



White Paper

Keeping Up with the Customers

How Effectively Are Airports Adapting to Changing Retail Trends?

By Natasha Page, ICF

The high street retail market has undergone significant change over the past decade, in large part driven by the explosion of online shopping and digital media. For example, the e-commerce share of U.S. retail sales has increased at a compound annual growth rate (CAGR) of 12.0% since 2005. Despite much rhetoric, airports appear to have been slow to capitalize on these changes, with many still offering products and layouts not too dissimilar to what would have been in place at the turn of the century.

At the same time, with downward pressure on aeronautical yields as a result of the low-cost carrier (LCC) revolution, profits from commercial revenue sources have become increasingly important to operators and investors.

In this article, we explore how customer expectations are changing and consider what more could be done—taking into account the unique operating constraints faced by airports—to further capitalize on the commercial potential of passengers.





Bricks and Mortar: The Airport High Street

For many years, the most revolutionary change to an airport's retail offer was the introduction of a walk-through duty-free shop positioned immediately after a (preferably) centralized security check-point. Advocates of this approach argue that by ensuring all passengers walk through a single unit, the airport increases the potential to make sales. Certainly, many airports have achieved sizeable increases in sales.

However, a common customer reaction to walk-through shops is one of frustration and tunnel vision. The similar design styles adopted across airports with typically low ceilings and "yellow brick roads" encourage passengers to pass through as quickly as possible, rather than browse and ultimately spend.

Some more recent airport developments have adopted the concept of a "de-stress" zone between passenger search and the walk-through duty free shop. This typically includes units providing "essentials" including a pharmacy, newsagent, coffee shop, and currency exchange. Prominent flight display units are provided to give passengers information on how much time they will have before needing to go to the gate, because "theoretically" passengers are most likely to shop and make impulse purchases when they have low levels of stress. However, immediately post passenger search is cited as one of the highest stress points on a passenger's journey through an airport, making it an unsuitable placement for an airport's highest earning retail unit.

While the "de-stress" zone is undoubtedly an improvement on traditional departure lounge layouts, airports still appear to overly rely on physical infrastructure—the equivalent of the retail high street. This is reflected in the long-standing optimal space sizing approach to airport terminal design, with the metric 800- to 1,200-square meter (sqm) per million annual passengers frequently cited. Yet extra space does not guarantee extra revenue, and clearly not all retail concepts or locations are able to earn the same level of sales per sqm. Furthermore, adding additional space to airports is not typically an easy goal to achieve, often requiring costly terminal extension 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 online digital platforms. In the U.S., the market share of e-commerce has increased at a CAGR of 12.0% since 2005.

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 will favor digital channels over more traditional retail points of sale. 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.

EXHIBIT 1. KEY SPENDING HABITS OF MILLENNIALS AND GENERATION Z

Millennials Born 1980-2000	Generation Z Born Post 2000
<ul style="list-style-type: none"> Price sensitive Utilize internet for peer reviews Personalized experience Use loyalty programs Utilize smart phones 	<ul style="list-style-type: none"> Prefer in-store purchases Influenced by peers Quick delivery Personalized experience Limited brand loyalty Direct purchases from social media Impulse purchases

Notably, industry surveys repeatedly find that the majority of consumers still prefer in-store purchases. This is reassuring for airports, which ultimately hold a captive audience within a defined physical space.

Digital platforms primarily serve to influence, compare, and validate purchases. In particular, the popularity of social media platforms—such as Instagram—have put an emphasis on aspirational lifestyles with consumers becoming increasingly influenced by peers.

The question is: How can airports leverage new digital technologies applied across the wider industry to best address changing consumer expectations and ultimately increase sales within the departure lounge?

A Slow Response to Changing Trends

The "de-stress zone" goes some way in recognizing that the passenger experience needs to be put front and foremost in airport design. However, it is not yet evident that wider retail trends are being readily addressed at airports.

The area in which airports appear to have gotten closest to replicating the success of online retailers is in car parking where dynamic yield management and online booking is well established. This has been a key driver behind improving car parking yields.



Below, we consider some of the reasons why airport retail may have been slow to respond to changing consumer demands:

- 1. Cost of Investment.** The introduction of new commercial initiatives (be it infrastructure or digital) often requires investment that may not be readily available or deemed to generate a high enough return.
- 2. Terms of Existing Retail Contracts.** Contracts often have long terms, limiting an airport's flexibility to implement changes and proactively respond to changes in the industry. Furthermore, contracts may offer concessionaries exclusivity over the provision of certain services or products, limiting the options to bring in one-off retailers.
- 3. Passenger Mix.** It is well established that different passenger segments behave in different ways and this has in the past made it hard to cater for all audiences. Yet the dynamism of digital approaches helps to provide the flexibility to address this issue.
- 4. 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.
- 5. Management Style.** Commercial teams at airports may not have wider high-street or e-commerce experience, limiting their knowledge of current industry trends and best practice.
- 6. Earnings Per Sqm.** In space constrained sites, airports will seek to maximize revenues per sqm. It is not clear that on a per sqm basis high street retailers are performing better.

How Can Airports Better Serve Customer Demands?

One size does not fit all, and an airport's approach to retail must consider the specific demands of its customer base and the potential returns on investment. It is neither feasible nor necessary to completely redesign an airport's retail offering to respond to changing trends. However, through the adoption of a select number of targeted solutions, airports can achieve real improvements in commercial performance and significantly improve the overall passenger experience.

ICF Aviation is working in partnership with ICF Olson, our digital customer experience agency, to help airports develop targeted, customer-focused solutions. We highlight examples of potential solutions:



New Airport Retail Concepts

- Luxury vending
- At-seat vending
- Time-of-day merchandising
- Click-and-collect
- Loyalty programs
- Pop-up retail
- Showroom concepts
- Airport apps
- Digital advertising
- In-flight service

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.

EXHIBIT 2. ILLUSTRATIVE RETAIL SOLUTIONS



Delivery and collection options - Airports have been slow to offer robust shop/click-and-collect service offering despite consumer demands for convenience and accessibility. This approach would be particularly advantageous for increasing sales by outbound passengers with hand-luggage or connecting flights.



Price comparison platforms - Consumers are increasingly price savvy and want to check that in-airport products offer a genuine saving on high street prices. Outlets should price competitively, but they can also facilitate comparison, for example, by providing dedicated price comparison apps or in-store computer access for customers.



Time-of-day merchandising - The closest equivalent to car parking yield management, outlets can attract customers by changing displays and prices at different times of day to meet the demands of different customer segments. This can be assisted by using technology such as digital displays.



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.



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. In addition, consumers expect variety and change—use of pop-up retail can help maintain the interest of frequent travelers.



About ICF

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About the Author



Natasha Page is a Senior Manager in ICF's London Aviation team, with a particular focus on helping airports to maximize profitability through optimizing both commercial revenues and operating costs. Ms. Page has led our commercial revenue forecasting work for several recent successful transactions including Copenhagen and London City Airports. Beyond transaction work, Ms. Page has worked with airport managers and investors on a number of projects including corporate strategy, investment analysis, and economic regulatory advice. Prior to joining ICF, she worked at A.T. Kearney, LeighFisher, and as part of Macquarie Capital's airports team.






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