



# Duty-Free Travel Retail

A Global Industry knocking  
Indian Shores

A RedSeer Perspective

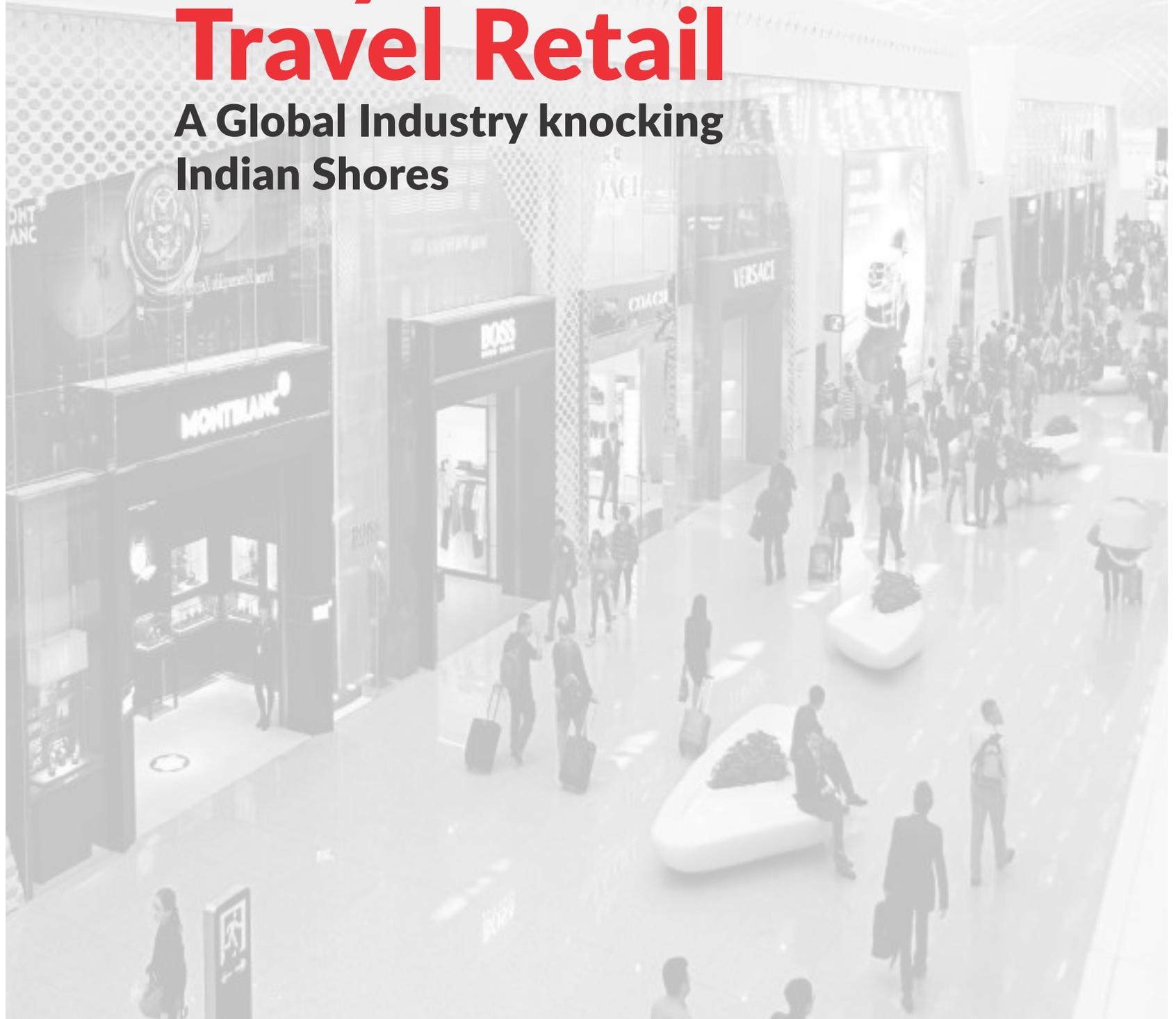
by **Shubham** Anand

**RedSeer**



# Duty-Free Travel Retail

A Global Industry knocking  
Indian Shores



# Foreword



**Shri RK Singh**

Executive Director,  
Airports Authority of India

## Expert Speak from Airports Authority of India

“The product range on offer in duty-free is expanding, outlet layout features have improved (in international airports such as Chennai, Kolkata, etc). The master franchise agreement with Flemingo or Max Plus is in place in Kolkata, Chennai, Trivandrum, Madurai, Goa, Pune, Trichy, Jaipur, Lucknow, Ahmedabad, Kozhikode, and Vishakapatnam. The revenue share exclusively from DFS at Indian international airports is in the range of 27% to 46% - overall DFS earnings for AAI has crossed INR 100 Cr whereas total DFS sales across 13 AAI airports would be crossing INR 300 Cr. Quality & spending power of foreign tourists is driving sales at international airports like Ahmedabad, Kolkata, Chennai, Goa and Jaipur. Over 60% sales in duty-free are from these categories – liquor, tobacco, handicrafts, chocolate and perfume. I definitely see a positive impact on travel retail sales and revenue from duty-free sales (DFS).”



**Anil Kumar**

CEO, RedSeer Consulting

## Thought Leadership Speak

“Indians attach a fancy value to duty free goods brought abroad. But of late, Indian airports are offering competing deals, which Indian consumers are finding exciting. The rising disposable income and awareness levels of customers seems to have boosted duty-free sales even in airports of non-metro cities such as Jaipur and Mangalore. Our estimate puts the duty-free spend at Indian airports by 2021 at \$1.6 billion. Overall, the scenario of the travel retail segment in India seems to be one of steady but sure growth for the next 5-10 years.”



# Background

Tourism is becoming one of the major income sources for many countries as over 1 billion people travel each year - almost 15% of the world population - and spend approximately USD 1 trillion in the process. The duty-free retail market is becoming an important selling channel for all these travelers. Duty-free shops are retail stores where the nation's or local taxes and duties are waived off on each product sold to the travelers who take these products out of the country. These shops are strategically placed at international airports, seaports, train stations and sometimes in downtown locales as well.

The concept of the duty-free shop was piloted in 1947 by an Irish businessperson Brendan O'Regan, with the establishment of a shop at Ireland's Shannon Airport. The intent was to serve the trans-Atlantic air passengers whose flights stopped at Ireland

for refueling. The concept was an immediate success, and soon caught on in other countries.

The evolution of duty-free shops happened in 1960 when two American entrepreneurs started Duty-free Shoppers (DFS), which is currently at the 2nd place worldwide. DFS expanded its business rapidly in different countries and continued to innovate. In 1968, it became the first company to have off-airport duty-free stores and large downtown stores under one roof. This helped DFS to become the world's largest travel retailer. In 1986, the industry showed signs of stabilising, with the foundation of TFWA (Tax-Free World Association), the world's biggest duty-free and travel retail association, providing the industry with high-quality exhibitions, conferences, workshops, and in-depth market research.



# Table Of Content

**Tourism is becoming one of the major income sources for many countries. The duty-free retail market is becoming an important selling channel for all these tourists traveling around. Duty-free shops are basically retail stores where the local, national taxes and duties are off on each product sold to the travelers who take these products out of the country.**

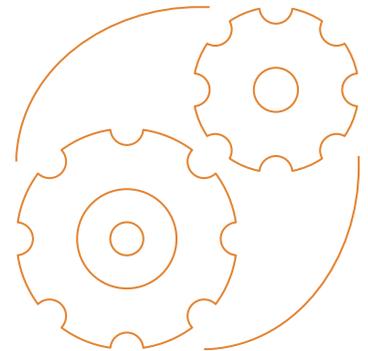
1. Overview	06
▪ 1.1 Introduction	06
▪ 1.3 Current Trends	08
▪ 1.4 Current Leaders	08
▪ 1.5 Future Prospects	09
2. Global Market	10
▪ 2.1 Current Scenario	12
▪ 2.2 2016, Hope renewed	13
▪ 2.3 Why Duty-free?	14
3. Region wise Market	16
▪ 3.1 Current Scenario	18
▪ 3.2 Why Asia?	20
▪ 3.3 Top Countries	22
4. Segmentation by Distribution Channel	28
▪ 4.1 Different Channels	28
▪ 4.2 Downtown shops	29
5. Demand Drivers	30
▪ 5.1 Travel and Tourism	32
▪ 5.2 Retail Market	34
▪ 5.3 E-retail Market	35
▪ 5.4 Consumers Expenditure	36
▪ 5.5 Low-cost Airlines	37
6. Challenges	38
▪ 6.1 Currency exchange rate	40
▪ 6.2 Local Market	41
▪ 6.3 Better destination, better sales	42
▪ 6.4 Crises and disasters	42
▪ 6.5 Terrorism	43
7. Opportunity	46
▪ 7.1 Downtown shop	48
▪ 7.2 Improving consumer hospitality/experience	49
▪ 7.3 New verticals	49
▪ 7.4 Online market	49
8. Duty-free market: Indian context	50
▪ 8.1 Market scenario	52
▪ 8.2 Top Airports	53
▪ 8.3 Demand drivers	55
▪ 8.4 Challenges	58
▪ 8.5 Opportunities	60
9. References	62

# 1 Overview

## 1.1 Introduction

Duty-free products are also sold in-flight and on passenger ships apart from airport aisles. These products are rarely available for on-ground travelers, for example, someone driving between USA and Canada. Although these products can be bought duty-free from one country, taking them into another country can be pricey. Some countries have limits on the import of certain products, while some others impose import duties at the customs checkpoint.

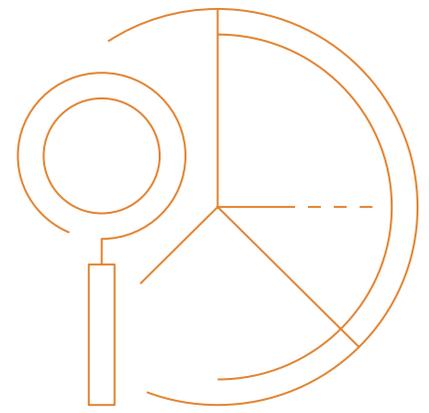
In India, GMR runs the RGIA Hyderabad duty-free, and has a JV with Aer Rianta to run IGIA Delhi duty-free as well. Flemingo has emerged as the top DFS operator in India, runs duty-free in 11 airports controlled by AAI & one airport controlled by GVK, i.e. Mumbai International Airport.



*Our travel and duty-free sector expert thinks that the key differentiators in this sector are air traffic, passenger quality (in terms of economy travellers vs business travellers), travel sectors geography-wise and PAX.*



# Overview



## 1.2 Current Trends

Current trends in duty free shopping encompass two categories.

The fashion plus accessories category accounted for over 15% of duty free sales in 2015, and included leather items, watches, jewellery, sunglasses, souvenir gifts, travel aids and more.

The luxury category accounted for over 31% of duty free sales, with some of the brands covered here being Michael Kors, Giorgio Armani, Gucci, Burberry, PRADA etc. The largest percentage of 2015 purchases in the category were made by Chinese consumers, contributing to nearly a quarter of the total

revenue. This happened primarily because the Chinese consumers tend to shop abroad at duty-free stores to avoid a high tax outgo in their home country stores on the same products, which in some cases can be taxed 50 percent higher than elsewhere in the world.

Product wise, cigarettes and skin-care products had the most sales in the world in 2015, with both products' sales amounting to USD 6.7 billion. The other popular products were women's fragrances, confectionery and scotch whiskey.

*Our experts say that in India, there is a combined DFS revenue of INR 300 Cr from 13 airports, but INR 250 Cr and INR 300 Cr individually from CSIA Mumbai and IGIA Delhi respectively.*

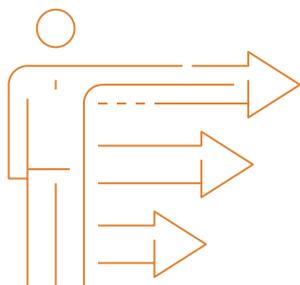
# Overview



## 1.4 Current Leaders

Acquisitions are currently a sought-after approach for companies to compete with their peers by increasing their market share. Swiss-based Dufry group has done this via acquisition of 4-5 companies in the last 5 years, to become the leading company in duty-free retail sales. In its portfolio, there are big names like World Duty-free, Hudson, NUANCE, REG STAER etc. Dufry's business has expanded globally, operating in 370 locations across the world. Considering the countries, South Korea and China were the top two zones in terms of total duty-free sales with a market share of 12% and 7.52% respectively, in 2014. These two countries

were the key to making APAC the largest duty-free zone in the world. Currently, the region accounts for almost 40% sales of the world and is increasing the divide with Europe, which was on top of the sales charts a few years ago. Europe has shown a numerical decline in duty free sales because of a change in legislation - the removal of restrictions on the purchase for personal use in any EU country meant that people no longer "export" goods from one EU country and "import" them into another - they just go shopping.



