

Chinese arrivals boom in SOUTH KOREA

Chinese tourist arrivals at Seoul Incheon Airport are steadily increasing. The numbers have already overtaken arrivals from the USA, and are set to rival those from the country's leading market, Japan. That spells good news for the airport's travel retailers.

By Hui Min Neo



If there is one country that has benefited from the booming Chinese outbound market, it is South Korea. Having fully opened its doors to Chinese visitors in 1998, the country has seen the number of Chinese visitors increase by about +10% annually.

And it is at the gateway to South Korea – Incheon International Airport (IIA) – that the benefits are perhaps most clearly felt. The Chinese now rank among the top three nationalities in the league of big spenders at Incheon's duty free shops, as IIA Corporation Commercial Development Manager Bum-Ho Kim tells The Moodie Report.

Research into last year's spending patterns reveal that South Koreans and Japanese still top spend-per-head in airside retail outlets, at US\$160 and US\$137 respectively. But the Chinese are fast catching up with US\$107.

And in landside shops it is the Chinese spend that is most significant. Each Chinese traveller spends an average of US\$128, while the Japanese and South



Bum-Ho Kim: The Chinese now rank among the top three nationalities in the league of big spenders at Incheon's duty free shops

Koreans notch up US\$105 and US\$90 respectively.

Curiously enough, the Chinese manage to buy more in landside retail despite spending less time there than the South Koreans and Japanese. Chinese travellers on average spend only 61 minutes landside, while the Japanese spend 83 minutes and South Koreans as much as 96 minutes.

“Before their check-in counters are open, they spend money at the landside speciality shops. It can be one of the reasons, but not the full reason,” Kim says.

The airport is carrying out continuous studies to find out more about purchasing trends as well as brand preferences for these travellers. But Kim notes that early observations suggest that Chinese travellers can be divided generally into two groups – one which is sensitive to prices, and another which is more sensitive to brands.

“The first group would spend more money in downtown shops; so by the time they reach the airport, they wouldn’t have much left to spend. The second group, however, are the ones who would still buy at the airport,”

he says. This second group includes business travellers.

Almost half (48%) of the Chinese who buy at the airport go for liquor/tobacco products, with an average spend of US\$52. Some 40% buy perfume and cosmetics, each spending about US\$94. About 27% buy Korean traditional goods. The average spend for this category comes to about US\$71.

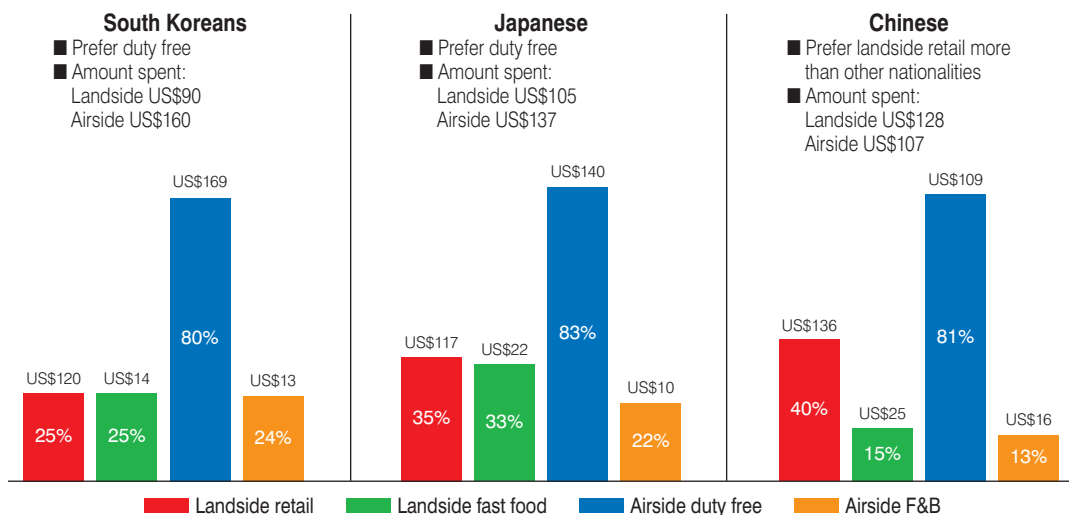
Kim said: “Duty free operators are stocking items such as ginseng and Korean tobacco, as well as brands like Chanel and Gucci, so as to accommodate Chinese shoppers who prefer these products.” And to make it easier for Chinese travellers the airport authority is also

recruiting Mandarin-speaking sales staff for landside retail.

