GOING PLACES?

TRANSIT RETAIL – UK & WORLDWIDE

- UK retailers—from grocers to clothing stores to gift shops—are increasingly offering greater convenience with stores at railway stations, airports and petrol/gas stations.

- These high-footfall locations are also being used by UK retailers to offer collection points for online purchases.

- These shifts dovetail with the boom in online shopping, including click-and-collect. As the UK is ahead of the pack in these areas, we expect to see other countries follow this country’s lead in travel-hub retail.

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EXECUTIVE SUMMARY

GOING PLACES IN THE UK . . .

• UK retailers—from grocers to clothing stores to gift shops—are increasingly going where customers have time to shop: railway stations, airports and petrol/gas stations.

• Transit hubs also present perfect locations for “click-and-collect” as convenience-seeking shoppers increasingly pick up online purchases rather than having them delivered.

• Investment in retail space is flowing to transport hubs such as St. Pancras Station and Heathrow, which are consequently reporting comps that far outpace those of UK retail overall.

• Gas/petrol filling stations’ forecourts also still offer much scope for development of convenience stores and online collection points.

• Transit hubs are becoming destinations in their own right, with new small-store formats and edited ranges from such major retailers as Louis Vuitton, John Lewis, and Fortnum & Mason.

• We think this trend could spread to other countries.

. . . AND STARTING TO CATCH ON WORLDWIDE

• Global rail and air passenger numbers are growing worldwide. The top 20 travel retail groups saw YoY total revenues surge 14% in US$ terms in 2013 (latest) and 10% in € terms.

• Global airport retailing alone was a reported US$34 billion sector in 2013, with 7.7% growth expected in 2014. CAGR to 2019 is forecast to be 9.6%.

• Total air passenger traffic grew 5.1% in 2014. Asia-Pacific is seeing the strongest growth in air passenger journeys and could soon overtake the more mature US market.

• Chinese railways are seeing strong growth in passenger journeys. US and European rail journeys are growing too, though not as fast.
GOING PLACES IN THE UK

Convenience-Seeking UK Shoppers Drive New On-the-Go Retail Model

UK retail is in a state of flux as British shoppers rapidly change how and where they shop. The boom in internet shopping has obviously caused the biggest change in consumer behaviour. But store-based retailers have adopted a fresh game plan to succeed on the new playing field: They are placing small shops in places where busy travellers and commuters congregate, often with a little extra time on their hands and money in their pockets. These new stores can provide not only on-the-go convenience but also delivery of internet-bought merchandise.

Transit retail, which includes stores at airports, railway stations, gas/petrol filling stations and motorway stops, is a fast-growing sector that promises new growth opportunities in many markets as passenger numbers grow and as shoppers search for greater convenience and time savings. The market is not new--travellers have been shopping at airports for years--but it is growing at a rapid rate.

New transit-hub locations are enabling retailers to piggy-back on internet shopping. In the UK, customers have taken quickly to the idea of “click-and-collect,” which allows them to buy groceries, clothing, or any number of other items online and then pick them up at convenient locations near their homes or work or somewhere in between, including the railway station where they get the train home. We think transit hubs could turn out to be the new mini-malls of the coming years, well placed to gain from the changes in the behaviour of time-constrained consumers.

Case Study 1: Department Stores Arrive at Stations and Airports

John Lewis’s click-and-commute store epitomises the combined demand for convenience and collection that we think will drive demand for transit retail.

The small store offers a well-edited collection of aspirational brands spanning fashion accessories, beauty, technology and gifts. Its product offer makes it recognisably a John Lewis store. And it serves as an access point to John Lewis’s full range through click-and-collect.

And the demand appears to be there: Click-and-collect overtook home delivery as the most popular fulfilment option for JohnLewis.com purchases at Christmas 2014, with fully 56% of internet sales being collected.
Click-and-Collect Is Gathering Pace

Click-and-collect is booming in the UK as internet shoppers seek greater convenience and retailers look to overcome the perennial hurdle of home delivery.

