

# Perfume pricing issues dominate Abu Dhabi Duty Free's top notes in 2004

By Martin Moodie

Now in its 20th anniversary year, Abu Dhabi Duty Free (ADDF) is one of the most recognised duty free operations in the world. As ever, 2004 has seen it in innovative, record-breaking mood. But it will also go down as a year in which the retailer made an unusually public attack on the distribution philosophies of many beauty houses, which, ADDF contends, are selective in the wrong sense of the word.

Abu Dhabi International Airport is a comparatively small player in international traffic terms, generating around 4.3 million passengers in 2003. But in duty free it enjoys one of the highest spends per passenger in the industry, helping the retailer generate impressive sales of US\$83 million last year (including some duty paid revenues).

The reasons for that commercial success are readily apparent during even the most fleeting visit to the airport. Distinguished by its remarkable 'mushroom' architecture, Abu Dhabi International Airport is a giant shopping complex, one that teems with humanity during its busy late night hours as passengers gather to make



– or continue – their journeys to or from the sub-continent, a key source of Abu Dhabi's traffic base.

It's a consumer mix that is light years away from, say, the Japanese-orientated clientele heading through a DFS Group store in Hawaii or Guam. And yet it has turned into a retailing goldmine over the past two decades as Abu Dhabi Duty Free (ADDF) has become increasingly adept at – and scientific about – extracting the maximum spend per passenger.

According to Managing Director Mohamed Mounib, the retailer is on track this year to hit US\$92 million in total retail sales – an increase of more than

## Etihad takes business volumes sky-high

Few, if any, airlines can have had such a dramatic effect on their home airport's traffic and commercial revenues as Etihad.

The airline's launch, allied to the continuing recovery of Gulf Air, will add nearly one million passengers year-on-year at Abu Dhabi Airport in 2004. To the end of August passenger numbers were up by +18.9% over 2003, impressive stuff given that Etihad has been operating with just five aircraft.

That's all set to change as the airline has recently placed a US\$7 billion order for 24 wide-bodied aircraft, including four Airbus 380s, to come on line at the rate of one a month from January 2006.

Abu Dhabi Duty Free Deputy Managing Dan Cappell says Etihad's impact on traffic levels has been startling. "For example, last year we had three daily departures to London, two with Gulf Air and one with British Airways. And from 1 September 2004 this increased with an additional two flights per day with Etihad.

"This is obviously excellent news for every aspect of our business, from catering to duty free, from the car park to food & beverage outlets [the latter's sales were up by +42.8 % year-on-year to the end of August – Ed]. It has forced us to assess every aspect of our business. Inflight catering is an excellent example: our daily production capacity within the facility was 13,000 meals a day. We are now producing over 16,000 meals a day and have maintained our levels of service delivery."

Cappell says the catering operations will be expanded to manage the growth with a new catering facility at nearby Al Ain International Airport, also managed by Abu Dhabi Catering & Duty Free, to be commissioned before the year-end to ease capacity constraints.

Such exponential traffic growth also poses problems, Cappell points out. "These increases are giving us some operational headaches as at peak times we cannot accommodate any more passengers in some airport shops. While this is a great situation to be involved in, it is imperative that we do not lose our focus on service and conversion."

As a result, the retailer is now testing a mobile shop located within the departure satellites. This will be merchandised with a "passenger-relevant" range for departing flights. "If the customers cannot get to us, we will go to them," says Cappell.

## Abu Dhabi turns up the heat over perfume pricing

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Abu Dhabi Duty Free (ADDF) is continuing to crank up the pressure for beauty houses to gain control over their domestic market pricing in the UAE.

The retailer claims that local domestic prices in one major UAE domestic perfumery chain are consistently undercutting duty free price points – and damaging the credibility of the duty free channel.

Deputy Managing Director Dan Cappell (pictured) knows the game. On top of his retail experience he's worked as a supplier (running Nestlé International Travel Retail) and isn't naïve about what goes on in terms of product distribution. And he's not about to be fobbed off.

Cappell tells The Moodie Report that the retailer wrote to 15 leading houses on 13 July, complete with samples purchased on the UAE domestic market and their related till receipts. He said that ten companies had replied, but not one had indicated that any action would be taken to address the fact that products were being sold "at either parity or less than our cost of goods in a chain of outlets in the domestic market".



ADDF believes that wherever such goods are coming from – whether through official or unofficial channels – the resultant pricing anomalies are unacceptable. Cappell comments: "The criteria that this category abides by – and dictates to the retailer – is to establish an agreed differential between the domestic market SSP [suggested selling price] and the duty free/travel retail SSP. "In our case this is between -15% and -20%. This is based on an agreed margin for the duty free retailer based on the terms that are dictated by the houses. Any variation by the travel retailer in the SSP runs the risk of non-supply of goods. In other words, if we decided to lower our price to compete with the domestic market, we could be refused supply."