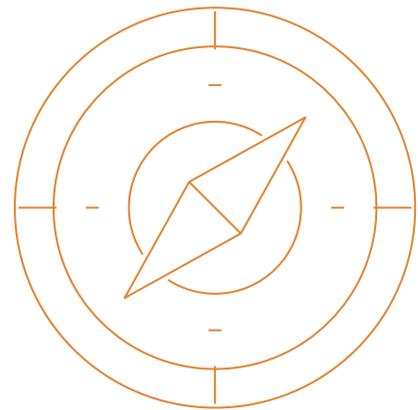
# Overview



## 1.5 Future Prospects

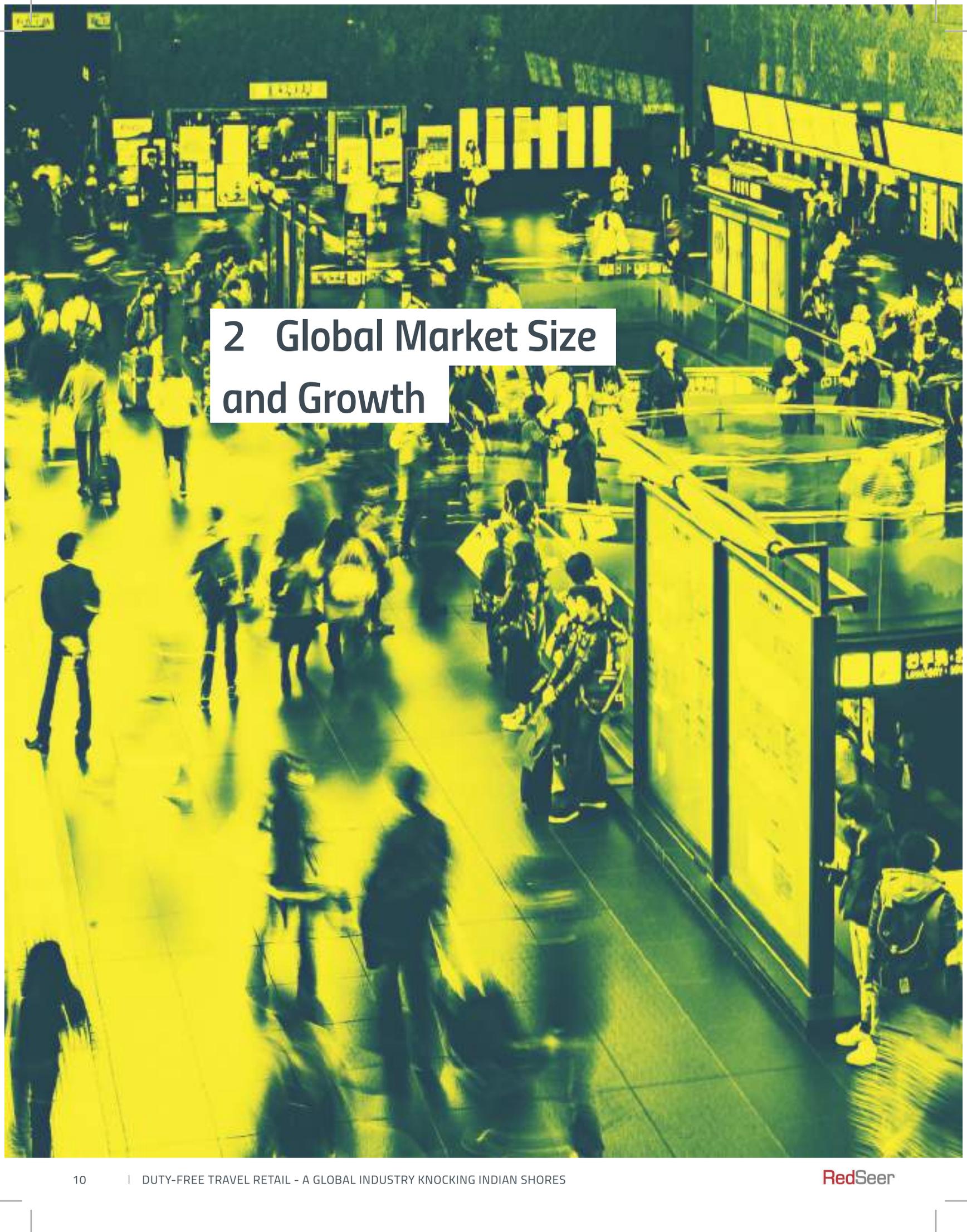
Despite having a fall in 2015, the industry is expected to double its sales by 2025, with expected CAGR of 20.7% for the next 5 years. During this period, the emerging star with highest CAGR will be India. Airports in India are on a high growth phase, effectively meaning that the number and size of duty-free shops here would shoot up. Also, India's rising middle class and increasing disposable income per capita will continue to bolster the growth of domestic and outbound tourism. Foreign Tourist Arrivals (FTAs) in India have also increased 11.8 percent year-on-year to 670,000 tourists in August 2016. Currently

not even in the global top 25 duty-free retail markets, India is expected to surpass Thailand (currently at #10) by 2020.



**Foreign Tourist Arrivals (FTAs) in India has also increased 11.8% year-on-year to 670,000 tourists in August 2016.**

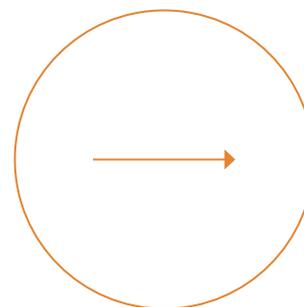




## 2 Global Market Size and Growth



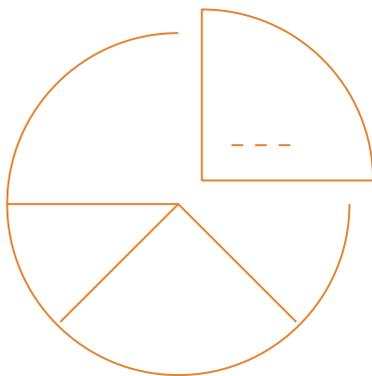
*Duty-free retail market is becoming popular, a question might come into one's mind - Why is it so favorable?*



## Global Market Size and Growth

### Current Scenario

The Delhi Duty-Free Services (DDFS) and GMR collaboration mints the peak Sales Per Person (SPP) of USD \$8.00 in Duty-Free Sales (DFS) at IGIA Delhi. CSIA Mumbai comes 2nd in the same category with SPP of USD \$6-\$7 – managed by Flemingo Retail under GVK supervision, they introduced the 'click and collect' model recently, enabling a departure passenger to pre-order and later pick up the purchase on return trip. GMR owns and operates the duty-free operations (Hyderabad Duty Free Retail Limited established in 2010, a 100% subsidiary of GMR HIAL) at RGIA Hyderabad and is doing a phenomenal work, this airport has been top performing in overall travel segment with a peak SPP of USD \$4.00.



# Global Market Size and Growth

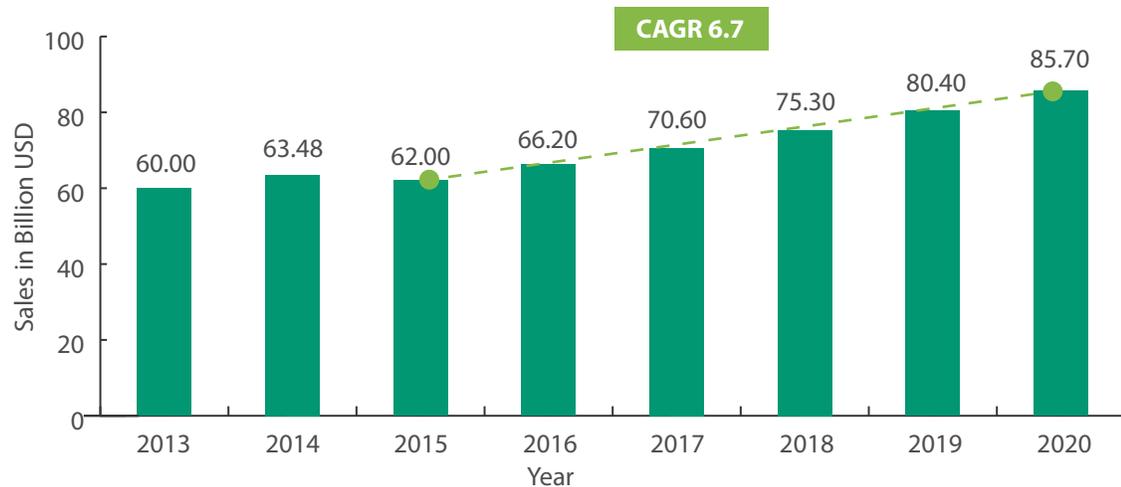
## 2.1 Current Scenario

The global duty-free market has been growing significantly - from USD 38,200 Mn in 2009, it has reached USD 63,480 million in 2014 with a CAGR of 10.7%. However, in 2015, the industry saw an upset with its sales decreasing by 2.3%, the first time since 2009 that it witnessed a decline.

Only Asia-Pacific & Middle East regions were immune the slide, showing some minimal growth with the latter having a mere growth

of 0.85%. The rest of regions suffered a downswing. Europe took the brunt, losing 8% of its sales. Except fragrances and cosmetics, sales of all other categories fell, with sales of watches, jewellery, and fine writing dropping the most at a rate of 14%. Airlines were the worst hit distribution channel, with the rest also displaying a decrease in sales, except for downtown duty-free shops, border shops and growing cruise line market.

### DUTY-FREE RETAIL SALES



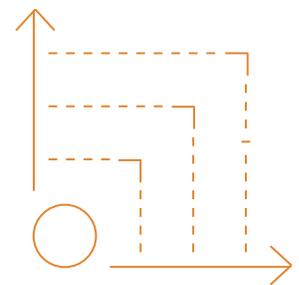
# Global Market Size and Growth



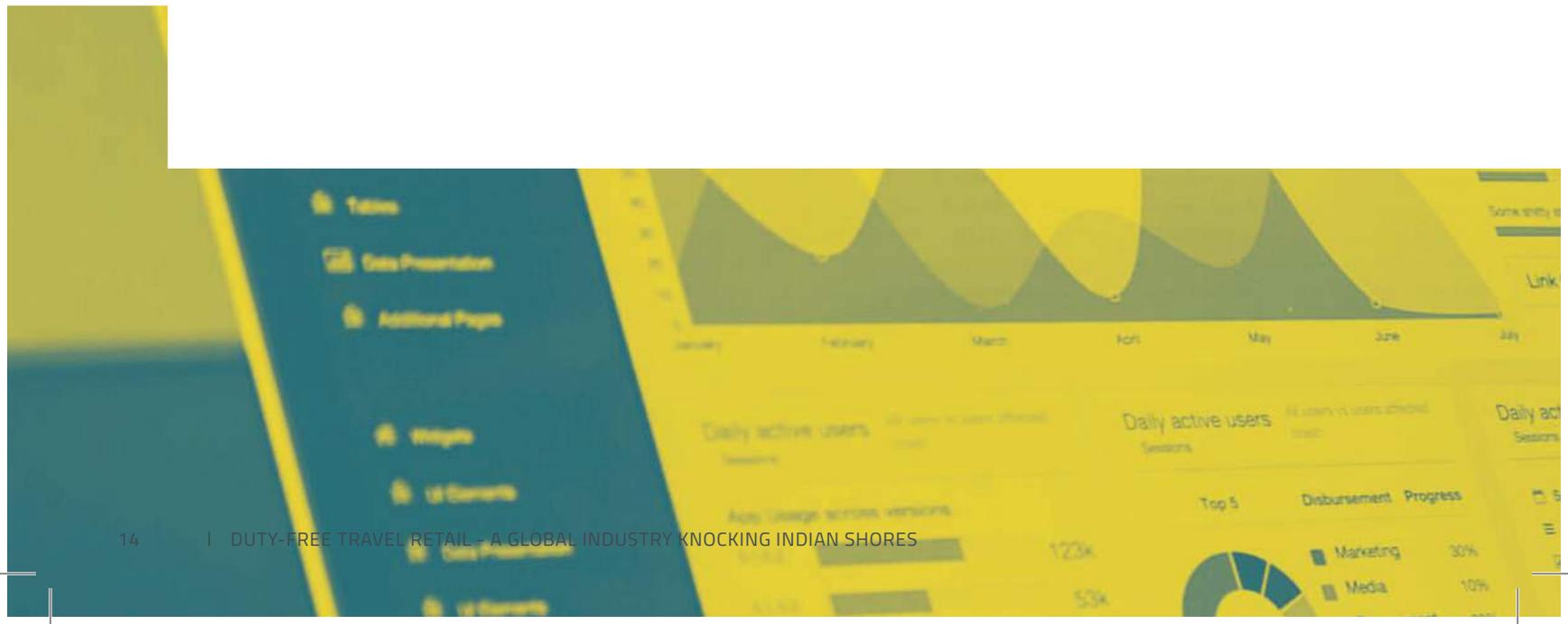
## 2.2 2016 – hope renewed

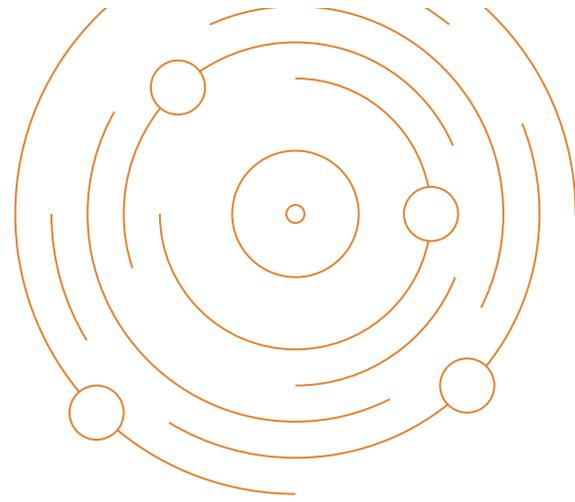
Even though the industry saw a setback in 2015, there was renewed positive sentiment in the first quarter of 2016. The overall global sales increased by 1% compared with the same period last year. The Americas showed a decline in sales by 8.6%, while the leader of the market, Asia-Pacific was once again in the rising zone with a much stronger growth of 5%. Category-wise, fragrances and cosmetics were the star, and the category sales grew by 7.8% in the first quarter. In the

channels, on-board ferries were among the top with a growth rate of 6.5% while airport sales were unaffected.



***Surprisingly on board ferries were among the top with a growth rate of 6.5% while airport sales were unaffected.***



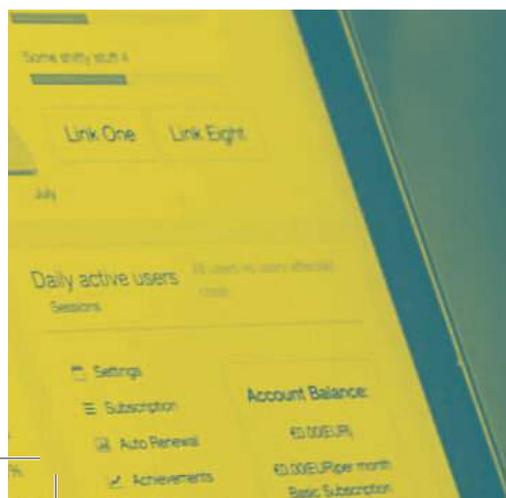


### 2.3 Why Duty-free?

This question becomes pertinent as the business of duty-free retail market is gaining more popularity worldwide. The answer has many layers. It gives travelers an opportunity to buy products that may not be available, or available at that price point, elsewhere. For example, Aelia Duty-Free is one of the few places where travelers can shop in a store for Urban Decay products in New Zealand. In some cases, travelers find products such as spirits, wine and champagne, fragrances and more, at very much discounted prices. In Europe, there is a bonus perk; Duty-free shops in airports and ports are “tax-free shops,” too, which means visitors are spared with the value added tax (or V.A.T., a type of sales tax) that would otherwise be included

in the price of goods sold elsewhere in the European Union.

