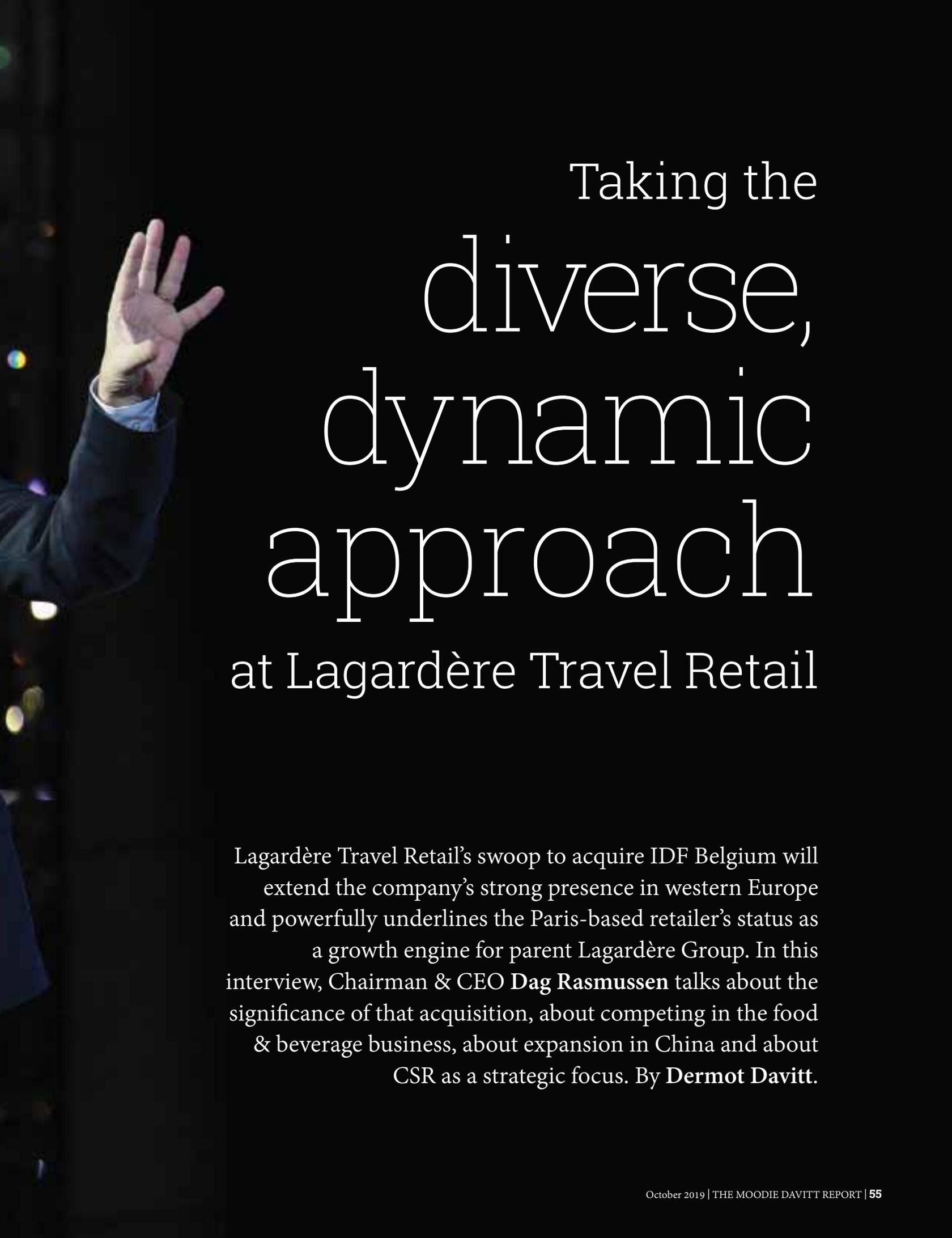




THE TRINITY
FORUM 2018



Taking the
diverse,
dynamic
approach
at Lagardère Travel Retail

Lagardère Travel Retail's snoop to acquire IDF Belgium will extend the company's strong presence in western Europe and powerfully underlines the Paris-based retailer's status as a growth engine for parent Lagardère Group. In this interview, Chairman & CEO **Dag Rasmussen** talks about the significance of that acquisition, about competing in the food & beverage business, about expansion in China and about CSR as a strategic focus. By **Dermot Davitt**.



