airlines, brands and retailers pursue different and sometimes competing, interests. At first glance, this makes it seem difficult to find a solution that is equally beneficial for all parties. If, however, one considers the overall benefits that can be created with appropriate cooperation and which takes all major concerns of each individual stakeholder into consideration — and factoring in the risks of major e-commerce competitors such as Amazon or Alibaba — then the question can really only be 'How can such a joint solution be achieved?' In addition, as proof that it is possible, there are already airports today offering such integrated digital solutions.

Airports, airlines, brands and retailers all have advantages and disadvantages in terms of e-commerce, but none of the stakeholders can fully meet all the

requirements. Everyone is dependent on partners in certain areas or has to build up capacities at great expense. Airports, for instance, provide infrastructure, logistics, fulfillment, multiple touchpoints and airport services. Valuable customer data can be found with airlines, who also provide sales channels, continuous customer traffic and touchpoints before and during the flight. Lastly, retailers and brands provide the products — often in the premium range, personalised marketing, customer relationship management (CRM), retail stores and points of sale.

The overall goal for all players is to create a truly seamless customer experience in a digital airport commerce ecosystem. This is where mutual collaboration between all stakeholders must start. Each key player can contribute his or her core strengths to this joint proposal. In this model, the airport evolves into the (digital) marketplace provider, bringing all key players together and providing the required services such as logistics, wayfinding, real-time delivery, real-time flight information, etc. — services that only airports have the facilities to provide. The retailers and brands can provide a fitting and compelling product offering, both digital and physical. Collaborating with airlines, retailers and brands allows airports to engage with the passenger from the very beginning, even before the passenger starts his/her journey.

Airlines play a crucial role in this business model. Many airlines realise that inflight shopping from the cart is no longer a viable or interesting business as it relies almost 100 per cent on impulse purchasing. Cost of transport here is extremely high and the range is extremely limited. In addition, luxury products often remove themselves from

this equation, as they fear damaging the premium image of the brand. Therefore, it comes as no surprise that there are virtually no airlines left that manage to get more than 2 per cent of their passengers to purchase in-flight. Nevertheless, the airlines, if managed properly, possess valuable passenger data that in theory could enable stakeholders to sell products and services of the airport with a high degree of personalisation, engagement and accuracy. Unfortunately, airports and airlines often still tend to work against each other rather than cooperate in this regard; it will require a significant change of mindset to realise that, together, stakeholders can increase the size of the pie — and corresponding revenues and customer loyalty — significantly.

#### **COMPETITIVE E-COMMERCE ADVANTAGES FOR AIRPORTS AND RETAILERS**

What competitive edge, however, do airports have when implementing e-commerce? Is an airport competition for Amazon or Alibaba or is it a completely different value proposition? The airport is a unique environment where service and product tend to blend seamlessly into each other. Airports have several unique competitive advantages, which they — and the other stakeholders — can use to their advantage. Airports enjoy a large amount of trust from their customers. Authenticity, which is increasingly becoming an issue with premium brands, is given. These premium brands will not list on Amazon or Alibaba, at least for the near future. And of course, they can sell tax- and duty-free. Therefore, focusing on premium product ranges that might not do the volume but actually still give the margin is essential.

Retailers in this ecosystem also enjoy several unique advantages. One of these is immediate product availability — the passenger orders a product online and can pick it up in the store or have it delivered at the gate or in the lounge. In addition, retailers in a digital airport commerce ecosystem enjoy low costs of returns, as most people either return the product directly or do not return it at all because they have already boarded their flight. Traffic acquisition costs are also at a minimum, as potential customers are already at the airport and/or checking out the airport's website or are using airline- or booking channels where affiliate marketing is cost-efficient and offers high conversion rates.

#### **PERSONALISED INFORMATION AND CONNECTED SERVICES IN REAL TIME TO CREATE REAL BENEFITS**

The key for any type of digital solution is the ability to provide relevant and accurate, real-time information that makes a difference in the passenger's journey — at any time, for any channel or device. Product availability, pricing, payment, logistics, fulfillment — everything needs to be 100 per cent real-time to drive a truly seamless customer experience. It is important to provide meaningful information to each target group, by personalisation and profiling. This can be based either on loyalty programmes, the actions performed by the channel visitor or the data provided by the airlines' partners. The marketplace should be able to adapt to the passengers' needs at any time and always enable their desired shopping experience when it comes to delivery methods, payment and product range because disappointed shoppers never come back, neither in retail nor in e-commerce.



## ROAD MAP TO ESTABLISH A DIGITAL COMMERCE MARKETPLACE AT AN AIRPORT

To be clear: one cannot just buy software off the shelf and assume everything will work perfectly. To have an integrated digital solution, there is a need to develop an API-based platform that:

- Can be connected to all airport services, such as parking, fast track or lounge access.
- Supports the integration of a wide variety of products and data formats on one marketplace.
- Connects airport services and shopping through loyalty programmes (eg by offering VIP services for loyalty points).
- Is able to integrate a large number of different software solutions, from enterprise resource planning (ERP), product information management (PIM) and CRM to order management, fulfillment, logistics and airport systems.
- Is connected to business intelligence to create data-based use cases and personalised offerings.

To integrate a large number of different systems and services is neither trivial nor possible out-of-the-box. For instance, at Frankfurt Airport, more than 30 systems legacy applications had to be integrated into the digital marketplace, including airport systems, Shop and ERP interfaces, as well as PIM, logistics, payment and fulfillment systems. These facts make it clear that digital platforms need to be scalable, flexible and services based to create a future-proof platform. What is also needed is an enormous amount of expertise to create valuable business cases, efficient processes as well as high-performance software architecture.

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