



White Paper

The Airport Retail Revolution

Adapting to Modern Traveler Expectations

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Retail has undergone significant changes in the past decade, in large part driven by the explosion of online shopping and digital media. In the fourth quarter of 2017, U.S. e-commerce sales were 9.1% of total retail sales, compared to approximately 3.8% in the first quarter of 2008.¹ International numbers are even more encouraging: in the U.K., the 2016 online share of retail trade was 16.8%; Germany's share was 13.5%; France's share was 9.2%; and Sweden's share was 8.6%.² Unfortunately, while consumers' habits have changed, many airports and airport retailers have failed to adapt their retail offerings accordingly. Their products, layouts, and sales channels remain largely unchanged since the early 2000s, preventing them from capitalizing on the digital influence in retail.

At the same time, with continued downward pressure on airport rates and charges from airlines, profits from commercial revenue sources have become increasingly important to airport operators.

In this white paper, we explore how travelers' shopping expectations are evolving and what airports can do to capitalize on the commercial potential within their unique operating constraints.

¹https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

²<https://www.statista.com/statistics/281241/online-share-of-retail-trade-in-european-countries/>





Brick and mortar: the airport Main Street

Until recently, the most revolutionary change to an airport's retail offering was the introduction of a walk-through, duty-free shop positioned immediately after a (preferably) centralized security checkpoint. Advocates of this approach argue that by ensuring all passengers walk through a single unit, the airport increases the potential to make sales. While undoubtedly this has led to increased sales, it is often the most complained-about aspect of those same airports. Passengers complain about having to travel through a maze of retail offers, even though they often do so with their wallets open. These pass-through stores contradictorily encourage both scorn and spend.

Generally, travelers spend more when they are experiencing lower levels of stress. Studies have shown that the low-stress sweet spot is after a traveler has cleared security/customs procedures, when they know how much time they have before boarding, and they do not yet have to prepare for boarding. As most specialty and duty-free retail purchases are impulses, exposing travelers at this point will likely result in a higher purchasing rate.

Some European airports have adopted the concept of a "de-stress" zone between outbound security and the walk-through duty-free shop. This typically includes units providing "essentials" such as convenience retail, walkaway snacks, and currency exchange. Further lowering stress levels, prominent flight display units give passengers information on how much time they have before their flight. Without first alleviating passenger stress, the space immediately after security is in an unsuitable position for an airport's highest earning retail unit. That said, while the "de-stress" zone is undoubtedly an improvement on walk-through duty-free layouts, airports still need to overly rely on physical infrastructure in spite of the improved shopping environment.

The challenge for most North American airports is when passengers quickly disperse to their gate areas rather than remaining in the commercial neighborhood. Many airports outside of North America have solved this by utilizing the call-to-gate system where there is a single passenger lounge, offering food, retail, and duty-free options, as well as seating areas. Passengers stay in this commercial zone until the airport posts their gate number and allows them to proceed for departure. While this system can maximize commercial spends, only one North American airport, Calgary International, utilizes this model. Airports that are unable to use the call-to-gate system are unable to expose the maximum number of passengers to non-convenience retail options, resulting in a loss of potential revenue.



Airports without a single passenger lounge often resort to duplicating commercial offerings in multiple areas to ensure visibility by the maximum number of travelers. One can see this in the long-standing, optimal space sizing approach to airport terminal design in the U.S. with the metric 17,000-25,000 square feet per million annual passengers. This space requirement can be significantly lower for an airport not requiring offerings to be repeated in multiple places. However, extra space does not guarantee additional sales or airport revenue, and not all retail concepts and locations are able to earn the same level of sales per square foot. Few, if any, locations will have exposure to all passengers. This means that more distant, or more secluded, spaces likely have a lower value as revenue producers. They may be paired with higher earning locations as an inducement to bid for the right to operate, but that will reduce the potential contract value between operator and airport. Adding additional space to airports in areas that are likely to result in significant upticks in sales and revenue is not typically an easy goal to achieve, often requiring costly terminal expansion programs.

New trends within the wider retail industry

The key question is whether airports can further improve their retail offering by learning from trends observed in the wider retail industry. Notably, there has been a move across the retail sector away from a pure brick-and-mortar approach to greater use of digital platforms.