That's just plain anomalous, Cappell reckons. "The lack of any action within the domestic market calls into question the category's ability to manage its own terms and conditions," he comments. "How can we justify [our prices] to a customer who comes into our store and asks why our 'duty free' product costs US\$20 more than exactly the same item downtown?" ADDF insists its sole objective in raising the issue is to find an amicable solution that gives credibility to all parties.

But Cappell is clearly frustrated by the lack of progress. "The general response to date can be summed up like this: 'Sadly we cannot trace the goods. Our official distributor is not selling these products. We are taking this issue very seriously and will get back to you.'"

He adds: "Not one response has referred to the pricing issue, nor to the consumer perception that ADDF is ripping consumers off – which, based on the retail prices shown, we are."



### Development projects at Abu Dhabi and Al Ain airports

- Heritage village. Last quarter 2004.
- Renovation of landside outlet. Last quarter 2004.
- New arrivals shop. First quarter 2005.
- Internet café. First quarter 2005.
- Mobile phone/hi-tech shop. First quarter 2005.
- Car park supermarket. Second quarter 2005.
- New duty free shop, Al Ain Airport. Second quarter 2005.
- Expansion of food court. Second quarter 2005
- Irish pub. Second quarter 2005.
- New inflight kitchen, Al Ain Airport. October 2004.
- Renovation & expansion of Abu Dhabi inflight kitchen. First quarter 2005.
- Commissioning of new rugby club within golf club complex. October 2004.
- Expansion and evolution of golf club complex to country club. Third quarter 2005.
- New airport. 2007/2008

Source: ©The Moodie Report

+10% on 2003, itself a strong year. Stripping out duty paid revenues, duty free sales are currently (to mid-November) running at +19.8% over last year, largely thanks to a mightily impressive average spend per passenger of US\$41.54.

2004 is the 20th anniversary of Abu Dhabi International Airport Catering and Duty Free, the food & beverage-to-retail operation charged with driving commercial revenues at Abu Dhabi and Al Ain airports. Mounib says that it is fitting that the group will deliver record results across the business in this special anniversary year.

And there's more, literally, in store, as the retailer has an impressive array of development projects in the wings [see panel above].

Inevitably the final quarter is seeing a slowdown in the huge year-on-year double-digit increases that characterised the early part of 2004. Deputy Managing Director Dan Cappell notes: "Obviously the start to the year saw massive growth – +30% year-on-year as a result of the Iraq war and SARS in 2003. It is only natural that this growth will level off and that increases will reflect the base figures."

Mounib and Cappell have dovetailed

well as a double act since Cappell joined the retailer from his post as Nestlé International Travel Retail General Manager in 2002. Different in style but single-minded in their retailing objectives, both are determined not to fall into the trap of so many travel retailers and believe the 'captive' nature of the airport audience will do their job for them.

"For two years we have focused on four commercial pillars," says Cappell. "These are driving footfall instore, driving conversion to purchase, increasing average spend and meeting profitability objectives."

Speaking to The Moodie Report last month, Cappell cited a number of impressive performances across diverse categories. "Year-to-date our average spend has increased by +6.8% with liquor & tobacco a star performer at +10.9% and food & confectionery up +6.9%. This is also a result of the fantastic support and aggressive promotional activity that our supply partners have given us."

Such top-line stardom also has bottom-line ramifications, and Cappell says the rise in sales has increased profitability by over +4% year-to-date. An array of other measures, including sku rationalisation, direct product profitability reviews, revised terms and conditions and effective space management have all contributed to the improved performance, he notes with satisfaction.



*"The results reflect the focus and commitment from the management and staff within the operation."*  
—Mohamed Mounib

All this has been done in the face of the havoc caused by exchange rate movements in some categories, with a resultant +30% increase in the cost of goods since May 2002.

Cappell praises some of the retailer's brand partners for their pro-active approach to the vexed question of currency, saying: "Once again the suppliers have rallied and given us some temporary assistance that further enhances the supplier partnership relationships."

But suppliers have benefited too, he points out. To the end of September some categories were showing startling year-on-year sales growth. Liquor & tobacco had risen +22.2%; food & confectionery was up by +20.6%, perfume & cosmetics was ahead +19.3% and electronics had gained +11.6%.

Mounib knows that 2004 is going to end well, and is quick to praise everyone who has contributed. "The results reflect the focus and commitment from the management and staff within the operation.

"It is always satisfying to produce excellent results, but it is down to everyone working within our business and the support given to us by our supply partners. Overall an excellent performance in our 20th anniversary year." ■