

RETAIL





FREQUENT BUYERS

Nuance-Watson has raised the airport shopping experience to new heights.

By Vivien Jones



In her capacity as sales manager for a large manufacturer in Mainland China, Flora Chan Pui-wai travels extensively around the region. Whenever she visits Hong Kong's Chek Lap Kok airport she makes sure she has plenty of time to spare for shopping at her favourite stores. "I am a cosmetics junkie," she admits, "and there's always something new at the airport. They have a great selection, including special travel packs and one-offs that just aren't available anywhere else." Flora is such a good customer that many of the sales staff know her by name.

Flora is not alone in her spending habits. Travel retailing has become increasingly big business. According to the Hong Kong Airport Authority's annual report, the organisation received almost HK\$1.82 billion (about US\$233 million) in revenue from its shopping complex and other commercial premises in 2001, second only to the HK\$2.27 billion generated by aircraft landing fees, parking and other charges. The bulk of this income was generated from airport retailers who have concessions from the authority to operate shops, restaurants, bars and other facilities in the airport's SkyMart retail zones.

"After four years of operation, Hong Kong SkyMart is clearly identified as a comfortable alternative to downtown retail," says Christina Cheng, Group Manager for marketing and business development at the Hong Kong Airport Authority. "In fact, the scale of SkyMart makes it a destination in itself: we have

150 outlets, of which 80% are retail and 20% catering, housed in over 32,000 square metres."

At the vanguard of this development is Nuance-Watson, a joint venture between the A.S. Watson Group (ASW) and the Nuance Group, the world's largest airport retail company with over 400 stores in 55 airports around the globe. Nuance-Watson, which is the largest retailer within the Hong Kong International Airport (HKIA), began operations in 1998 and expanded into Singapore's Changi Airport in 2001, when it was awarded the Perfume and Cosmetics concession for Terminal 2.

"The Nuance Group is at the very heart of the business," explains Alessandra Piovesana, Managing Director of Nuance-Watson's New Horizons Duty Free. "With their deep knowledge and understanding of the industry around the world, they keep us abreast of developments and help us with contacts for our selection of brands. ASW, on the other hand, is invaluable for its strength of organisation, its vision of development and business strategy. ASW is a well-known and very established retailer in Asia, and its proximity is a great advantage."

Currently, Nuance-Watson (HK) operates 27 retail stores in Hong Kong, occupying 40,000 square feet of retail space and employing over 500 people. At Chek Lap Kok, Nuance-Watson's New Horizons Duty Free has a market share of about 45% and currently holds two of the three main "anchor" concessions –

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General Merchandise and Perfumes & Cosmetics (the other being Liquor & Tobacco). It also operates brand stores such as Hermes, John Lobb, Bvlgari, Bally and Fortress, along with outposts for Biotherm, Shu Uemura, Samsonite and Hedgren. Other brand names in the New Horizons Duty Free stable include Rolex, Omega, Cartier, Montblanc, Hugo Boss, Ermenegildo Zegna, Shanghai Tang, Sony, Godiva, Timberland and Dunhill, to name just a few.



In Singapore, Nuance-Watson currently operates 14 stores, which occupy approximately 22,000 square feet and employ over 290 people. These stores are all under the Perfumes & Cosmetics concession and include Giorgio Armani and Mac concepts.

DISTINCTIVE MERCHANDISING

The growing success of Nuance-Watson in the Asian travel retail market lies in part with its distinctive merchandising strategy. Eschewing the traditional “department store” approach, which offers a variety of miscellaneous goods under one roof, New Horizons Duty

Free segments its products according to category, giving each store a unique and singular identity. International luxury brands are found in The Atrium, contemporary fashion is located in the Labels store, electronics in Sound & Vision, and so on (see sidebar, below).

“In general, most big brands sell well in an airport retail environment,” says Operations Manager, Clarice Au, “and there are items such as luggage and accessories that obviously have a high sensitivity and appeal. Destination food and souvenirs are also a specialised segment. In travel retailing you have to anticipate the specific requirements of the



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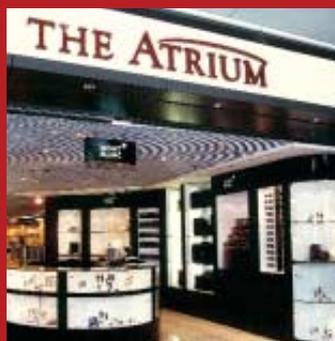
YOU COULD, IN THEORY, ARRIVE AT Hong Kong International Airport (HKIA) with little more than a passport, ticket, credit card and some time to spare – for once you’re past immigration you’ll find yourself in a world of retail opportunities that rivals the city’s most enticing shopping malls.