And demand to collect online purchases in Britain is well ahead of comparable economies:

- Some 35% of UK shoppers use buy-and-collect, compared to 13% in the US and 5% in Germany, Planet Retail found in an April 2014 study.
- The total value of purchases fulfilled through click-and-collect in the UK increased by 42% in 2014 as a whole, according to Mintel.

Collection Provides New Fuel For Transit Retail

Shoppers are flocking to use click-and-collect services and retailers are racing to put down collection points. Transit locations are in a strong position to service much of this demand for collection: They offer small convenience stores in locations with high footfall that many users will be visiting frequently, such as on their daily commute. And those new points can also include non-store alternatives such as automated lockers that can even be temperature controlled for groceries, or vans in lower-value spaces such as car parks. For example:

- Supermarket chain Asda recently launched its first drive-in collection point at a gas/petrol filling station. Asda is planning to install “temperature-controlled pods” at future collection points.
- Upmarket grocer Waitrose has installed temperature-controlled collection lockers at Gatwick airport. It has also put lockers at selected London Underground stations, a railway station in Southampton, and some motorway service stations.
- Tesco, Asda and Sainsbury’s offer grocery collection from vans parked in selected London Underground car parks, while Asda and Amazon have joined Waitrose in installing lockers in these locations.
- Fashion brand French Connection launched a small, temporary store focused on collection at Old Street Underground station ahead of Christmas 2014.

Not Every Retailer Needs to Follow the Trend...Third Parties Are Entering the Fray to Help

At the same time, UK retailers no longer need their own stores to offer collection: Third-party click-and-collect services can do it for them:

- The Collect+ network allows online shoppers to pick up their orders from more than 5,500 local shops, including petrol/gas filling stations. Big names like Amazon, Asda, House of Fraser and Littlewoods offer the option to use Collect+ when buying online.
- And we’ve seen the launch of the newer Doddle service, a third-party network of collection stores focused on railway stations. Doddle offers shoppers using a number of online retailers the option to pick up their purchases from dedicated collection stores, many of which are in railway stations. Their sites offer dressing rooms where purchasers can try on merchandise and immediately send it back if it doesn’t fit.

These third-party collection services make us think that there is little need for most British retailer to open costly transit stores purely to serve as collection points: Where the aim is simply to offer a collection-only service, retailers can use cheaper, peripheral transit locations, such as lockers and collection vans in car parks. We believe most retailers would be better off opting for hybrid collection/shopping outlets with a substantial product offer for immediate purchase.
Case Study 2: Doddle Keeps Deliveries On-Track

Doddle competes with Collect+, which has more than 5,500 local shops signed up to its parcel distribution network. But a key selling point of the Doddle stores is that most have fitting rooms for shoppers to try on clothes purchases; they can then return them instantly if they choose not to keep them.

Doddle has opened stores in major London stations such as Waterloo and Victoria, where they should benefit from the very high levels of footfall from frequent commuters.

So far, however, uptake looks to be very low: this analyst has been past various Doddle stores dozens of times in recent months: there are typically no customers using them and no collections showing on the digital display boards. It is a great idea, but high-rent railway shops need high shopper numbers to be viable.

Following is a survey of how transit-hub retail is developing in the UK, a world leader in e-commerce and click-and-collect. Will the world follow? We look at that question afterwards.

UK Rail

Convenience Shopping Drives Rail Station Retail

UK retail looks to be seeing some consumer migration away from big-box, out-of-town stores in favour of smaller stores closer to home. This is most apparent in grocery, but similar trends are impacting on non-food retail, with some department stores, furniture retailers and clothing specialists looking to open small urban stores.

In grocery retail, the opening of hundreds of convenience stores by major supermarket chains appears to have accelerated this shift. As part of their push into convenience, a number of the big players are looking for sites in, or close to, travel hubs: The Co-operative Food, M&S Food and Waitrose are among those opening shops at railway stations, petrol/gas filling stations and motorway service stations.