It gives travelers something to do during stopovers and airport hours - a spot of retail therapy is most welcome. They have the option to part with the last of their converted currency which otherwise would lose value in fees and charges once exchanged for their home currency.

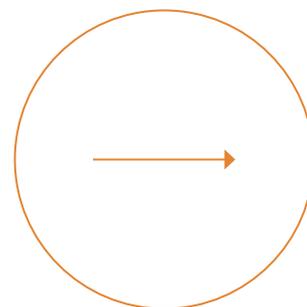


A close-up photograph of a hand pointing to a map. The map is rendered in shades of green and yellow, with various geographical features and text visible. The hand is positioned on the right side of the frame, with the index finger pointing towards the center of the map. The background is a blurred map, suggesting a focus on regional analysis.

### 3 Region wise Market Share and Growth



*Asia Pacific is region wise the largest duty-free retail market of the world.*



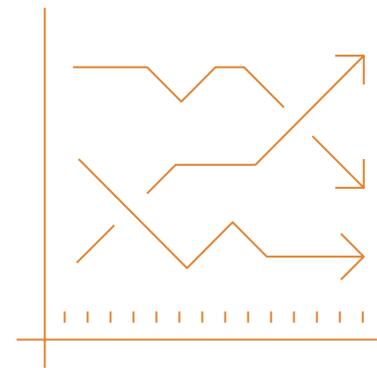
## Region Wise Market Share & Growth

### Current Scenario

#### 3.1 Current Scenario

APAC is the largest duty-free retail zone of the world, with a market share of around 40. The expected CAGR for the region will be 9.4% during 2015-2020. It will remain the largest market in the world by 2020 with the expected market size of 37.6 billion USD. The second region on the tally is Europe with a market share of 32%. The expected CAGR for Europe is 4.6% and with this rate, it will reach more than 25 billion USD market sales by 2020. Although this rate is lowest

among all the regions, Europe will be able to maintain its second spot till 2020 at the least. The other three regions share the rest of 28% in which Africa shares only 1% of the market. Africa will have the same CAGR as the Middle East for the period.

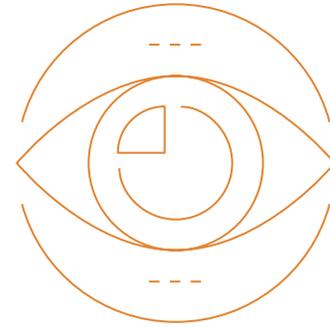


*APAC will remain the largest market in the world by 2020 with the expected market size of 37.6 billion USD.*

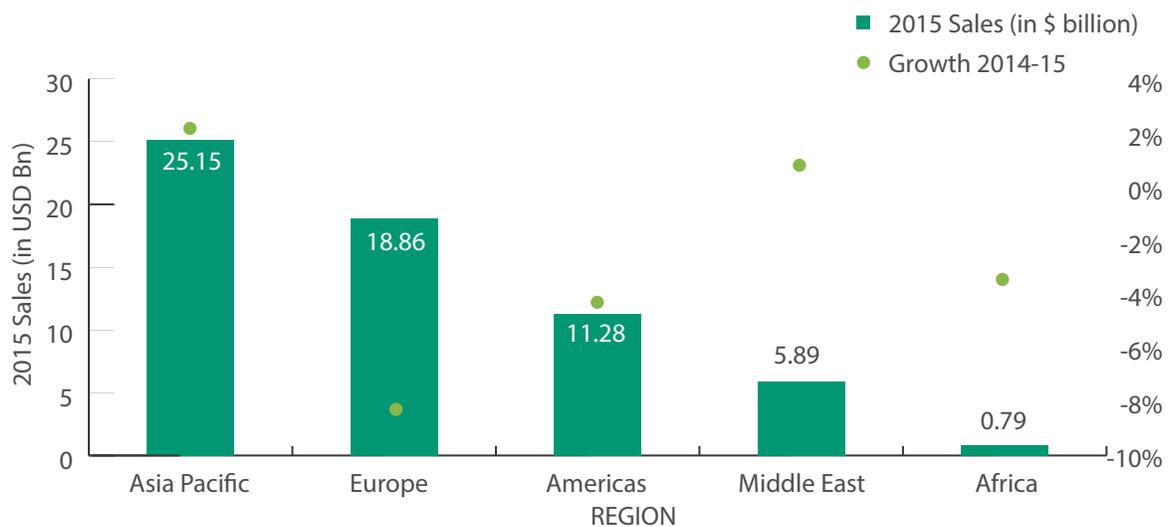
**40%**  
ASIA PACIFIC REGION  
WISE SHARE

**32%**  
EUROPE REGION  
WISE SHARE

## Region Wise Market Share & Growth

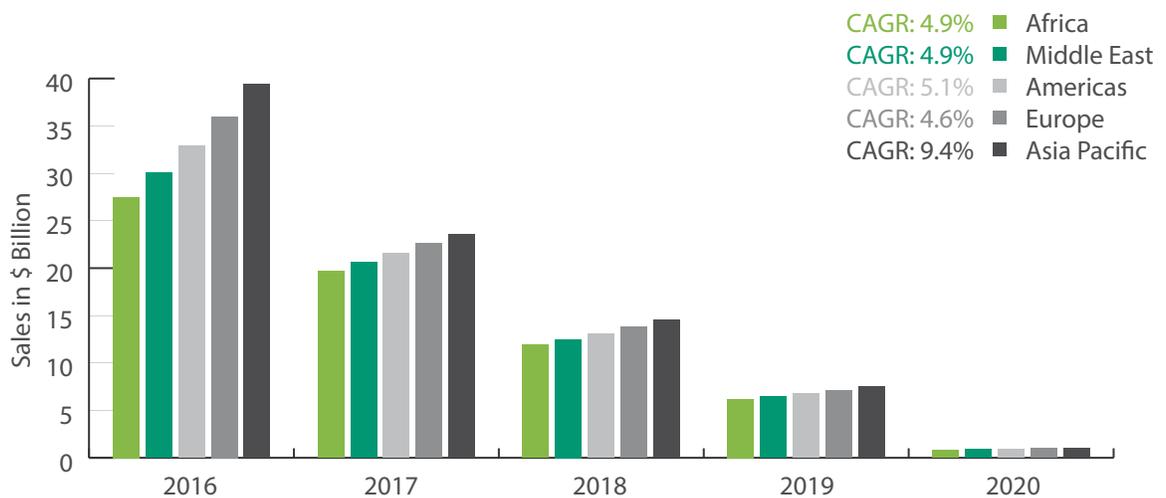


### REGION-WISE SALES & GROWTH



The pecking order of DFS sales in International airports in India (high to low) after Delhi > Mumbai > Hyderabad > Bangalore, is **Chennai > Kolkata > Ahmedabad > Goa > Jaipur**.

### REGION-WISE GROWTH (FORECAST)



## Region Wise Market Share & Growth

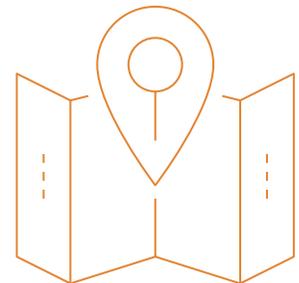


### 3.2 Why Asia?

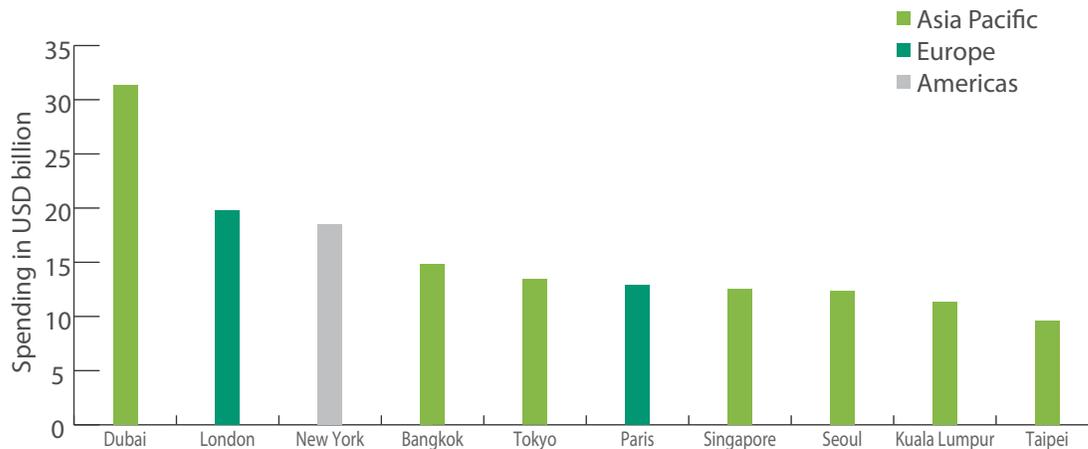
A few factors justifying the projections are tourist destinations, tourists' spending, geo-economic crises etc. Looking at the number of International travelers in different regions, it shows that the increase in people traveling to APAC has always been greater than the increase in travelers to Europe. The effect of this growth is noticeable on duty-free sales as described earlier.

Now, out of top 10 cities logging international visitor spending worldwide, seven are from APAC, which explains why Asia leads the tally of duty free sales despite the higher number of travelers going to

Europe. The rising disposable income of middle-class families in emerging countries, coupled with the expansion of downtown duty-free locations and growing online duty-free shops available in the market have given a significant boost to the growth of tourist numbers in major travel destinations in Asia, such as Japan and South Korea.



## TOP COUNTRIES BY VISITOR SPEND



### Sector Expert speak



**Shubham Anand**  
Author & Head -  
Retail & CPG

*"The ease of doing business for DF retailers must be increased. Demand for duty free goods will naturally grow with the passenger traffic at international terminals. The government should look at means to increase this footfall by encouraging tourism, giving visa on arrival for more countries, making e-visa processing easier and so on. The DF industry in India will be inhibited if any country issues a travel caution advisory for their citizens or increases the surveillance/imposes some entry limits on goods from here. The industry sees a bigger jump in revenues around the western holiday season where we get more travellers from abroad, but even otherwise the sector pie is steadily increasing. This is a growth engine to watch for."*

## Region Wise Market Share & Growth

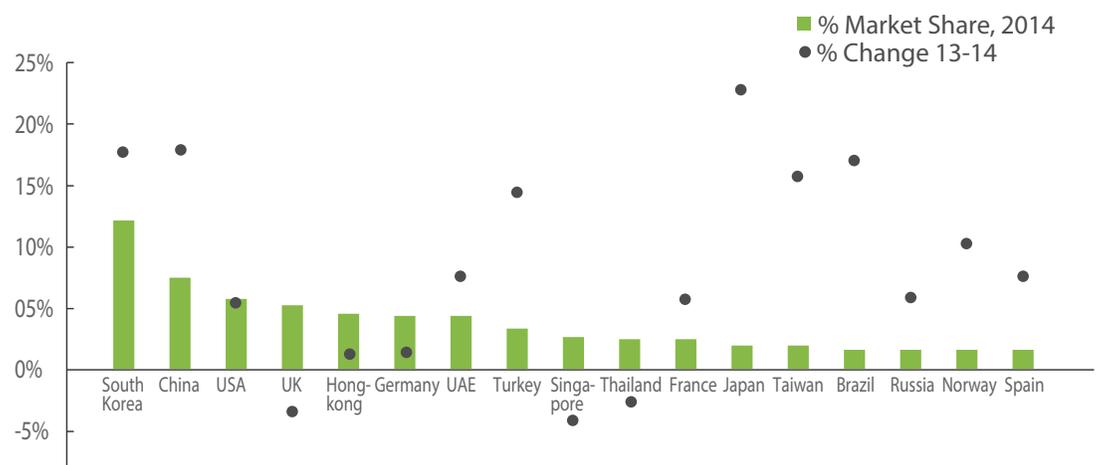


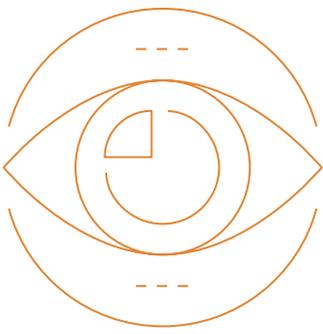
### 3.3 Top Countries

South Korea is the leading country in terms of market share of duty-free sales. It contributes more than 30% in the total APAC sales and 12% worldwide. In South Korea, duty-free stores are located in downtown areas, airports and ship ports, with downtown and airport duty-free stores being more in number. As of March 2016, the country has 22 airport stores and 21 downtown stores. Almost 55% sales come from downtown stores in Seoul and 22% from Incheon International Airport. Currently, there are 15 duty-free operators in South Korea, with the top two players Lotte Duty-free & Shilla Duty-free taking up over 80% of the market share. Almost 47% of the visitors to the country are from China and they spend an average of USD 1,813 per head for shopping. To maintain its dominance, the Korean government has granted six more duty-free operators' license.

China is at the second position free sales in duty with a market share of around 7.5% of the world. It has always been a popular destination for foreign tourists and stands at 4th place in the international tourist footfall in 2015. Its leading duty-free shop, China Duty-free group is at the 9th place among leading Duty-free sales companies. South Koreans are the most visiting tourists to China. The expected CAGR for duty-free sales in China until 2020 is 11.6%. The government is encouraging this sector - in July 2016, state-owned duty-free operator China National Service Corporation opened a 3,300m2 duty-free shopping center - CNSC Duty-Free in Shanghai, cashing in on the burgeoning downtown duty-free sector in China. China and Korea are both helping each other to grow and together making Asia-Pacific world-class region.