The SkyMart shopping complex offers a huge variety of stores which all are committed to serving you, the traveller.

So, without further ado, grab a shopping trolley and hit the retail trail.

To start, pick up all the gear you need for your about-to-begin tropical adventure from **Labels**, where you can kit yourself out in latest fashions from brands like Calvin Klein and Esprit.

With the basics taken care of, aim for **The Atrium** where you can treat yourself to that Cartier (or Rolex or Omega) watch you’ve always wanted, or invest in a



Montblanc pen to add some style to your postcards. Then pick up some to-die-for luggage from Dunhill or Coach. And while you’re indulging in The Atrium’s elegant ambience, why not succumb to the chocolate temptations of Godiva? – Something to nibble en route.

It’s going to be hot in paradise, so head for **Temptation** to stock up on sun cream and moisturiser. With these indispensables in the bag, it’s time to select the perfect fragrance for those warm tropical nights. Choose from a vast range of branded perfumes – and don’t forget to stock up on those other

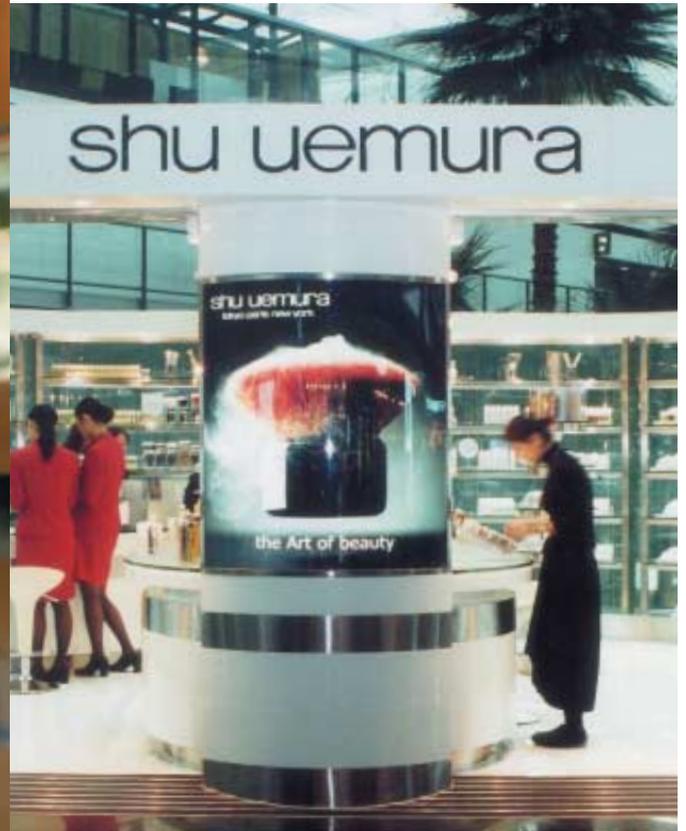
essential cosmetics.

Now make a beeline to **Sound & Vision** whose friendly staff will advise on which of the latest digital cameras is best for you.

Finally, don’t forget the gifts. **Kowloon Trading** does a fantastic line in souvenirs that will delight your hosts and give the folks back home the impression you were thinking of them all along.

Bon voyage!





travelling customer: products that are light and easy to carry are obviously more appropriate. All-in-one travel packs sell well, as do multi-packs, gift sets and items with destination features."

The key to successful travel retailing, she says, is sourcing a wide selection of products and offering customers exclusive international brands at a range of price points. Duty free does not necessarily mean cheaper, particularly if there is no duty in the first place, as is the case in the free port of Hong Kong.

"Many times we cannot compete with downtown stores on price" says Au, "but we can offer the customer exceptional service, in-depth product knowledge and limited edition products found only in the travel retail sector."

Sales staff who speak several languages, most importantly English, Mandarin and Japanese, are also essential to the international operation.