Department stores and other non-food retailers that traditionally operated from big stores are now branching out into small-store formats in train station locations too:

- Department store chain John Lewis, opened a “click-and-commute” store at London’s St Pancras railways station in 2014. The store combines an edited selection of goods with the option for commuters to collect their online orders on their journey home (see Case Study).
- Bookshop Foyles has branched out into the small-store format at railway-stations, most recently opening at London’s Waterloo station. Birmingham Grand Central will follow this autumn.
- Upmarket department store Fortnum & Mason has opened its first new store in 306 years at St Pancras station
Growing Rail Passenger Numbers and Investment in Retail Space Yield Strong Comps

Retailers are just following their customers. Total UK rail passenger numbers are big and growing: UK rail users made a total of 1.6 billion passenger journeys in 2014, up 23% from 1.3 billion in 2012; by 2019, the UK rail network is expected to deliver 1.83 billion passenger journeys per year, up another 14%.

The huge footfall at major railway stations provides a major attraction for retailers: Network Rail’s 18 large UK stations see around one billion visits annually in total. And three of Network Rail’s big London stations see over 100 million visitors per year.

The opportunity has not been lost on Network Rail, which has been investing heavily to present its growing audience of travellers with improved retail experiences at its rail stations. At Waterloo Station in South London, for instance, the company added in a balcony, or mezzanine, to improve the range of shops and food-service providers.

And at King’s Cross in North London, Network Rail’s major overhaul of the station resulted in a covered shopping arcade that has attracted premium names like Oliver Bonas and Kiehl’s. The King’s Cross overhaul convinced Waitrose to open its first railway-station store.

Meanwhile, in Birmingham, the major new Grand Central shopping mall, opening in 2015, is integrated with the city’s railway station (see Case Study).
Case Study 3: Retail Meets Rail On A Grand Scale

The mingling of retail and travel will be seen on a big scale when Grand Central Birmingham opens its doors later this year. This major new shopping mall is integrated with Birmingham’s New Street station.

The centre will offer 200,000 sq ft of retail space, and will include a new (full-size) John Lewis store, more than 40 fashion and lifestyle stores and more than 20 cafés and restaurants.

Rail travellers will enter and exit New Street station through the mall’s central atrium. And given that New Street sees annual footfall over of 40 million, this will provide a major boost to the centre’s visitor numbers.

As a result of all this renovation and re-engineering of the transit hub retail experience, big rail stations and other hubs are becoming destinations in their own right. Figure 1 below splits out additional footfall, above the recorded number of ticket entries and exits at the selected stations. Network Rail attributes this additional footfall to consumers visiting to use the retail and food-service outlets in its stations.

Figure 1. Annual Network Rail Station Footfall vs. Passenger Numbers, Selected Stations, 2014

<table>
<thead>
<tr>
<th>Station</th>
<th>Ticket Entry Exit Data</th>
<th>Additional Footfall*</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Liverpool Street</td>
<td>58</td>
<td>61</td>
</tr>
<tr>
<td>London Victoria</td>
<td>77</td>
<td>37</td>
</tr>
<tr>
<td>London Euston</td>
<td>38</td>
<td>25</td>
</tr>
<tr>
<td>London King’s Cross</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Birmingham New Street</td>
<td>32</td>
<td>10</td>
</tr>
</tbody>
</table>

* Full-year estimates from part-year data. Source: Network Rail
Clearly, all the investment is paying off: Network Rail has been reporting comparable sales growth that is well above that of UK retail in general. Its most recent results showed an uplift of over 6% in railway-retail comps:

Figure 2. Comparable YoY Sales Growth: Network Rail Shops vs. British Retail Consortium UK Retail Total, January-December 2014

<table>
<thead>
<tr>
<th>Month</th>
<th>Network Rail Retail</th>
<th>All Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Mar 14</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Apr-Jun 14</td>
<td>6.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Jul-Sep 14</td>
<td>6.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Oct-Dec 14</td>
<td>6.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Network Rail/British Retail Consortium

UK Airports

Investment Makes Airports Even More Popular Destinations For Shoppers

Meantime, in UK airport retail, we are seeing big investments draw new retailers into the sector.

London’s main airport, Heathrow, recently overhauled its retail offer in two of its terminals (2 and 5). As a consequence, the repertoire of retailers is broadening a little: in 2014, John Lewis opened its first airport store at Heathrow’s new Terminal 2 while Fortnum & Mason opened its first airport store in the overhauled Terminal 5.