#### LEADING COUNTRIES IN DUTY-FREE MARKET

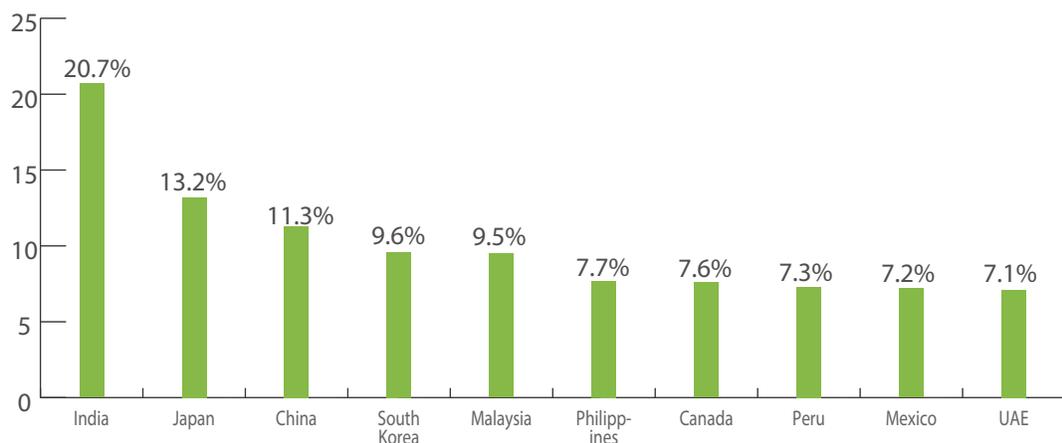




The US stands in the third position in duty-free sales, with a CAGR of 5%. Owing to its multicultural population, duty-free stores there have a lot of variety in their products. The country happens to be the 2nd most visited in the world by international tourists. Canada is expected to be the fastest growing country in terms of duty-free sales in this region with an expected CAGR of 7.6%. Europe, despite having a decrease in sales during 2013-14, sees UK maintaining its 4th spot. With a market share of 5.2%, it is the largest market among all the countries in Europe and expected to grow at a CAGR of 7.5%. Hong Kong, Germany, UAE, Turkey, Singapore, and Thailand are others in the list of top 10 countries. UAE

provides almost half of the Middle East region sales and it is the fastest growing market in the region having an expected CAGR of 7.1%. Few countries, which are going to turn the tables in the upcoming future, are Japan and India. India will be the fastest growing duty-free market worldwide in terms of sales with a CAGR of 20.7% during 2015-2020. By this time, Japan is also going to change the tally and is expected to overtake both Singapore and Thailand.

CAGR 2015-2020 (%)



## Region Wise Market Share & Growth

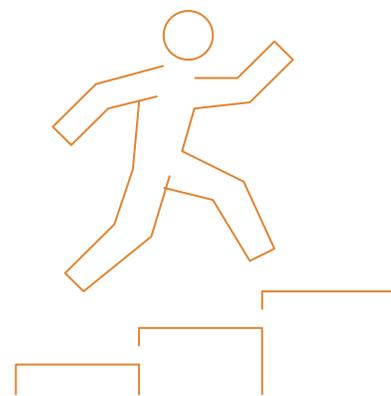


### 3.4 Top Market Players

In terms of operators, Swiss-based travel retailer Dufry is on top with a sale of €5.7 billion in 2015. The company has shown a tremendous growth in past year and increased its sales by more than 1.5 times. This happened due to the acquisition of Italy-based World Duty-Free in 2015 in a USD 3.8 billion deal. Dufry is mostly famous in European countries with its market share of 28% in the region.

One-third of the people who buy from Dufry are looking for fragrances and cosmetics. DFS group, which was on the first spot previous

year, has moved to second spot due to just a mere increase in sales by 0.5%. Lotte Duty-Free is in the third spot, which is the largest Duty-Free operator in South Korea and it takes almost 60% of the market share in South Korea. Then comes the Paris-based Lagardere Travel Retail, which has acquired many companies in the recent past such as Dutch-based Gerzon Duty-Free & North American Paradies.



*Swiss-based travel retailer Dufry is on top with sales of €5.7 billion in 2015. The company has shown a tremendous growth in past year.*

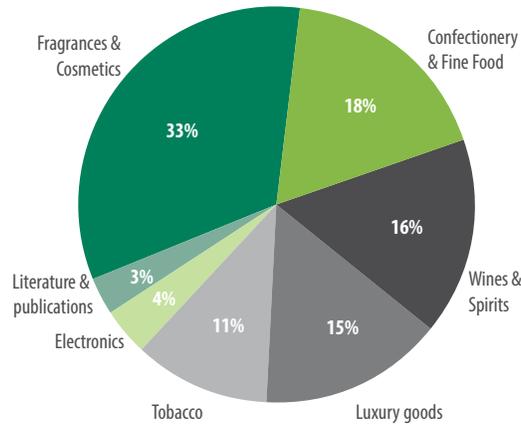
€5.7<sub>bn</sub>

DUFRY IS ON TOP OF SALES IN 2015

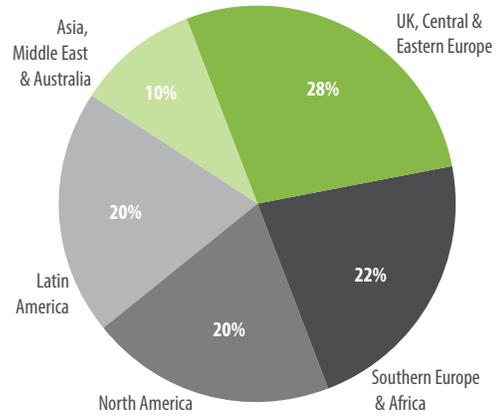
3<sub>rd</sub>

LOTTE DUTY-FREE (SOUTH KOREAN OPERATOR) IS ON THE THIRD SPOT

### DUFRY MARKET SHARE BY PRODUCT CATEGORY



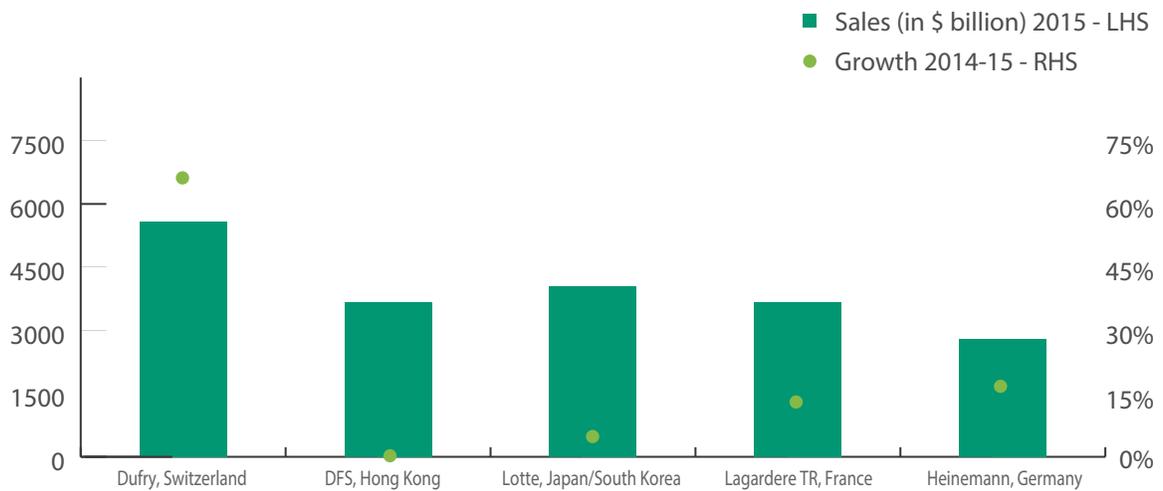
### DUFRY MARKET SHARE BY REGION



Country	Company	2013 Sales	2014 Sales	2015 Sales
Switzerland	Dufry	2904	3469	5737
Hong Kong	DFS	4065	3750	3770
Japan/South Korea	Lotte	2441	3535	3750
France	Lagardere Travel Retail	2900	3100	3570
Germany	Heinemann	2400	2400	2800

\*SALES IN MILLION EUROS

### LEADING OPERATOR WORLDWIDE



## Region Wise Market Share & Growth

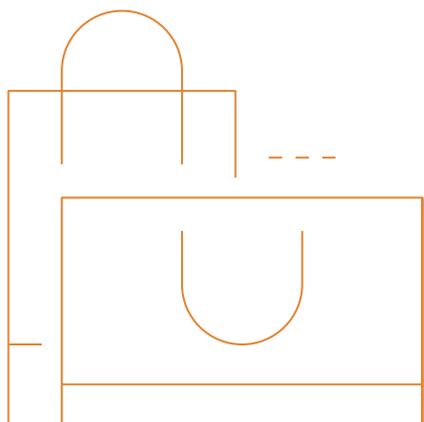


### 3.5 Top Categories

#### Product Segmentation and Analysis

Category wise, Cosmetics & Fragrances is the largest category of Duty-Free & travel retail market. Almost one-third tourists were interested in buying a product from this category. Consumers from APAC and Middle Eastern countries are key regions for the fragrance and personal care market, preferring brands such as Chanel, Christian Dior, Estee Lauder and Guerlain. In the upcoming five years, it will remain tourists' favorite choice with an expected CAGR of 7.9%. It was also the only category, which showed a growth in 2014-15 while rest of the categories showed a decrease in sales. Watches, Jewellery & Fine writing had the maximum decline of 14%.

As for the second most profitable sector sold at duty-free shops, the wine and spirits category had a revenue of \$10.17 billion in 2015. Johnnie Walker, distributed by Diageo, is the top-selling spirit for the category, along with Absolut, Jack Daniel's, Chivas Regal and other alcohol labels. Fashion, accessories and hard luxury (Watches, Jewellery, Fine writing, Electronics, Gifts & Others) combined contributes as much as fragrances and cosmetics. Commonly bought items include jewelry, briefcases, handbags, and shoes, with the most popular brands being Michael Kors, Giorgio Armani, Gucci, and Burberry. Considering the individual products, Cigarettes has topped in terms of sales in 2015.

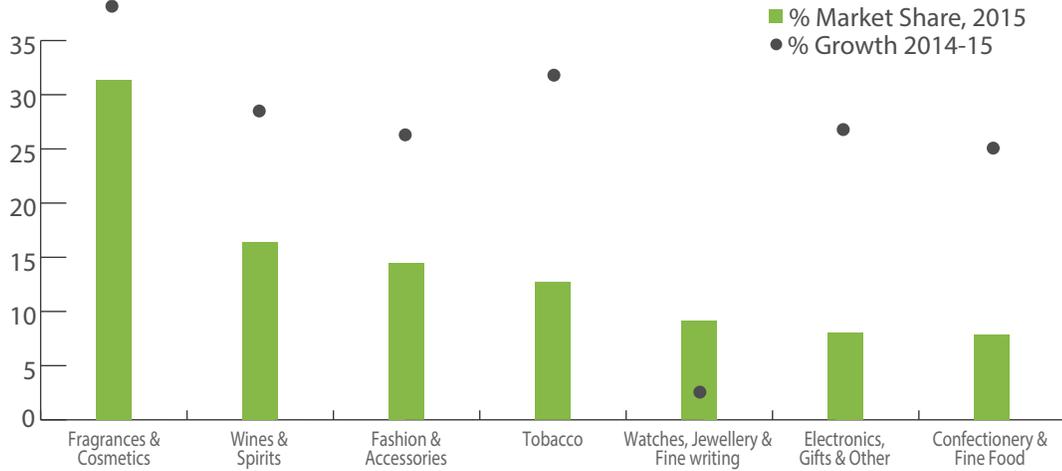


#### Expert Speak from leading Duty-Free operators

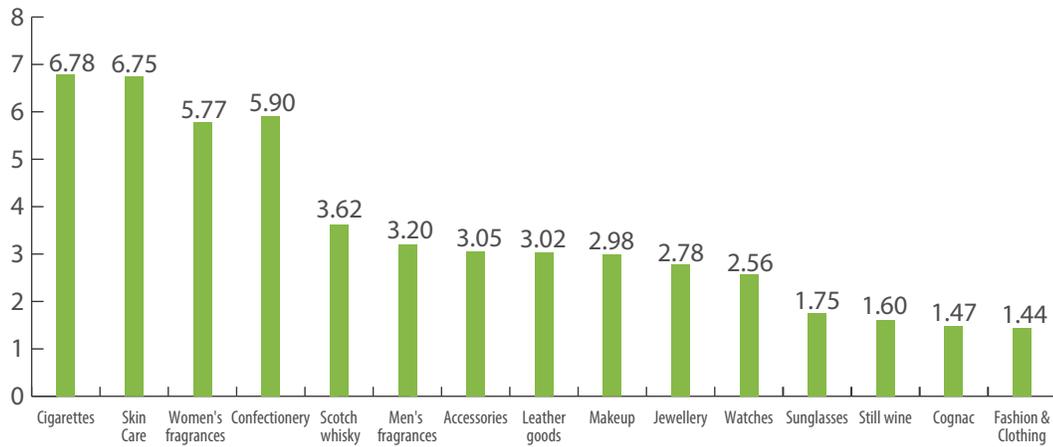
*"The duty-free volumes have not seen a big jump in India's biggest 15-16 airports on an overall average basis, maybe due to dull economic scenario worldwide or India in particular, but going forward, the upswing in developing countries' economies are going to drive up the overall volumes. Number of PAX is improving in terms of footfalls. Mainly alcohol sales are seen - 80% revenue comes from alcohol, 10% from confectionary, 10% from tobacco and rest. No electronic sales in Indian duty-free, due to international competition, rental being high and there being a space constraint. Improving the ease of doing business for a duty-free operator will help the sector immensely. For example, a DF retailer wanting to sell alcohol within the borders of a state that has stern liquor laws, finds it a hassle to navigate the tangle and finally set up shop."*



## CATEGORY WISE MARKET SHARE & GROWTH, 2015



## TOP INDIVIDUAL PRODUCTS BY SALES (IN USD BILLION), 2015

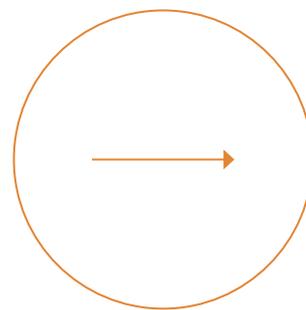




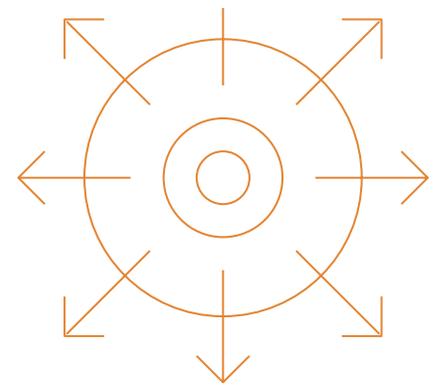
## 4 Segmentation by Distribution Channel



*Airport shops contribute most to the total duty-free retail market.*



## Segmentation by Distribution Channel



### 4.1 Different Channels

Duty-free shops can be found in different locations such as airports, downtown and onboard airlines & ferries. Airport shops contribute most to the total duty-free retail market. It had a market share of 57% in 2015 and expected to retain its spot by 2020. Dubai International Airport is currently the biggest airport duty-free retailer in the world. Duty-free shops here provide the best deals on cosmetics and perfumes, a wide range of electronics, tobacco, and alcohol. They also offer raffles of luxury sports and money prizes. London Heathrow Airport comes second, as it is the busiest airport in Europe.