Even though South Korea was one of the first countries in the world to fully open up travel to Chinese visitors, the boom of mainland travellers is still a recent phenomenon. In 1998 South Korea became only the seventh country in the world to obtain the Approved Destination Status, allowing Chinese travellers to visit the country on tourist visas.

“The Chinese buy more in landside retail despite spending less time there than the South Koreans and Japanese”

Penetration rates and average spend by nationality and by channel



Source: Incheon International Airport; The Moodie Report Note: Percentage refers to ratio of each nationality that spent in each channel.

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Seoul Incheon Airport enjoys a high-spending passenger mix led by South Koreans, Japanese and Chinese



In 1998, 214,244 Chinese arrived. And numbers have been growing consistently ever since; in 2000, 442,794 Chinese visited South Korea. A year later arrivals reached 482,227, surpassing arrivals from the USA, traditionally the second largest arrivals market for South Korea.

Last year 627,429 arrivals were recorded, with those who visited for pleasure numbering 264,910 (42%). 400,000 of these travellers arrived through Incheon Airport.

Between January and July this year 386,478 Chinese visited, making up 11.4% of the total number of foreign visitors. The figure represents an increase of +8.5% over the same period last year. Again over 40% (162,667) said they were in South Korea for pleasure.

The Chinese are now firmly in second place among South Korea's top arrivals markets. The number one spot is still held by the Japanese – some 1.36 million visited over the same period, a growth of +6.3%. This makes up 39.9% of the total visitors to South Korea. For the Japanese, 1.30 million visited for pleasure.

Tourist wave

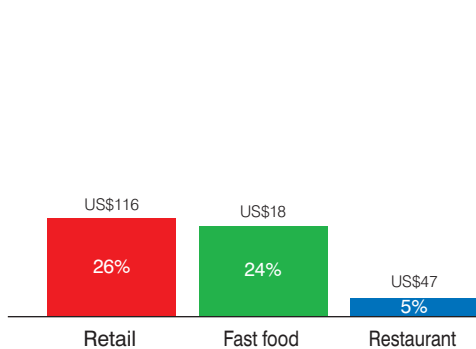
Popular television dramas such as Winter Sonata have played a large part in attracting groups of Chinese travellers to visit the filming locations.

The Korea National Tourism Organization (KNTO) notes: “China’s newly gained economic prowess, along with the positive image of Korea generated by the

Spending behaviour, landside and airside

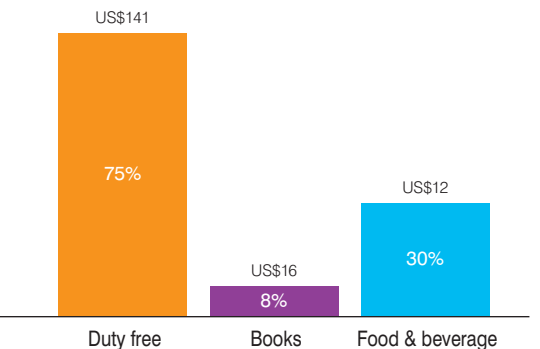
Landside

- 40% of customers shopped at landside concessions
- They spent about US\$90 each



Airside

- 87% of customers shopped at airside concessions
- They spent about US\$130 each

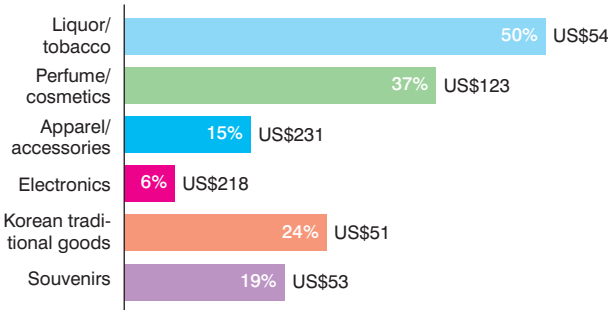


Source: Incheon International Airport; The Moodie Report

Seoul Incheon has earned a deserved reputation as one of Asia's most consumer-friendly airports. Now it is set to add more passenger services



Penetration rate and average spend in duty free



Source: Incheon International Airport; The Moodie Report

at IIA, where spend by South Koreans and Japanese has traditionally dominated income. Now, the Chinese are beginning to pull their weight. From almost zero, the Chinese are now contributing up to 10% of total duty free sales. The South Koreans make up 60% of the total and the Japanese 25%, says Kim.