At the same time, the traditional high-end segment is being bolstered, with the revamp of retailing in Heathrow’s Terminal 5 attracting Louis Vuitton to the airport. And when Terminal 2 re-opened in mid-2014, it targeted higher-spending shoppers with the “world’s first personal shopping lounge”, offering sessions with an “accredited stylist”.

Growing Passenger Numbers and Strong Shopper Interest Bolster Demand

Consumer data confirms that visiting airport shops is important to many travellers, with a sizeable proportion actively planning to build shopping into their journeys.

- Some 20% of UK flyers like to arrive early at airports in order to eat and 15% arrive early because they like to go shopping, according to a 2012 survey by pollsters YouGov.

- And British shoppers are more enthusiastic than those in other major European economies: 18% of Britons say they look forward to shopping at airport stores when they fly, according to a 2013 survey by Mintel; this compares to 16% of Germans, 13% of French and Spanish, and 7% of Italians.

- Travellers spent £1.8 billion in Heathrow’s shops and food-service establishments in 2013 (latest), with the average shopper forking out just under £39 at the airport. Heathrow says some 70% of its passengers buy something when they fly.
Heathrow served 74.3 million passengers in 2014, with second-place Gatwick seeing 38.1 million passenger journeys. And footfall at the UK’s top two airports is growing, albeit relatively modestly at Heathrow in 2014.

**Figure 3. YoY Growth in Passenger Traffic, Heathrow and Gatwick Airports, 2011-14**

<table>
<thead>
<tr>
<th>Year</th>
<th>Heathrow Airport</th>
<th>Gatwick Airport</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>5.5</td>
<td>0.9</td>
</tr>
<tr>
<td>2012</td>
<td>1.7</td>
<td>3.4</td>
</tr>
<tr>
<td>2013</td>
<td>3.6</td>
<td>1.5</td>
</tr>
<tr>
<td>2014</td>
<td>7.6</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: Company reports/Press releases*

**Investment Yields Growth In Spend-Per-Traveller**

Heathrow Airport appears to be reaping the benefits of investing in its offer. Heathrow posted a hefty 6.2% increase in its net retail income in 2013, and this was followed by a 3.0% increase in 2014. These recent increases in net retail income substantially outpace those for passenger traffic. So growth in total passenger numbers is only half the story for airport retailers: spend-per-passenger can be grown well ahead of this, helped by investment in the retail offer.

**UK Gas/Petrol Stations**

**Forecourts Offer Lots of Opportunities for Grocers, and Others...**

The retail picture at gas/petrol stations is similarly optimistic, but much less developed. Major grocery chains have been moving in and shopper research consequently shows that consumers are shopping at forecourt stores more than ever: research group him! reports that fuel-only visits to forecourts fell from 52% in 2011 to just 37% in 2014.

Yet the scale of the fuel retail sector leaves much scope for development.

**Convenience Store Groups Find a Growing Market at Petrol Stations...**

The fuel retail landscape has been changing as some of the major oil companies—including Esso, Shell and Murco—have been withdrawing fully or partly from operating petrol station forecourts. As these big oil companies retreat, the bulk of the 8,500-forecourt UK fuel retail sector is falling into the hands of independent groups.

Only about one-third of these independent forecourts now have convenience stores from major “symbol group” retailers such as Spar, Mace, Costcutter and Londis. But that number is expected to rise to 50% in the next couple of years, as filling stations bolster their retail offerings, not least because the margins in selling gas/petrol are so slim, according to the Petrol Retailers Association (PRA). The remainder will have their own-brand or oil-brand shops or kiosks.
Brian Madderson, Chairman of the PRA, told FBIC that independent groups were seeking to make their forecourts into “retail destinations” that bring together larger, symbol-group convenience stores, franchised food-service outlets like Starbucks or Subway (some of which are drive-thru) and click-and-collect services.