With duty-free expanse of over 48,000 sq. m., it provides products across prices. Some

of the other famous airports in terms of the duty-free market are Hong Kong, Paris' Charles De Gaulle, and Seoul Incheon. In 2015, the sales of airport shops declined by 4%. The only channel who managed to increase its sales was downtown duty-free stores, border stores, and port & cruise ship stores. Sales of these shops increased by 1.65% that year. Other two channels airlines and ferries, which have very less contribution in the total sales also showed a decrease in sales compared to previous year. Airlines sales decreased the most with a decline of 11%.

### MARKET SHARE & GROWTH BY DISTRIBUTION CHANNEL



## Segmentation by Distribution Channel

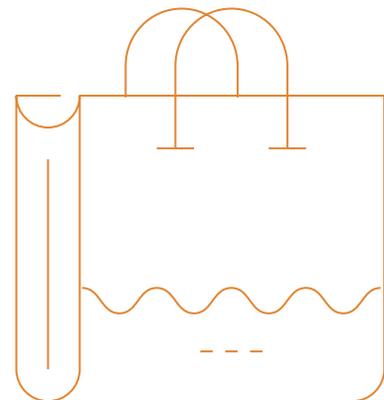


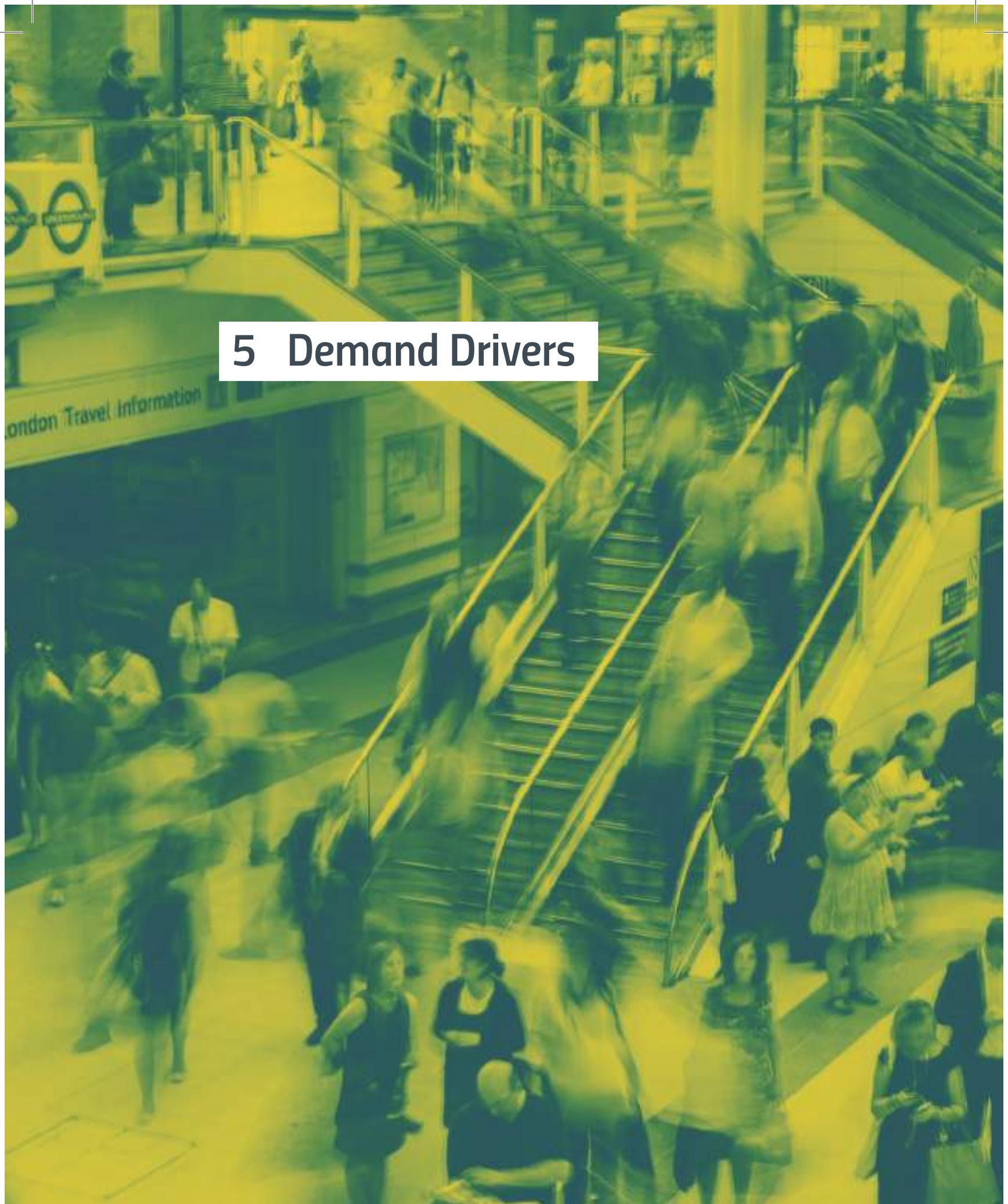
### 4.2 Downtown Shops

From the data, it is very clear that duty-free shopping, away from the roar of the jet engine, is a phenomenon growing at a spectacular rate with considerable scope for expansion. It accounts for an impressive 44.6% of duty-free sales in APAC.

Some of the benefits of shopping at downtown duty-free shops compared to airport are convenience alongside choices, time & ease of selection with the presence of leading brands. Its impact can be clearly

seen from the fact that in the world's No.1 duty-free market, South Korea, around 55% of the duty-free sales come from downtown duty-free shops in Seoul.

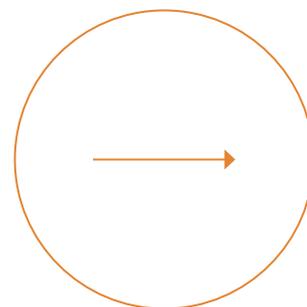


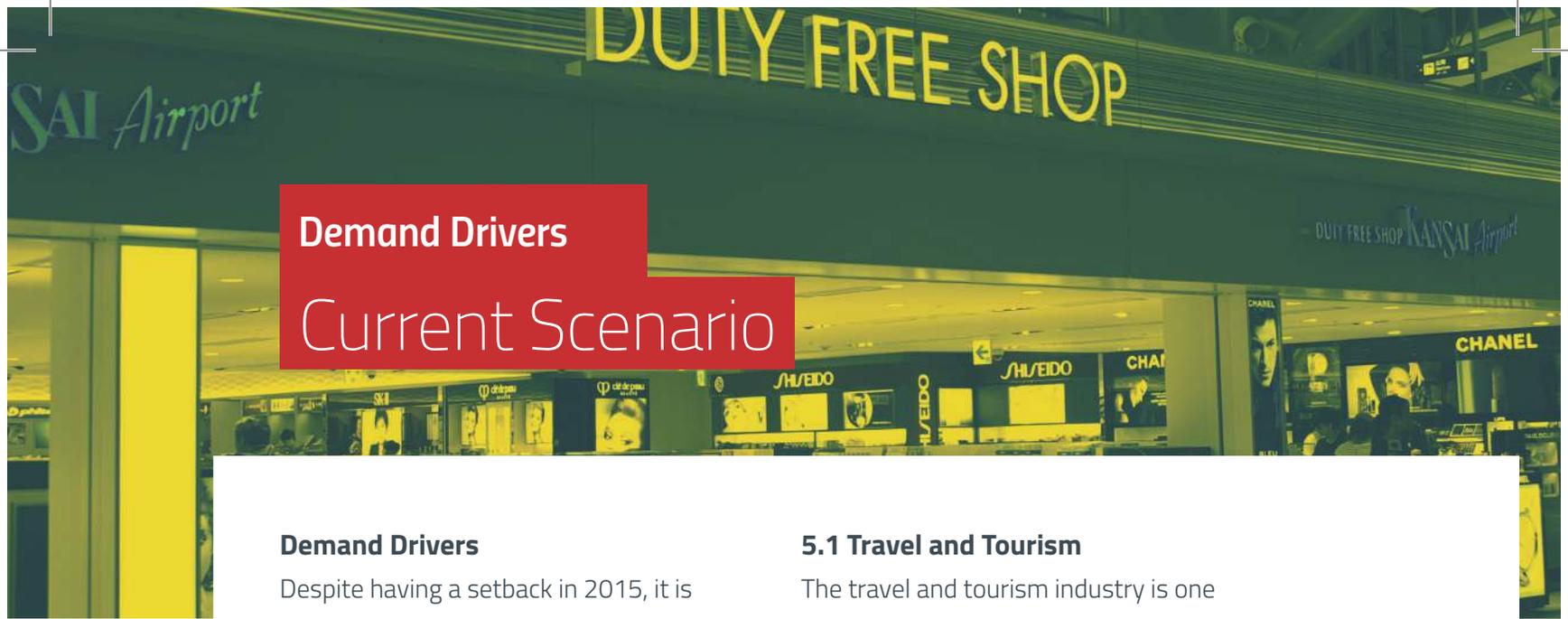


## 5 Demand Drivers



*By 2025, the market size is predicted to be doubled.*





## Demand Drivers

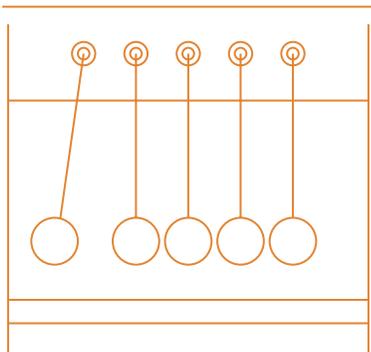
# Current Scenario

### Demand Drivers

Despite having a setback in 2015, it is expected that the industry will grow in upcoming years with a CAGR of 6.7%. By 2025, the market size is predicted to double. This is achievable because the demand drivers of the industry are going to stay strong. The success of the duty-free channel has a connection with many sectors; some of those are travel, aviation and retail.

### 5.1 Travel and Tourism

The travel and tourism industry is one of the world's largest industries with a global economic contribution of almost 7.6 trillion U.S. dollars in 2014. The direct economic impact of the industry, including accommodation, transportation, entertainment and attractions, was approximately 2.36 trillion U.S. dollars that year. Many countries such as France and the United States are popular tourism destinations, but smaller countries are quickly emerging to reap the economic benefits of the industry. The growth of travelers from emerging countries and in general International travel is going to accelerate. Sources like, IATA has estimated the traffic forecast and predicts that the annual traffic is going to increase by 4.1% - 4.2%.



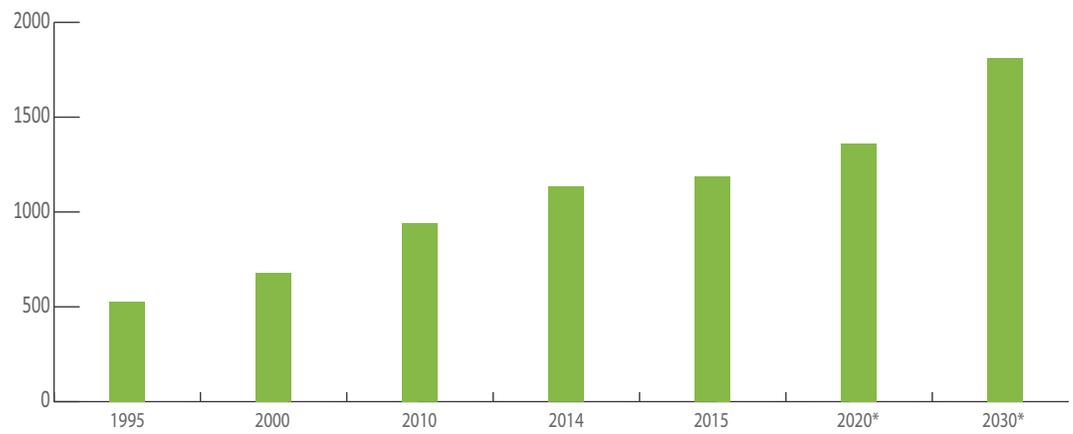
*The success of the Duty-free channel has a connection with many sectors.*

# 4.1 - 4.2%

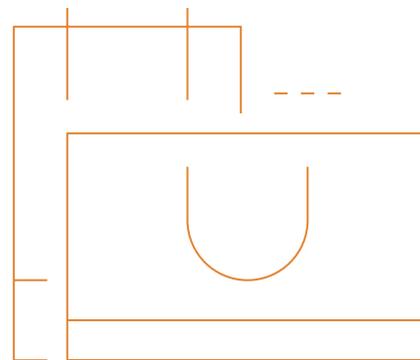
IATA HAS ESTIMATED THE TRAFFIC FORECAST AND PREDICTS THAT THE ANNUAL TRAFFIC IS GOING TO INCREASE.