Since 1998, Nuance-Watson's commitment to service has garnered nine awards from the Hong Kong Retail Management Association, including the

"Service & Courtesy Award" for four years running. It has won a similar number of prestigious Raven Fox Awards, including "Best Fragrances & Cosmetics Travel Retailer", "Best Fashion, Leathergoods & Accessories Travel Retailer", "Best Food & Confectionery Travel Retailer in Asia/Pacific", and the much-coveted

"Best Travel Retailer in Asia/Pacific 2002."

This success has been reflected on a larger scale by that of HKIA, which has been voted "Airport of the Year" for two years running (2001, 2002) in polls conducted by Skytrax Research. In 2001, more than 32 million passengers passed through HKIA, armed with credit cards, leftover cash and plenty of time to kill (on average, more than four hours for transiting passengers, just under two hours for departing passengers).

THE SKY'S THE LIMIT

Further modifications to existing facilities mean that the airport will be able to handle 61 million passengers a year by 2010, while its final design capacity (due to be reached in 2020) is a staggering 87 million passengers. With the continued development of HKIA as a regional hub, the transit/transfer passenger market (currently about a third of total passenger traffic) provides particularly attractive opportunities for retail and catering.

The appeal of Hong Kong as a hub





for China and the region lies mainly in the convenient access it provides to flights and destinations around the world. At present, 90 international destinations are served from Hong Kong, giving global access to passengers arriving from a further 42 airports in Mainland China. Half the world's population are within five hours' flying time of Hong Kong – a huge potential market for the HKIA and, by extension, for Nuance-Watson, which is currently in the process of tendering for further concessions.

Those passengers span the social spectrum, from businessmen to students to young families and retirees. Departing passengers, not surprisingly, spend more than those coming into Hong Kong, and men account for a whopping 70% of transactions.

Clarice Au says the majority of sales are made to business people, many of whom are regular shoppers, like Flora Chan, using Hong Kong as a hub. "Price is not a big consideration for them," she explains, "but time is."

According to Alessandra Piovesana, nearly a quarter of departing visitors bought something in a New Horizons Duty Free store in 2002. Taiwanese shoppers, who account for 21% of New Horizons Duty Free sales, like to buy Rolex watches, Montblanc pens, Lancôme and Estée Lauder cosmetics, handbags from Ferragamo and Cartier, and Sony electronics, while mainland Chinese (10% of sales) choose Rolex and Piaget watches, Christian Dior fashions and Bally shoes. The Japanese – once the

world's most dedicated duty-free shoppers – now account for 17% of sales, buying Godiva and Peninsula chocolates along with Hermes and Bvlgari luxury goods. Making up the difference are American and European customers (23%), Southeast Asians, Koreans and other nationalities.

"What [customers] buy depends on the strengths and awareness of these

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brands in their respective local markets and the brand's perception," Piovesana explains.

While the Asian crisis of 1998 put an unmistakable dent in retail revenues, the risk-diversified nature of the business, with its wide base of international customers, meant that Nuance-Watson could react quickly to soften the blow. The events of September 11, however, had an immediate impact. "9-11 seriously hurt our business," concedes Piovesana, "but as

time goes by, people are rebuilding their confidence in travelling again. Security levels have been upgraded at HKIA, which means people have less time to shop, although some highly motivated shoppers, particularly the Taiwanese and Japanese, will make allowances and arrive at the airport earlier."

Weathering these crises through its initiative and responsiveness to changing market demands, Nuance-Watson enjoyed good sales growth in 2002, and plans for further growth are underway. The expansion of SkyMart's East Hall, the principal airside retail area serving all passengers, will almost double the retail space available. On Level 7, it will increase from a current 4,800 square metres to 6,800 square metres while Level 6 will more than double from 3,500 to 8,300 square metres. This new space will offer around 25 additional retail stores. The configuration of the area is also being redesigned to improve the flow of passengers and shoppers through the area – escalators are being realigned and corridors widened.

Nuance-Watson is poised for its piece of the pie: "Most importantly, we want to win market share for our business in HKIA," says Piovesana. "It is a huge airport, the hub of Asia, and our first objective is to be outstanding here." Beyond Hong Kong, the Group is looking to other airport opportunities in Asia. "China is a matter of when and how," says Piovesana, "not if."

For Asia's leading travel retailer, things are just beginning to take off. 