In addition, retailers are increasingly considering the preferences of new generations of consumers, with an emphasis on the demands of Millennials and Generation Z, the first generations growing up alongside the internet.

The perception is that these groups favor digital channels over more traditional retail products. Certainly, these groups are helping to drive the growth of e-commerce with consumers increasingly expecting convenience, choice, and high customer service levels. The success of online retailers such as Amazon and ASOS has been driven by a combination of competitive pricing, accessibility, convenient delivery options, and wide product offerings.

KEY SPENDING HABITS OF MILLENNIALS AND GENERATION Z³

Millennials Ages 23 - 38	Generation Z Under Age 23
85% shop online regularly	Influenced by peers
Price sensitive	Quick delivery/instant gratification
Can be influenced by discount codes in email	Personalized experience
Utilize internet for peer reviews	Limited brand loyalty
Personalized experience	Direct purchases from social media
Use loyalty programs	Impulse purchases
Become brand loyal when engaged on social media	Shopping is a social event
Most do not have their favorite retailer's app on their mobile device	

A February 2017 survey found that 78% of younger U.S. shoppers (ages 18-29) preferred online shopping (that is, shopping from their mobile device or computer).⁴ The same study found that 47% of shoppers aged 20-29 mainly preferred mobile shopping over online or in-store purchases. Further, only shoppers over age 60 preferred to shop in store. In Europe, 67% of persons aged 16-24 and 64% of persons aged 25-54 made online purchases.⁵

Overall, however, the previously mentioned study found that Americans still tend to prefer to shop in store for most items. For example, 68% of U.S. purchasers of apparel and footwear prefer to do it in store; 72% of global shoppers prefer in store purchasing for this category. Among U.S. shoppers, 61% of purchasers of tablets and smart phones, and 57% of camera and accessory purchasers prefer the in-store experience. Globally, a study found that 51% of shoppers prefer to buy consumer electronics in store, while 43% would rather make their purchases online. Event entertainment items like toys and games showed about an even split among U.S. purchasers who preferred online and purchasers who preferred a store experience. The only item that users substantially preferred shopping for online was books with 62% of U.S. shoppers preferring to get their reading materials online. In terms of global shoppers, 60% prefer the purchase of books, music, movies, and video games online.⁶

³ <https://retail-assist.co.uk/gen-z-vs-gen-x-vs-gen-y-shopping-habits-survey/>
<http://www.pfsweb.com/blog/shopping-habits-whats-age-got-to-do-with-it/>

⁴ <https://retail.emarketer.com/article/us-shoppers-still-prefer-make-most-purchases-instore/58dd8922ebd400061c80f3cf>

⁵ <https://www.eshopworld.com/news/2017-european-ecommerce-report/>

⁶ <https://www.pwc.com/gx/en/industries/retail-consumer/total-retail/total-retail-categories.html>





Digital platforms primarily serve to influence, compare, and validate purchases. In particular, the popularity of social media platforms such as Instagram and Snapchat has put an emphasis on aspirational lifestyles with consumers heavily influenced by peers. Considering all of these characteristics, the shopping behaviors of both Millennials and Generation Z lend themselves perfectly to an omni-channel solution, combining stores with mobile shopping and social media to turn the experience into a social event. Airports can adopt this omni-channel solution as well. For example, a shopper can purchase food that is delivered to their gate or visit a shop and buy an item that will arrive at their home when they return from their trip.

Airports are also addressing a far more sophisticated customer base. The traveler beginning a trip in Dayton, Ohio; Dresden, Germany; or any other smaller airport not only looks at the airport concessions in comparison to what is local, but also in comparison with other airports previously visited (e.g., Chicago, Frankfurt, Amsterdam, Changi, etc.). Customer expectations are simply higher, grown from the generic newsstand to branded retail with higher levels of customer service.

Research has shown that, for every increase in customer satisfaction of 0.1 point on a 5-point scale, non-aeronautical revenue increases by \$0.08 per enplaned passenger.⁷ But not every solution works for every passenger. A multi-pronged approach is the best way to increase overall satisfaction.