...and Supermarket Groups Find Openings Too

Away from the independent fuel retail sector, several of the big grocery retailers have been opening stores in alliances with major oil groups for a number of years:

- Tesco’s initial move into convenience-store formats was through an agreement with Esso which began in 1998, and there are now around 200 Tesco Express forecourt stores.
- M&S Simply Food has around 180 food stores on BP forecourts, operated under franchise.
- Waitrose has around 15 stores on Shell petrol forecourts with plans to open a further 15 this year and again in 2016.

The withdrawal of oil companies like Esso and Shell from ownership of filling stations may limit opportunities for some grocery retailers like Tesco and Waitrose to expand their current tie-ups with these companies. That said, BP continues to expand its partnership with M&S Food.

Apparently undeterred, some supermarket chains are buying standalone filling stations to bolster their convenience offer: Morrisons, Sainsbury’s and, most recently, Asda have each acquired a handful of sites as part of their push into convenience formats in recent years. Asda is also using its newly-acquired sites to offer drive-thru grocery collection, bringing together the growth channels of e-commerce and convenience.

Motorway Services: A Small but Buoyant Sector

Similarly, motorway service stations provide opportunities for chains like M&S Simply Food and Waitrose, although given there are only around 100 service stations in the UK there is a natural cap on growth through this channel. Suggesting positive momentum, the biggest motorway services operator, Moto, posted a 7.8% jump in in non-fuel sales in 2014, on top of 5.9% growth in 2013, helped by the roll out of brands like M&S Simply Food and Greggs The Bakers.
... AND STARTING TO CATCH ON WORLDWIDE

Will the World Follow? Yes, but Maybe Not as Quickly

We haven’t observed transit-hub retail developing on as broad a scale or as quickly overseas as we have in the UK, largely because Britain is the leading western economy for e-commerce, multichannel retailing and particularly for click-and-collect. But we believe that in time, shifts we see in the UK could well be replicated elsewhere. We expect more retailers to adopt smaller stores in travel hubs as they seek to answer the question: How can stores flourish in a digital world?

Here are some examples of what we have seen so far:

In Europe:

• Marks & Spencer has partnered with BP and Relay to open food stores at travel locations in the Netherlands and France, respectively.

• And in Germany, supermarket giant Rewe is trialling ten Rewe To Go convenience stores at Aral petrol stations. It is also pushing into railway station convenience formats, including at Munich Central Station.

• At Charles de Gaulle in Paris, new stores are being added in 2015 by aspirational brands like Gucci and Nespresso.

In the US:

• Walmart opened its first standalone gas station and convenience store in 2014, under the Walmart To Go fascia.

• The restored Grand Central Station in New York is positioned as a shopping and dining destination, with 68 stores including premium names like Apple and Jo Malone.

• Union Station in Washington DC now has around 50 stores featuring desirable brands like Swarovski Crystal and L’Occitane. And a planned $7 billion overhaul should bolster its destination status even further.

• At JFK Airport in New York, for instance, an overhaul of the retail offer at Terminal 8 in February 2015 saw Victoria’s Secret among those retailers putting in new stores.

Case Study 4: Walmart’s Convenience Concept

US retail giant Walmart is best known for its big-box stores, but it is pushing into smaller formats. And its latest iteration is a gas station/convenience store outlet.

The new Walmart To Go store, opened in March 2014, is “a hybrid,” said the company’s senior VP of small formats, Debra Layton. “I would consider it a food store that sells fuel,” she added. The product offer includes typical US convenience favourites like milkshakes and soda fountain items, and the store also offers a deli counter in partnership with a local butcher and delicatessen.

The offering is typical convenience store, but what makes it important is that this format has been adopted by a big-box retailer. We think it’s a sign of the potential the transit-retail segment has in newly developing retail marketing. Looking ahead, we can see this format dovetailing with Walmart’s concentration on click-and-collect online grocery shopping: its UK subsidiary Asda is currently launching click-and-collect at some filling stations in Britain so we might see the same in the US.
Clearly, the potential for transit retail has not gone unnoticed. Revenues at the biggest travel retailers are growing fast: The top 20 travel retail groups grew total revenues by 14% in dollar terms or 10% in euro terms in 2013, we estimate.