## Demand Drivers

WORLDWIDE TRAVELERS (IN MILLIONS)



## Demand Drivers

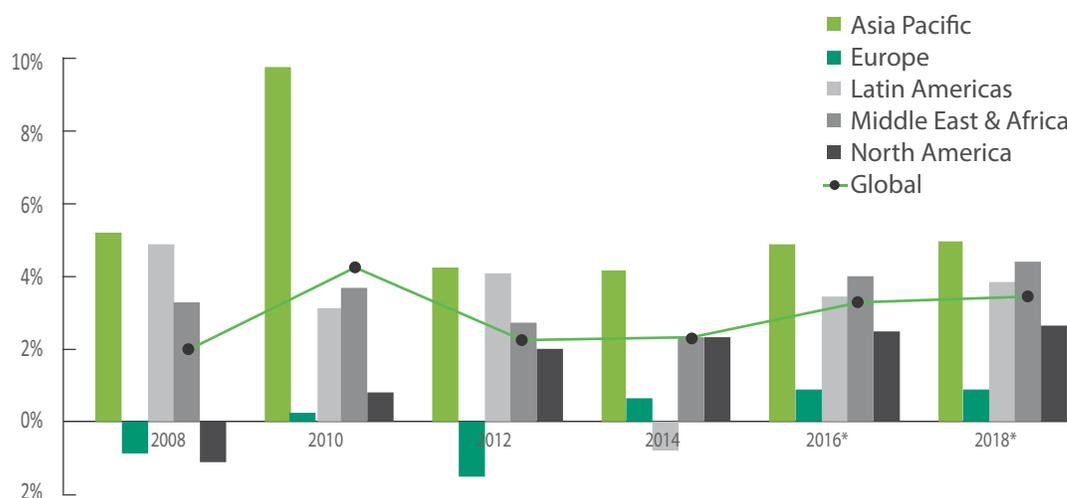


### 5.2 Retail Market

Not only the travel industry but the overall retail market of the world also will be growing in the upcoming future. In 2015, the global retail market size achieved a net worth USD 22.6 trillion and it is expected to reach USD 25 trillion by 2018. Region-wise Asia-Pacific will be growing at the highest rate and its effect will be seen on duty-free sales as well.

The understanding of travelers' behavior is one of the most important factors that helps to improve the sales. The industry is going to use better analytical tools to understand travelers' behavior and the means to target travelers at all stages of the journey through technological progress. This is where the e-retailing comes into the picture.

#### FORECAST OF RETAIL MARKET BY REGION



#### A Globetrotter-UHNI Speak – US educated healthcare professional

*"I have had the best duty-free shopping experience in Abu Dhabi, and I think the availability of local specialities like dates and dry fruits made it a memorable shopping experience for me. Apart from Abu Dhabi, I have shopped in several duty-free hubs around the world, so I can tell you that gold in Dubai, chocolates from Belgium, wines from France and electronics from SE Asia are the best things to get from those places. I'd definitely shop more in duty-free if it offered me increased convenience and prices comparable to local markets. That way, Indian airports are different from the ones abroad - the range of products abroad is much more than here. In any case, my rating of best in Indian airport shopping experience is IGIA followed by KIAL followed by CSIA. I'd want Indian airports (all of them) to improve on their waiting time entertainment experience for passengers. They should also really make it worth buying from them since I might get the same thing cheaper outside the airport."*

## Demand Drivers



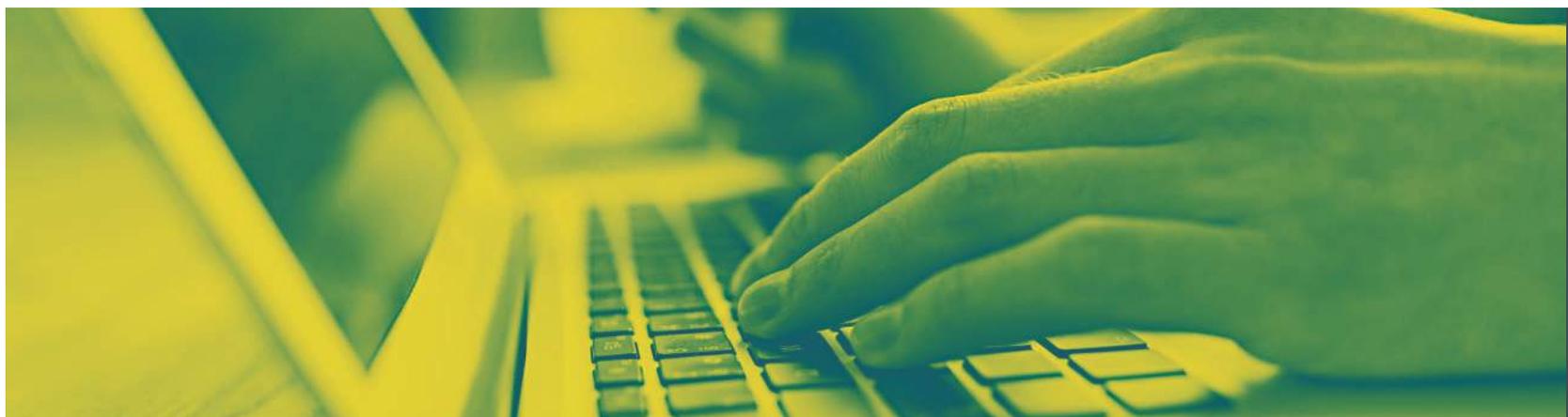
### 5.3 E-retail market

There are two major ways of having access to the e-retail market – websites and mobile apps, latter mainly made for streamlining the travel experience of passengers. Some of them are GateGuru, Entrain, AirGrub, Airport transit guide etc., which provide information about gate changes, flight delays, nearby amenities and passengers traveling statistics. FLIO is one of the popular apps worldwide, which not only provides these facilities but also has a tie-up with duty-free retail operators such as Heinemann, Aer Rianta International, and Eurotrade. However, there are apps and websites, which provide duty-free shopping facilities. Almost all the airports, which have duty-free

shopping facilities, have their own websites where people can buy online. They have above-mentioned as well as pre-booking facilities. Companies like Dufry, DFS have both apps and websites.

In 2015, the global B2C e-commerce (Online shopping) turnover was USD 2,273 billion, 19.9% higher than 2014 sales. The sector is very popular in Asia-Pacific. The APAC region contributed almost half of the sales.

B2C e-commerce sales				
Region	2014 (in \$ billion)	2015 (in \$ billion)	Growth	% Share, 2015
<b>World</b>	<b>1,895.3</b>	<b>2,272.7</b>	<b>+19.9%</b>	<b>100%</b>
Asia-Pacific	822.8	1,056.8	+28.4%	46.5%
North America	572.5	644.0	+12.5%	28.3%
Europe	446.0	505.1	+13.3%	22.2%
Latin America	25.8	33.0	+28.0%	1.5%
MENA	21.7	25.8	+18.6%	1.1%



## Demand Drivers



### 5.4 Consumers Expenditure

Disposable income growth is also one key factors for the industry growth. Households in most developing and developed countries are going to have more money to spend on goods and services. Switzerland, Australia, Denmark, US, Ireland, UK, Japan are among the top 10 countries with most disposable income per capita. According to Nielson Consumer Confidence Index, the global consumer confidence index has also

increased in the Q3 2016 to 99, with India being on top with 133.



Nielson Consumer Confidence Index			
Country	Region	Q3 CCI	Change from Q2
India	Asia-Pacific	133	+5
Philippines	Asia-Pacific	132	0
Indonesia	Asia-Pacific	122	+3
United Arab Emirates	Asia-Pacific	108	-1
Thailand	Africa, Middle East	108	+7



## Demand Drivers

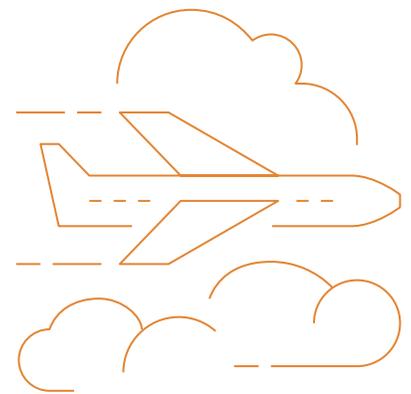


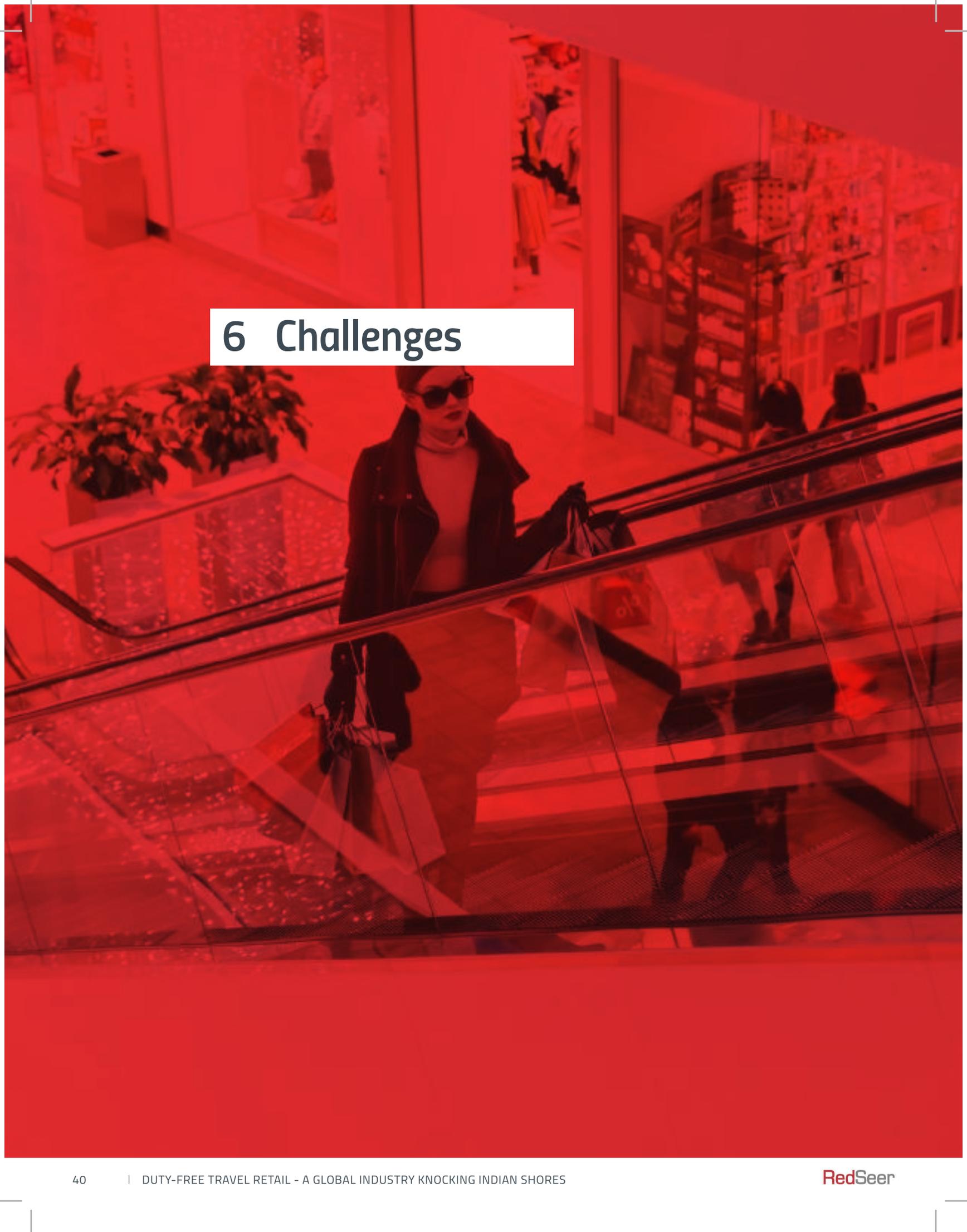
### 5.5 Low-cost Airlines

It is a well-known fact that most travelers base their air travel plans primarily on the price of tickets and will stop at nothing to find the best deal. A research indicates travelers search an average of 48 times on eight different sites before booking a flight. For some people, it ends up taking hours. Therefore, a low-cost airline will be an attraction for many travelers.

In the recent time, the aviation industry has shown a decline in air-ticket prices (ATPs). Some of the popular low-cost airlines in the world are AirTran, EasyJet, German Wings, and Thai Air Asia. With many middle-class travelers taking off on inexpensive holidays, the trend has therefore helped the APAC and the Middle East emerge as the fastest growing regions for the duty-free retailing

market. Africa recorded close to 54 million travelers in 2015. The growth of this market is also anticipated to fuel demand for duty-free products at airports over the next four years. Apart from all above, new air routes across the world and modernization of airports also promotes the industry growth.

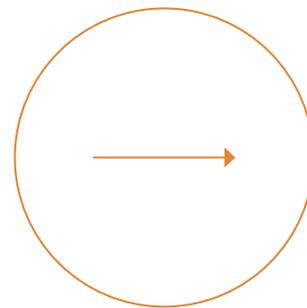




## 6 Challenges



*The major challenges that Industry faces are Currency exchange rates, competition with the local market.*





## Challenges

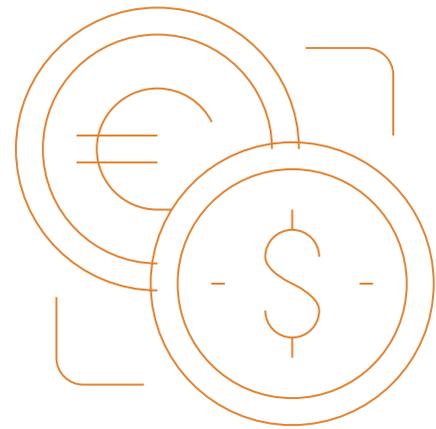
# Current Scenario

### Challenges

Each industry faces challenges in the journey to success. Even though the duty-free channel has produced notable growth over the last five years; however, it was far below its potential as the market was largely impacted by several factors. Some of the major challenges that Industry faces are currency exchange rates, competition with the local market, crises, disasters, and terrorism.

### 6.1 Currency Exchange Rate

Foreign currency exchange rates have a significant impact on the duty-free retail market. By changing rates, the overall spending by the traveler can be highly encouraged or discouraged. This further affects the ability of retailers to offer value.



*By changing rates, the overall spending by the traveler can be highly encouraged or discouraged.*

## Challenges



### 6.2 Local Market Competition

People generally favor the local market compared to the foreign market. For them, it is difficult to trust to foreign shops unless they are reputed. In the local market, they have the benefit to oppose the seller if they are dissatisfied with the price, product or service.

Outlet villages like Bicester Village, London is a big competition to duty-free shops as

they not only provide top shopping brands but also give tourists a destination-like experience. This leads to more attraction of tourists towards these places as they can have fun, shopping everything at one place.