Change is not always easy

There are many reasons why airports and airport retailers may have been slow to respond to changing consumer demand:

- 1. Cost of Investment.** The introduction of new commercial initiatives, be they infrastructure or digital, often requires investments that appear not to have high enough returns over a relatively short time.
- 2. Terms of Existing Retail Contracts.** Contracts often have relatively long terms, limiting an airport's flexibility to implement changes and proactively respond to changes in the industry. These contracts often do not incentivize operators to innovate, offering no rewards for the exploration and implementation of additional sales channels.
- 3. Passenger Mix.** It is well established that different passenger segments behave in different ways, making it hard to cater to all audiences. No single change will address this.
- 4. Decoding the Data.** It is impossible to address the different types of passengers until the airport and its retailers know who is actually passing through. Understanding these customer segments or personas is a key first step to a focused strategy. Developing these personas goes beyond just analyzing survey data, and requires insights into anthropology and psychology, as well.

⁷ <http://www.aci-asiapac.aero/services/main/18/upload/service/18/self/55cc68ca5d07e.pdf>

ICF's Ideas for the Future of Airport Retail

- Luxury vending
- Product delivery
- Time-of-day merchandising
- Click-and-collect
- Loyalty programs
- Pop-up retail
- Quick Response (QR) codes
- Showroom concepts
- Multi-airport apps
- Digital advertising
- Interactive video shopping
- Increased use of social media

- 5. Information Sharing.** Not all airports share data with their retailers, and most retailers do not share detailed information with airport operators. In order to develop strategies to impact the entire airport, combining surveys with sales data that includes outbound flight destination, when available, will offer a bonanza of data to help improve and target aspects of the retail program and overall customer experience.
- 6. Regulations and Policies.** The change to security regulations, in particular restrictions on liquids and airline one-bag policies, have had an impact on retail sales. In addition, there may be restrictions on the use of online platforms and services, particularly in relation to customs.
- 7. Management Style.** Commercial teams at airports may not have significant traditional or digital retail experience, limiting their knowledge of industry trends and best practices.
- 8. Lack of Profit Motive.** The profit motive, which drives commercial innovation and success elsewhere, is often absent at North American airports. Few, if any, U.S. airport commercial staff goals are aligned or measured with achieving sales or revenue goals.

A measured response to changing trends

ICF believes no single solution exists that is a panacea to all issues. Further, technology, by itself, will not rapidly address the expectations of all travelers. We believe that a combination of the below strategies will have the biggest impact.



Understanding Customer Personas. Passenger behavior is complex and guided by aspects of travel, personality, motivations, jobs, family status, etc. Getting to these personas goes far beyond just simple survey analysis, and requires deep insights into human behavior. Simply crunching survey data is no longer enough.



Home Delivery and Collect on Return. Airports have been slow to offer robust shop/deliver or collect on return service offerings despite consumer demands for convenience and accessibility. This approach would be particularly advantageous for increasing sales to outbound passengers who may already have their limits of cabin baggage, or offering large, potentially high-value merchandise for them to pick up when they return at the end of their journey.



Price Comparison Platforms. Consumers are increasingly price savvy and want to check that in-airport products offer genuine savings or, at least, are comparable to street prices. Outlets should price competitively, but they can also facilitate comparison, for example, by providing dedicated price comparison apps or in-store computers for customers.





Time-of-Day Merchandising and Staffing. Outlets can attract customers by changing displays, staffing, sale offers, and prices at different times of day to meet the demands of different customer segments. Having staff who speak Mandarin and Cantonese seems an obvious need when an airport has a number of flights to China, but this practice is usually only seen in duty-free stores, where other concessionaires could also benefit from this change.



Pop-Up Retail. Consumers expect variety and change in merchandising and shopping options. The implementation of pop-up retail stores that are only present for a limited time can help maintain the interest of frequent travelers, while providing an opportunity for small local vendors to participate in an airport's success.



Mobile Device Apps. Putting the power of technology into the hands of customers offers one way to entice purchasing behavior. Most people carry at least a single device, if not more than one. An app that is useful in multiple airports, and which provides convenience, knowledge of what is available, and, potentially, discounts, can be one way to take advantage of this. It is key, however, that the app works in multiple airports because it is unlikely that a traveler will download and use apps for every airport that they visit with the exception of their home airport.



Quick Response (QR) Codes. QR codes offer a way for retailers to direct customers to information or ordering platforms with any cellphone camera. There are multiple possible applications. A QR code can be placed on shelves to direct passengers to information about other colors or styles of the product in which they have interest and allow them to order the product. That way, if a sale is completed online, the airport will still collect revenue from the transaction. A larger possible application would be a wall, either stand-alone or as part of a store's design, that provides a colorful display of products, along with QR codes to order. Products can be shipped to the customer's home, or picked up upon return to the airport.