If Chinese traveller numbers do grow to rival the Japanese – currently about three times as many – there will be significant impact on the airport's revenues. But even as the airport is developing its strategy to woo the Chinese customer, it is also seeking to better serve its biggest customer base of

'Korean Wave', seems to have contributed to the rise in tourists to Korea.

"Considering the high economic growth rate and large population, China is highly likely to become a vast tourist market – perhaps one that is equivalent to the Japanese market – for Korea."

That spells massive potential for the travel retail business

South Koreans and Japanese.

Some 55% of South Korean customers buy liquor and tobacco products, with each purchase costing about US\$65. 46% buy perfume and cosmetics, with an average spend of US\$142, and 16% go for fashion and accessories with an average transaction value of US\$207.

About 19% of Japanese customers spend an average

Dwell time at the airport

On average passengers spend 80 minutes landside and 100 minutes airside.

S. Korean	
Landside	Airside
96 mins	95 mins

Japanese	
Landside	Airside
83 mins	90 mins

Chinese	
Landside	Airside
61 mins	108 mins

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Preferred items in duty free			
Nationality	Items purchased	% who purchase	Amount spent
S. Korean	Liquor/tobacco	55%	US\$65
	Perfume/cosmetics	46%	US\$142
	Apparel/accessories	16%	US\$207
Japanese	Korean traditional goods	48%	US\$47
	Perfume/cosmetics	25%	US\$96
	Apparel/accessories	19%	US\$343
Chinese	Liquor/tobacco	48%	US\$52
	Perfume/cosmetics	40%	US\$94
	Korean traditional goods	27%	US\$71

Source: Incheon International Airport; The Moodie Report

US\$343 each on apparel and accessories. A quarter of them buy perfume and cosmetics, with each purchase averaging US\$96. About half (48%) buy Korean traditional goods, spending about US\$47 on each purchase.

What this data suggests is that among the Japanese and South Koreans there is still a strong appetite for luxury goods. Hence duty free operators are wooing other big brands like Prada and Louis Vuitton to open specialist boutiques at the airport.

“It is almost impossible to get Louis Vuitton, because they don’t have a policy to run shops in duty free,” Kim says. “But the operators are trying to introduce more luxury

overall average spend per head has increased from US\$52 in 2002 to US\$60 in 2004. Total concession sales came to US\$650 million in 2004, up from US\$504 million in 2003 (which was depressed because of SARS). In 2002 it was US\$520 million.

"Among the Japanese and South Koreans there is still a strong appetite for luxury goods"

This year the airport authority expects to achieve US\$740 million in total retail revenue. Duty free sales account for 85% of the total.

Kim says the increase is “beyond expectations”, and almost parallel with passenger traffic increases. “We’re doing an increase of about +10% every year. We’re very happy with that,” he says.

Incheon International Airport: Customer profile	
International: 98%	Leisure: 80%
Domestic: 2%	Business: 20%
Male: 60%	Female: 40%
Age under 30: 33%	Korean: 64%
Age 30–39: 31%	Japanese: 17%
Age 40–49: 21%	Chinese: 3%
Age 50+: 15%	Others: 16%

Customers aged under 30 account for over 60% of the total. Customers visit the airport twice per year on average.

And that amount is set to soar further, as the airport is not finished with its development yet. There are currently 46 duty free shops operated by four main concessionaires – Lotte, AK, KNT0 and DFS. These concessionaires hold contracts for five years, with options on a further two.

There are no further opportunities to get into the South Korean duty free market at the moment, but a second phase of airport development will be completed by 2008. This will add a new concourse, with some 32 international boarding gates, and Kim expects to make available more than 15 duty free shops, occupying 7,000sq m.

A tender is likely to be called in 2007. Watch this space. ■