## Challenges



### 6.3 Better Destination, Better Sales

People do not just travel to other countries for shopping, and definitely not just for shopping from duty-free stores. The countries that do not have popular tourist destinations are hence facing issues in growing their duty-free sales, compared to their peers. For example, the current leader in duty-free market South Korea is facing problems in attracting more tourists. Korea's tourism industry is losing out to regional competitors because the nation does not have many tourist attractions

apart from Hallyu and some theme parks. Previously, the country could easily attract Asian tourists by just including lots of shopping in tour schedules, but things have changed now. The competitors like Japan are emulating Korea's "downtown duty-free shops"- because of having better tourist attractions, this is threatening Korea's status as duty-free market leader.



### 6.4 Crises and Disasters

Each country has political and geographical issues. Some of the examples of these crises are unrest in Syria, political and economic uncertainty in Europe, conflict in Ukraine, the spread of the Zika virus beyond the Americas, China's challenge to the status quo and civil protests in Hong Kong.

Most of these issues do not show any immediate effect but in a long run, they have an influence. Natural disasters are also a big threat for countries. With no major

control over it, countries have to suffer its consequences and lose a heavy chunk of the economy depending on the impact. During the period 2005-2014, all the natural disasters combined have stripped the world economy of USD 1.4 trillion. The US was the biggest hit, with a USD 443 billion loss. These disasters and crises create a travel threat for potential tourists regarding that region, leading to a decrease in tourist arrivals, which further affects the duty-free sales.

# Challenges



## 6.5 Terrorism

That terrorism has blown up in the recent past to unwieldy proportions needs no further elaboration. In 2016 alone, the world witnessed more than 1800 terrorist incidents. This has a negative impact on the duty-free retail industry as international travelers become wary of visiting such places.

the impact of Brussels attack on planned international arrivals in Paris. Almost 21% decrease in the no. of tourists' arrival booking was observed after the attack. The drop was maximum in the case of Chinese tourists, at a steep fall of 41% on ticket bookings.

In 2015, terror attacks cost the duty-free retail industry USD 8.2 billion dollars. One example of it can be observed from



### Terrorism

1. Brussels attack
2. Paris attack
3. Istanbul bombings
4. Ankara bombings
5. Sousse attacks
6. Bangkok blasts

### Natural Disasters

13. Nepal Earthquake
14. Sabah Earthquake
15. Kumamoto Earthquake
16. Fiji Hurricane
17. Lombok volcano eruption

### Political

7. European Migrant crisis
8. Greek crisis
9. Tax imposed China

### Pandemic

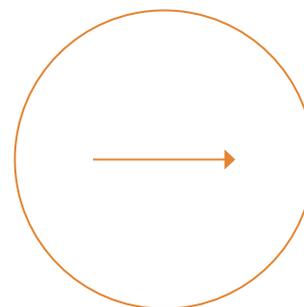
10. Zika Fever
11. Ebola outbreak
12. MERS outbreak

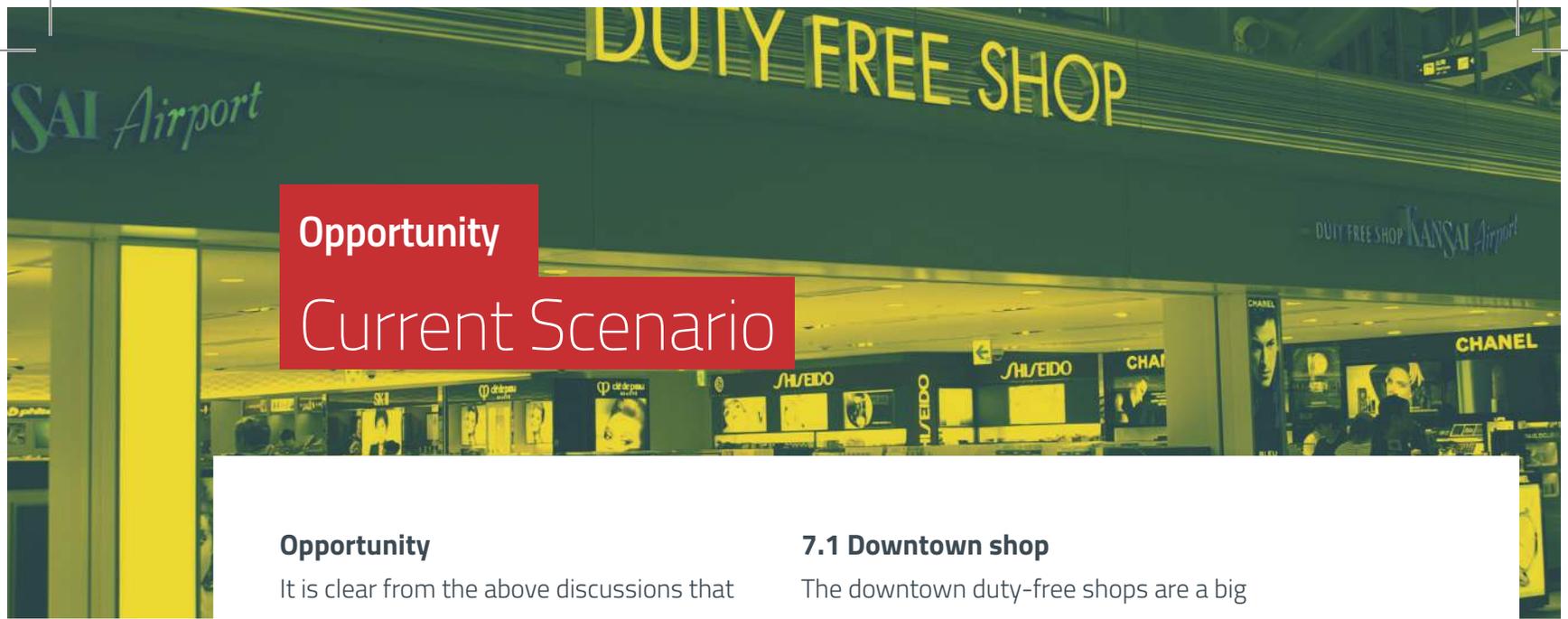
## 7 Opportunity

watch my watch



*Some of the opportunities are downtown shops, giving luxury experiences and good hospitality to customers*



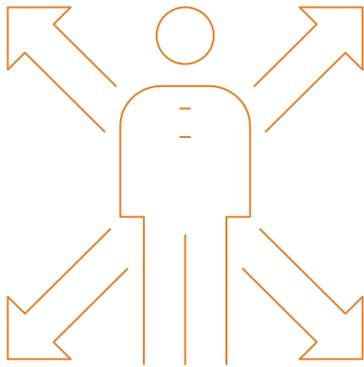


## Opportunity

# Current Scenario

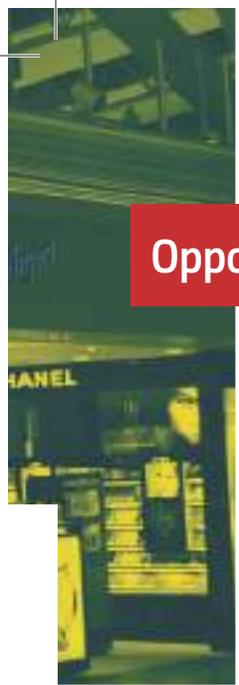
### Opportunity

It is clear from the above discussions that the duty-free market has a lot of potential. The industry can achieve new heights if it capitalizes on opportunities it has. Some of the opportunities are downtown shops, giving luxury experiences and good hospitality to customers, adding new verticals etc.



### 7.1 Downtown shop

The downtown duty-free shops are a big opportunity for the industry. The concept of buying duty-free goods outside the confines of the airport is only popular in few countries of Asia. Its importance can be observed from the fact that in the world's leading market of duty-free sales, South Korea, the downtown shops of Seoul only contributes around 55% to the total sales. The concept was started in the 1970s in Asia and now doing a superior business. China and Japan are emulating this trend -recently, China Duty-Free Group has opened the world's largest duty-free store on Hainan Island. If other countries also start doing what China and Japan have done then the industry will certainly reach new heights.



## Opportunity



### 7.2 Improving consumer hospitality/experience

For any tourist, it is very important that he or she gets good hospitality and services from the host country. People look for an experience that can remain with them for a long time. The concept of an outlet village having shopping services, entertainment, food and beverages, hotels and resorts with

other supporting services, all under one roof is being popular for tourists (ex.: Genting Highlands, Atlantic City, Las Vegas, etc.) There is a lot of opportunity in this field as currently this is a wide gap that can be filled by the sector.



### 7.3 New verticals

There is always an opportunity for an industry in expanding its market and exploring new verticals. At many locations, stores are providing limited products or in other words, many products are available

only at certain places. This sometimes creates trouble for tourists as they hop between different places to buy different things. Having multiple options at one place is always beneficial for any tourist.



### 7.4 Online market

Online shopping is disrupting the retail market majorly, so it is very necessary for the duty-free market to be prepared for the change. Quoted by Marissa Mayer, "To me, speed is really about convenience", perfectly suits a traveler's situation. According to a survey conducted by PwC, it has observed that over 50% of the people who shop online use this medium for the sake of convenience, and 43% buy online because they feel it is cheaper. The duty-free retail market also needs to expand its business into an online

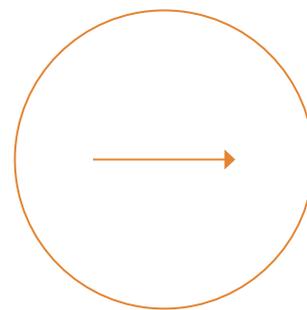
platform. People with better knowledge of product market tend to buy more than the others do. This is where the use of mobile phone appears. The same survey found that almost 40% people use their mobile phones to compare products. Providing a transparent platform to the consumers with the use of mobile apps is certainly helpful. Some of the other opportunities for the industry are providing discount membership, reward points, etc.



## 8 Duty-free market Indian context



*Indian duty-free market trend is different from its peers as here the major consumers are Indians itself.*





## Duty-free market Indian context

### 8.1 Market Scenario

The current duty-free market in India is estimated at 200+ Mn USD. The market will be growing with an expected CAGR of 20.7% during 2016–2020. The industry is expected to double its size by 2020. Indian duty-free market trend is different from its peers as here the major consumers are Indians itself. The average contribution to total sales by Indians is more than 80%. Pre-orders are most famous for these Indian travelers. The customer places an order before leaving for an overseas destination and the order is delivered on his/her return at a 5%-10% discount. It is cheaper, saves the passenger from carrying extra luggage and reduces shopping time after an exhausting trip. India is known as a country where people like to compare before buying anything. For most of the travelers, there is a certain element of stress involved in duty-free shopping. Even

as one strolls around, looking at the wares on display and deciding on the bottles and boxes to buy, a part of the brain keeps track of the time and the distance to the boarding gate. In the same time, another part of the brain thinks on whether to buy a single malt or perfume at this airport, at the stopover or rather at the destination. That's, where price comparison websites for duty-free products come in. For example, if someone is flying from Mumbai to Copenhagen via Dubai, then he would know that a one-litre, 12-year-old Chivas Regal would cost USD 39.78 in Dubai, USD 42.67 in Copenhagen and USD 36 in Mumbai, provided he buys it online. A website called [dutyfreebuzz.com](http://dutyfreebuzz.com) is very handy in this type of comparison.

*India is known as a country where people like to compare before buying anything.*

~\$200<sub>mn</sub>  
THE CURRENT DUTY-FREE  
MARKET IN INDIA



Duty-free market

Indian context



## 8.2 Top Airports

In terms of duty-free sales, India's leading airport is Indira Gandhi International Airport in the capital New Delhi. Here, the duty-free service was launched in July 2010 on the eve of Commonwealth Games.

Currently, it is the country's largest duty-free retail space with over 1000 brands and 43,000+ products. Being country's busiest airport by passenger traffic, it has a retail space of 4,380 m<sup>2</sup>. In 2015, Delhi airport, managed by GMR, won the Best Airport award from the Airports Council International in the 25–40 million annual passengers category. The airport served around 44 million passengers in 2015. Mumbai's Chhatrapati Shivaji Maharaj International Airport stands on the second spot, and also happens to be the country's second busiest airport. Managed by GVK, its T2 terminal is very popular and is

6th worldwide. The terminal has a 21,000m<sup>2</sup> retail space. Here, The DFS group is a leading operator of duty-free shops. The airport is mostly famous for wine and liquor having more than 100 brands in the category with top brands like Johnnie Walker, Chivas Regal, Glenlivet, Ballantine and Glen Fiddich. The other popular categories are electronics, apparel, and accessories.



## Duty-free market: Indian context

Airport	City	Passengers 2015	% Change 2014-15
Indira Gandhi Int'l Airport	New Delhi	48,424,165	18.1
Chhatrapati Shivaji Int'l Airport	Mumbai	41,786,352	13.7
Kempegowda Int'l Airport	Bengaluru	18,971,149	23.2
Chennai Int'l Airport	Chennai	15,218,017	6.4
Netaji Subhash Chandra Bose Int'l Airport	Kolkata	12,421,244	13.8
Rajiv Gandhi Int'l Airport	Hyderabad	12,388,159	19.1
Cochin Int'l Airport	Kochi	7,749,901	21.0

In 2006, Nuance India started its operations in Bangalore, and it has steadily established itself as one of the largest players in the Indian travel retail market. The company currently operates duty-free shops at the departure and arrival halls of the Kempegowda International Airport, Bangalore and aims to provide the ultimate airport shopping experience.

Bengaluru Duty-Free features more than 10,000 products in liquors, tobacco,

perfumes, cosmetics, chocolates, apparel, fashion accessories and electronics from some of the most acclaimed international brands. Airports of Cochin, Chennai and Hyderabad are other top airports in terms of duty-free sales. Cochin duty-free providing world's best cigarettes brands have a 1300m<sup>2</sup> & 460m<sup>2</sup> large arrival & departure shop respectively.