Figure 5. Top Travel Retailers, By Revenues, 2011-13

<table>
<thead>
<tr>
<th>Company (Parent, Domicile)</th>
<th>2011 $m</th>
<th>2012 $m</th>
<th>2013 $m</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 DFS (LVMH, France) (Est.)</td>
<td>3,968</td>
<td>4,192</td>
<td>5,398</td>
<td>28.8</td>
</tr>
<tr>
<td>2 Dufry (Switzerland)</td>
<td>3,019</td>
<td>3,359</td>
<td>3,866</td>
<td>15.1</td>
</tr>
<tr>
<td>3 LS Travel Retail (Lagardère Group, France)</td>
<td>3,203</td>
<td>3,274</td>
<td>3,851</td>
<td>17.6</td>
</tr>
<tr>
<td>4 Lotte Duty Free (Lotte Group, Japan)</td>
<td>2,687</td>
<td>2,781</td>
<td>3,242</td>
<td>16.6</td>
</tr>
<tr>
<td>5 World Duty Free Group/Autogrill (Italy) (a)</td>
<td>2,536</td>
<td>2,574</td>
<td>2,761</td>
<td>7.3</td>
</tr>
<tr>
<td>6 The Nuance Group (Switzerland) (b)</td>
<td>2,137</td>
<td>2,102</td>
<td>2,267</td>
<td>7.8</td>
</tr>
<tr>
<td>7 The Shilla Duty Free (South Korea)</td>
<td>1,504</td>
<td>1,736</td>
<td>1,887</td>
<td>8.7</td>
</tr>
<tr>
<td>8 Gerbr. Heinemann (Germany) (c)</td>
<td>1,392</td>
<td>1,645</td>
<td>1,783</td>
<td>8.4</td>
</tr>
<tr>
<td>9 Dubai Duty Free (UAE)</td>
<td>1,569</td>
<td>1,560</td>
<td>1,745</td>
<td>11.9</td>
</tr>
<tr>
<td>10 Ever Rich Group (China)</td>
<td>na</td>
<td>1,431</td>
<td>1,628</td>
<td>13.8</td>
</tr>
<tr>
<td>11 King Power International (Thailand)</td>
<td>996</td>
<td>1,234</td>
<td>1,490</td>
<td>20.7</td>
</tr>
<tr>
<td>12 Sunrise Duty Free (China)</td>
<td>717</td>
<td>829</td>
<td>1,171</td>
<td>41.2</td>
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<tr>
<td>13 Duty Free Americas (US)</td>
<td>1,182</td>
<td>1,029</td>
<td>1,116</td>
<td>8.4</td>
</tr>
<tr>
<td>14 China Duty Free Group (China)</td>
<td>709</td>
<td>845</td>
<td>1,061</td>
<td>25.6</td>
</tr>
<tr>
<td>15 Aer Rianta International (DAA, Ireland)</td>
<td>1,146</td>
<td>1,189</td>
<td>1,052</td>
<td>-11.5</td>
</tr>
<tr>
<td>16 WH Smith (UK)</td>
<td>730</td>
<td>732</td>
<td>719</td>
<td>-1.8</td>
</tr>
<tr>
<td>17 Tallink Group (Estonia)</td>
<td>677</td>
<td>665</td>
<td>673</td>
<td>1.3</td>
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<tr>
<td>18 JR/Duty Free (James Richardson Group, Australia)</td>
<td>654</td>
<td>634</td>
<td>655</td>
<td>3.3</td>
</tr>
<tr>
<td>19 King Power Group (Hong Kong)</td>
<td>483</td>
<td>589</td>
<td>639</td>
<td>8.5</td>
</tr>
<tr>
<td>20 DFASS Group (US)</td>
<td>575</td>
<td>585</td>
<td>604</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Total of the above (Excl. Ever Rich Group) (d) 29,884 31,553 35,981 14.0

Total of the above (€m) (Excl. Ever Rich Group) (d) 21,462 24,540 27,094 10.4

(a) Autogrill span off World Duty Free in 2013
(b) Acquired by Dufry in 2014
(c) Excludes wholesale; 2013 data estimated
(d) No 2011 data for Ever Rich Group, so Ever Rich Group excluded from total for YoY comparability

Sources: Moodie Report/Company reports/FBIC Global Retail & Technology analysis

This growth is much faster than that seen in global airport passenger numbers, indicating these major groups are consolidating the market as they win more contracts and that they are likely growing average spend per passenger.