Showrooming and Webrooming. Showrooming occurs when a customer browses a product in a store only to go home and order it, perhaps at a lower price. Webrooming is the opposite: a customer browses online but then visits a store to actually make the purchase. In order to address this, airports need to be price competitive and offer robust selections of products. Through the use of QR codes (previously discussed), an airport retailer can become both a showroom and a place to order everything a customer desires from that brand or product line.



Targeted Offers through Digital Platforms. To target price-sensitive customers and encourage impulse purchases, airports can use apps and loyalty programs to send targeted promotions to customers, both prior to and during their journey through the airport. Beacon and Bluetooth technology offer significant possibilities yet only a few airports, notably Copenhagen, have taken advantage of this opportunity.



Customer-Focused Outlet Designs. Consumers increasingly expect a personalized and unique shopping experience, and the design of in-terminal retail outlets needs to reflect this. Mass merchandising techniques (e.g., pile it high and sell it cheap) will only go so far, and if an airport or retailer is seeking to target the more sophisticated traveler, their decor must reflect this new reality.



Surprise and Delight. Presenting a retail environment that creates an experience with a lasting positive impression helps relax travelers, making them more likely to shop. Few airports truly find ways to make a strong impact on travelers the way that Singapore Changi does. The upcoming \$1.7 billion Jewel development is an example of this, offering more than 300 retail outlets and a 130-foot waterfall. Changi also hosts the Hello Kitty Orchid Café, the winner of the 2017 Moodie/Davitt Food and Beverage (FAB) Award for New Food and Beverage Concept of the Year. Changi is unique to the extent that they offer such innovations, but the concept is available, and possible, even on a smaller scale, for all airports that want to create a lasting impression.



How ICF can help

ICF and its subsidiary company, ICF Olson, specialize in analyzing customer experience at an airport and determining the characteristics of passengers in order to develop a holistic program that considers all aspects of the customer's journey. Utilizing Anthrolytics™, our proprietary practice combining anthropology and analytics, we develop personas of passengers that take into account all of the forces that drive their behavior. All aspects of an airport's business and passenger flow are then studied to arrive at the core challenges facing the airport. From there, solutions that improve the passenger experience are developed, addressing the commercial program and other parts of the journey as well as, improving customer satisfaction and passenger spend.

While the expectations of the modern traveler have increased rapidly in recent years, it is possible for airports to deliver a satisfying and engaging customer experience. By partnering with both airlines and retailers and taking the time to truly understand their travelers, airports can build a strategy that significantly increases their commercial revenues.

About ICF Olson

ICF Olson is a full-service marketing services agency purpose built for the new realities facing clients. With more than 800 employees across 14 offices in the U.S., Canada, and India, ICF Olson is one of the world's top 50 agency companies. It boasts uniquely broad and deep expertise across the entire spectrum of marketing services, having been recognized as a "leader" in loyalty and CRM by Forrester Research, Adobe Marketing Cloud's North American Partner of the Year, and Public Relations Agency of the Year by PR Week. ICF Olson's individual brand campaigns have won 27 Effie Awards, the marketing industry's highest accolade for effective marketing.



About ICF

ICF (NASDAQ:ICFI) is a global consulting services company with over 5,000 specialized experts, but we are not your typical consultants. At ICF, business analysts and policy specialists work together with digital strategists, data scientists and creatives. We combine unmatched industry expertise with cutting-edge engagement capabilities to help organizations solve their most complex challenges. Since 1969, public and private sector clients have worked with ICF to navigate change and shape the future. Learn more at icf.com.

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Alan Gluck is a Senior Manager with ICF's U.S. aviation team. His focus lies with the development of commercial revenues and improving the customer experience through better, more targeted, and more forward-looking concession programs. His specialties range from commercial forecasting to solicitation preparation and selection process management, to improving operations in existing concessions. Mr. Gluck has served as the commercial manager for BWI Marshall and Fort Lauderdale Hollywood International Airports. With almost 25 years in the aviation industry, Mr. Gluck has worked with airports around the globe, advising on means to improve non-aviation revenues.

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