## Duty-free market: Indian context

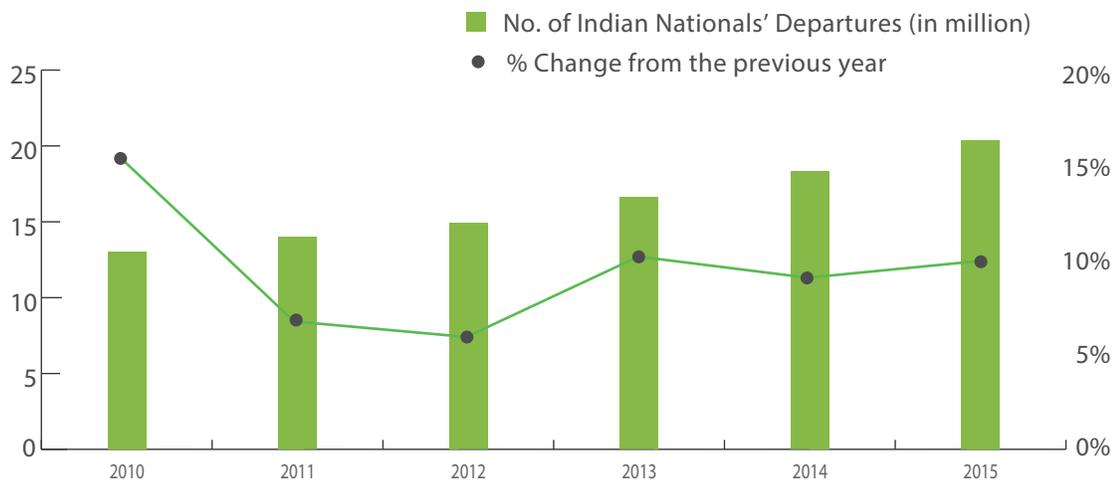


### 8.3 Demand drivers

India is one of the fastest growing countries in the world and giving a tough competition to other developed & emerging countries. Its growth is recognizable in various sectors including retail, aviation, and tourism. India is currently on a high-growth trajectory in the civil aviation industry and aims to become world's third largest by 2020 and largest by 2030. It is currently at the 9th place with a market size of around USD 16 billion. India has witnessed a healthy growth in passenger traffic in the past decade during the financial year (Apr-Mar) 2006-2016, increasing it by more than three times with a CAGR of 11.8%. No. of foreign tourist arrivals (FTAs) is also increasing in the country which is helping India to gain Foreign exchange earnings (FEEs). In 2015, more than 8 million

foreigners arrived in India, through which the country earned USD 21 billion foreign exchange. India is one of the most popular destinations for the US, Bangladesh, and the UK. Travelers from these three countries contribute more than 40% of total foreign arrivals. Currently, India stands at the 40th and 11th place in terms of FTAs in the world and Asia-Pacific respectively. In terms of FEEs, India stands 14th and 7th in the world and APAC region respectively. The no. of Indian departures from the country is also a key factor for duty-free sales as here the main consumers are Indians. In 2015, 20.38 million Indians traveled outside from country. This has been growing since 2010 at a CAGR of 9.42%.

#### INDIAN NATIONALS' DEPARTURES



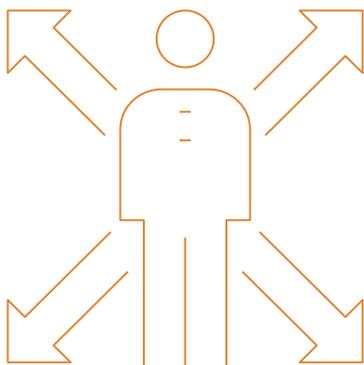
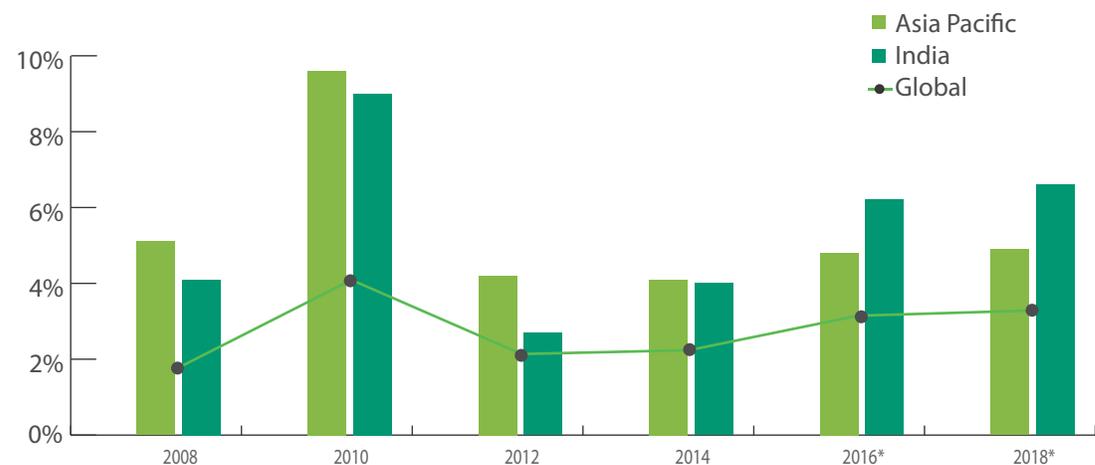
## Duty-free market: Indian context

### Retail Industry :

Now, talking about the retail industry of India, the industry has emerged as one of the most dynamic and fast-paced industries in the country due to the entry of several new players. It accounts for over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment. India is world's fifth-largest global destination in

the retail space. The country has occupied this remarkable position in global retail rankings due to its high market potential, low economic risk, and moderate political risk. India's retail market is expected to nearly double its size to USD 1 trillion by 2020. As India is moving towards digitalization its e-retail market is also growing very fast.

### RETAIL MARKET INDIA



## Duty-free market: Indian context

### Consumers' behavior:

Indian consumers' buying behavior has changed dramatically in the recent decade. Half of India's population is in the age group of 20-49 years. This is the age group, which has the most money to spend on shopping. This younger generation is value sensitive rather than price sensitive as was the case earlier. If they feel that a particular product offers them more value then, despite the high price, they are willing to buy the product. Its effect is remarkable on Consumer Confidence Index as India reached the top place in the recent Nielsen CCI. This is a driving factor for duty-free operators to invest in India, as they did not want to invest earlier because of the price sensitive behavior of Indians.

### E-tourist visa:

The Indian government has taken many steps to boost the tourism sector in the country. Among all, E-tourist visa has been one of the most successful policy. According to the policy, visitors can obtain a visa on arrival at 16 designated international airports by obtaining an Electronic Travel Authorisation online before arrival. It can be done without visiting any Indian consulate or visa center. The results were exceptional. During January-October 2015, a total of 2,58,182 tourist arrived on e-Tourist Visa as compared to 21,995 during January-October 2014 registering a growth of 1073.8%. As the policy is boosting the tourism in India, the duty-free sales will also rise.



## Duty-free market: Indian context



### 8.4 Challenges

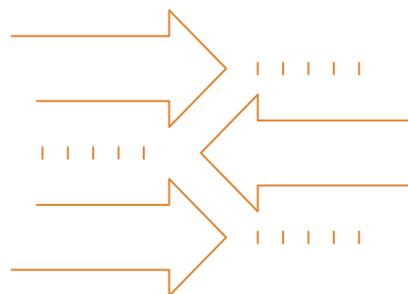
Even though the duty-free retail market in India is on a transformation phase, the industry will face challenges on its way to become a popular choice for people. Some of the challenges are local markets, terrorism etc.

#### Local Market:

It is a big challenge for the duty-free industry as the concept of supermarket and hypermarket are developing very strongly in India. The country has as large as 220,000 m<sup>2</sup> shopping malls and the challenge for the duty-free industry is that the number of malls are going to double in upcoming 3-4 years. With the customers having more convenience with shopping at malls, the industry needs to look for some plans to change this seemingly impossible behavior of consumers.

#### Trade License Registration:

While the domestic players in the duty-free market aims to reach new heights in India, it is very important that foreign companies also start their business in the country. For any company, expanding its business is simultaneously an exciting and frightening experience. While a business owner may be eager to simply set up a shop and begin selling a product/service, the process is much more complicated. In India, trade license registration is often a time consuming and expensive process - setting up a single business might require multiple types of licenses, depending upon the sector, type of business ownership, the number of employees etc. This is one field in which India is working on improving the ease of doing business.



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### Women Security:

The country is facing a big problem in improving the women security. The status of women here is not to the standard of where it should be. India stands at 130th place in the world in Gender equality Index, which is somewhat pathetic for a country like India. This has definitely affected the women travelers to the country. In 2015, the country welcomed around 8 million foreigners out of which more than 40% were female. It has been widely considered dangerous for a woman to travel alone in India, as they are prone to harassment, rape or being murdered. Several cases of foreign women visitors being harassed, raped and even murdered have caught international attention, such as the case of British teenager Scarlett Keeling who was raped and murdered in the Indian state of Goa in 2008. In 2015, Countries like China and Japan have taken actions and issued travel warnings for female travelers not to travel to India, even as a group, unless it is necessary. This is a real challenge for the country.

### Terrorism:

India has been facing problems from terrorist attack. Frequently occurring terrorist incursions from the LOC has certainly affected the tourism in India. Despite having some of the best tourist places in the country, tourism in states like Jammu Kashmir, Himachal Pradesh & Uttarakhand has not grown to their potential because of their proximity to the Line of Control (with Pakistan)/ Line of Actual Control (with China), plus a history of militancy in case of J&K. In 2016 only, the country suffered six terrorist attacks with four being in Jammu & Kashmir itself.



## Duty-free market: Indian context



### 8.5 Opportunities

Despite having so many troubles, the duty-free market in India can grow to reach places where it can give competition to the market leaders. The country is on the edge of revolution and there is a lot of opportunity for industries to expand their business in India. The duty-free market can also capitalize on opportunities like downtown shops, online shopping etc. to stretch its business.

#### **Downtown Shops:**

The concept of the downtown shop is essential for the country. Its need in India can be seen from the fact that states, where the country's top two International airports are located, are not in the list of top four states in terms of no. of tourist visits. Having an option of the duty-free shop, where tourists are spending most of their time, will certainly grow the industry. It is an opportunity which not only improves the market sales but also decreases the level of competition that malls are currently providing.

#### **Expert Speak from prominent Duty-Free retailer**

*"We have revenue sharing model to set up DFS stores at many Indian international airports. Delhi sees the highest inflow of DFS revenue for us, while Mumbai comes second, but is yet to catch up with Delhi. Sales per person (SPP) is much lower in India than abroad – this gives lots of scope for DFS to grow in domestic PAX, also because it's yet to catch up with generic retail PAX at airports. I feel that more DFS happens in North India due to higher percentage of business travellers there. Overall, I see the space constraint playing a barrier for more growth of duty-free in India. The current CAGR for DFS in India is not yet at the 10% mark. We need to treat DFS vendors as our partners in growth to see the sector boom. I think that the key differentiators in this sector are air traffic, passenger quality (in terms of economy travellers vs business travellers), travel sectors geography-wise and PAX. There is a change in mindset we are seeing in duty-free purchases – pre-order trend is catching up since travellers see no additional price benefit to loading up on stuff and adding to their baggage weight when they can as well pick up the stuff later. We match our prices to the best ones by international DFS hubs for the same reason, though the promos and offers vary from airport to airport."*

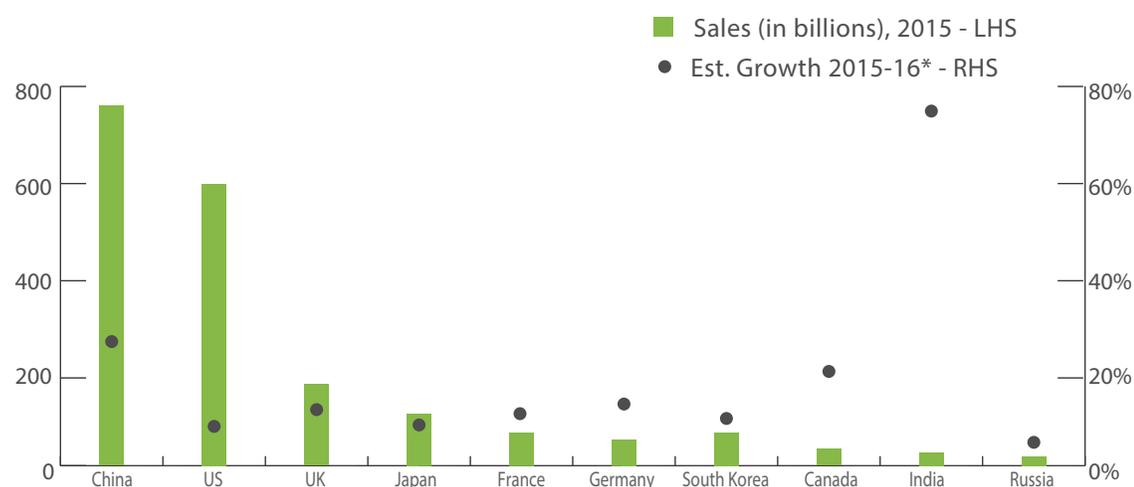
### Variety in products:

India is a culturally diverse country. The country has people with different shopping choices and different spending capability. Therefore, it is very important for an industry to understand the scenario and maintain a variety in its selling products. The duty-free market in India has not strengthen its roots yet. There is still an opportunity for the industry to increase the variety in its products and fulfil the demands of the consumer. The diversity leads into the popularity of different products in different regions/states. One example is that Kolkata has the highest cigarette consumption in India while Andhra Pradesh is leading drinking state. However, Gujarat is among the least alcohol consumption states.

### Online shopping:

India has been improving in the e-retail market but the country still has a lot to explore in the industry, as the contribution of e-retail sales in total retail sales is very low. Considering the B2C e-commerce market (Online shopping) in India, it enlarged by 55.5% in 2015 to reach USD 25.5 billion. Currently, India ranked ninth and fourth in total B2C e-commerce sales in the world and the Asia-Pacific region respectively but it is still below its capability. India has almost 942.6 million people above 15 years of age in which only 27.7% uses the internet. Out of these 254.5 million people, almost 1/3rd, 82.3 million people shop online. Having so many people capable of using the internet, there is a large opportunity for online shopping.

### LEADING COUNTRIES IN B2C E-COMMERCE BY SALES



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Shubham Anand is heading Retail-CPG practice at RedSeer and working with clients across fashion, retail and other CPG verticals on Growth, Market Entry & Store Roll-out Strategy. He is also working with PE & VC funds to help them with sector scanning and their portfolio growth. Shubham has an overall work experience of 12 years across Management Consulting, Strategy, Marketing, P&L, etc. He has done his MBA from IIM Lucknow.

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