Let’s take a look at what’s happening globally in the rail, air, and auto markets.
Global Rail

Passenger Numbers Big And Growing

Rail systems worldwide are seeing a huge and growing, body of consumer usage, and so railway stations represent a big opportunity to target shoppers.

- Japan, the world’s biggest rail passenger market, recorded nearly 23 billion journeys in 2010 (this is the most recent data we have; we have no growth rates).
- Europeans made 8.9 billion rail journeys in 2013, up 1.7% on 2012. (Total of 25 EU and non-EU countries). Germany (2.6 billion), the UK (1.6 billion) and France (1.2 billion) saw the greatest number of passenger journeys in Europe in 2013.
- Chinese railways fulfilled 2.1 billion passenger journeys in 2013, up 10.8%, on 2012.
- In the US, nearly 31.6 million passengers travelled on the main Amtrak network in 2013, up 1.3% from 2012.

Large rail terminals deliver the ultra-high footfall that will be most attractive to big-name retailers. In the UK, some of Network Rail’s large stations see over 100 million visitors per year. Rail travel is generally much less used in the US. Nevertheless, a handful of railway stations see over one million passenger journeys a year, with New York’s Penn Station and Grand Central Stations nearing 10 million.

Figure 6. US: Annual Railway Station Footfall – Top Five Stations, 2013

<table>
<thead>
<tr>
<th>Station</th>
<th>Footfall (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, NY</td>
<td>10</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>5</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>4</td>
</tr>
<tr>
<td>Chicago</td>
<td>4</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Amtrak

These figures pale beside those from the top railway stations in Japan, where some stations are seeing footfall of over one billion passengers a year.
Global Air

Millions of Captive Consumers

Strong Growth in Air Passenger Numbers

Airports provide another big, and growing, opportunity to target captive shoppers. A total of 5.7 billion passenger journeys were made worldwide in 2014, up 5.1% YoY.

Figure 8. YoY Growth in Passenger Traffic

<table>
<thead>
<tr>
<th></th>
<th>2011 %</th>
<th>2012 %</th>
<th>2013 %</th>
<th>2014 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Passenger Traffic</td>
<td>4.9</td>
<td>4.0</td>
<td>4.0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: Airports Council International

- North America is a mature market that is turning in lower growth.
- Fast-growing Asian economies are registering higher air-passerger growth.
- If Asia-Pacific and North America see similar growth in 2015 as in 2014, they will be neck-and-neck on total passenger numbers this year.
- The Middle East is seeing passenger numbers grow fast – but they remain small in absolute terms.
Figure 9. Passenger Traffic by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>2013 Million</th>
<th>2014 Million</th>
<th>Growth 2014 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,625</td>
<td>1,712</td>
<td>5.3</td>
</tr>
<tr>
<td>North America</td>
<td>1,514</td>
<td>1,564</td>
<td>3.3</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>1,440</td>
<td>1,525</td>
<td>5.9</td>
</tr>
<tr>
<td>Latin America-Caribbean</td>
<td>441</td>
<td>469</td>
<td>6.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>222</td>
<td>243</td>
<td>9.4</td>
</tr>
<tr>
<td>Africa</td>
<td>145</td>
<td>150</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,388</strong></td>
<td><strong>5,662</strong></td>
<td><strong>5.1</strong></td>
</tr>
</tbody>
</table>

*Source: Airports Council International/FBIC Global Retail & Technology analysis*

The ten busiest airports accounted for 731 million passenger journeys in 2014, according to FBIC analysis, up 4.1% on 2013. But they underpaced total global air passenger growth – likely as fast-growing regions like the Middle East and Asia-Pacific are under-represented among the very top tier of airports.

Figure 10. Top Ten Airports by Total Passenger Traffic, 2013 and 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airport Name</th>
<th>2013 Million</th>
<th>2014 Million</th>
<th>Growth 2014 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hartsfield–Jackson Atlanta International Airport (US)</td>
<td>94.4</td>
<td>96.2</td>
<td>1.9</td>
</tr>
<tr>
<td>2</td>
<td>Beijing Capital International Airport (China)</td>
<td>83.7</td>
<td>86.1</td>
<td>2.9</td>
</tr>
<tr>
<td>3</td>
<td>Tokyo Haneda Airport (Est.) (Japan)</td>
<td>68.9</td>
<td>73.4</td>
<td>6.5</td>
</tr>
<tr>
<td>4</td>
<td>London Heathrow Airport (UK)</td>
<td>72.3</td>
<td>73.4</td>
<td>1.4</td>
</tr>
<tr>
<td>5</td>
<td>Los Angeles International Airport (US)</td>
<td>66.7</td>
<td>70.7</td>
<td>6.0</td>
</tr>
<tr>
<td>6</td>
<td>Dubai International Airport (UAE)</td>
<td>66.4</td>
<td>70.5</td>
<td>6.1</td>
</tr>
<tr>
<td>7</td>
<td>O'Hare International Airport (US)</td>
<td>67.1</td>
<td>70.1</td>
<td>4.5</td>
</tr>
<tr>
<td>8</td>
<td>Paris-Charles de Gaulle Airport (France)</td>
<td>62.1</td>
<td>63.8</td>
<td>2.8</td>
</tr>
<tr>
<td>9</td>
<td>Dallas-Fort Worth International Airport (US)</td>
<td>60.4</td>
<td>63.5</td>
<td>5.1</td>
</tr>
<tr>
<td>10</td>
<td>Hong Kong International Airport (Hong Kong)</td>
<td>59.9</td>
<td>63.4</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Total of the Top Ten</strong></td>
<td><strong>702.0</strong></td>
<td><strong>731.0</strong></td>
<td><strong>4.1</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Sources: Company reports/Press releases/FBIC Global Retail & Technology analysis*
How Important Is Retail To Airports?

Airports generate revenues from a mix of sources, including aeronautical (such as leasing facilities to airlines) and non-aeronautical (including retail and services). Figures from big publicly-traded airports suggest retail and affiliated services contribute a sizeable chunk of total revenues. (Note the figures below include an element of services like advertising/car park revenues.)

Figure 11. Retail Revenues as % of Total Revenues at Heathrow and Hong Kong Airports, 2013/14*

Year ending 31 December 2014 for Heathrow. Year ending 31 March 2014 for Hong Kong. Includes some service revenues, such as from advertising and car parking.

Sources: Company reports/FBIC Global Retail & Technology analysis

How Big Is The Air Travel Sector?

Lastly, what are these passengers worth to airport retailers?

Research agency Verdict Retail says:

- Global airport retailing was worth US$34 billion in 2013, according to Verdict Retail. Growth in 2014 is expected to have been 7.7%.
- Global airport sales will surge 72.9% by 2019, to reach $59.2 billion.
- This is equivalent to strong 9.6% compound annual growth in airport sales.
- Beauty products and alcoholic beverages will see the biggest gains, with sales rising 110% and 73% by 2019, Verdict forecasts.
- By region, Asia-Pacific will lead growth, with the market expected to more than double between 2013 and 2019.
- Airport retail sales in the Americas will grow by 37% by 2019 while the Middle East and Africa should see a 50% surge in retail sales.
Case Study 5: Duty Free Americas Tapping Click-and-Collect

Away from the UK, Duty Free Americas is among the players seeking to marry shopper demand for click-and-collect with the growth in airport retail. Its Duty Free Express service, launched in January 2015, allows travellers to shop for duty-free goods online up to one week before they fly on a scheduled international trip.

Airports like Heathrow offer similar reserve-and-collect services. Duty Free Americas has emphasised the time-saving advantages to its travellers.

And we see possibilities in click-and-collect overcoming other hurdles to airport shopping, of which a major one is baggage restrictions. There looks to be scope to offer click-and-collect so that shoppers can pick up purchases at the end of their return journey, meaning they face no baggage issues.

With click-and-collect and travel retail both being growth channels, we expect to see many more tie-ups.

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