Appetite for expansion: The Belgian Chocolate House pioneered by IDF could be rolled out to other Lagardère Travel Retail locations

With 2018 managed sales of €4,900 million, across its three key business lines of duty free & fashion, travel essentials and food service, Lagardère Travel Retail is one of the true heavyweights of the industry.

Apart from market leader Dufry, it has also been the most acquisitive of the major travel retailers over the past decade, building market share in Italy with AdR Retail (2012), in the Netherlands through Gerzon (2014), and in Poland and Estonia with Inflight

Service (2017). In food & beverage, it will be close to a €1 billion turnover company this year with the growth of Paradies Lagardère (acquired in 2015) and Hojeij Branded Foods (HBF), added in 2018.

To that list the company has now added International Duty Free (IDF), the Brussels-based travel retailer that pioneered duty free in Belgium in 1958 (originally as Belgian Sky Shops), through a €250 million transaction (announced in July and completed in September).

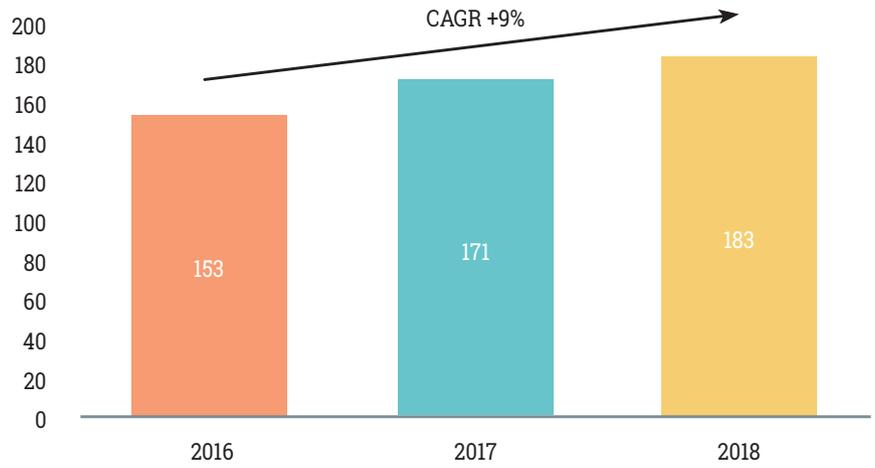
As reported, IDF has a portfolio of more than 30 stores and long-term contracts at Brussels and Charleroi airports. Its key business is at Brussels Airport, where it runs 25 duty free, fashion and confectionery outlets. It has a further two units at Charleroi Airport; premium chocolate stores under the brand The Belgian Chocolate House at Brussels South Station, in downtown Antwerp and in Luxembourg; plus one store in Kenya. The top line has grown too: IDF turnover has risen by an average of +9% over the past three years, from €153 million in 2016 to €171 million in 2017 and €183 million in 2018.

“IDF has some of the best relationships in the world with the major chocolate manufacturers and sells around two tonnes a day, which is huge.”

Outlining the rationale for the move, Lagardère Travel Retail Chairman & CEO Dag Rasmussen says: “For us it was about IDF’s market presence in Belgium but also the quality of that market presence. With the synergies we can deliver [€7 million by 2022-Ed] and cross-fertilisation of their excellent management and our knowledge, it will bring lots of value. Once we close the deal we are ready to kick off and to work with our respective teams to grow the business. It will also open the door to diplomatic activities in Kenya and to new business in Luxembourg.”

The opportunity to tap into IDF’s long-standing relationships with Belgian chocolate manufacturers, and to expand The Belgian Chocolate House concept, is particularly exciting, says Rasmussen.

IDF Belgium sales 2016-2018 (€ million)



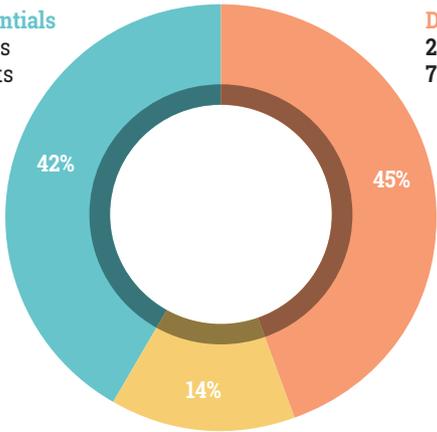
Source: Lagardère Travel Retail



The ‘Parisianisation’ of travel retail: The retailer’s latest Buy Paris Duty Free beauty execution at Orly Airport T3

Lagardère Travel Retail sales by channel 2018

Travel essentials
29 countries
3,000 outlets



Duty free and fashion
24 countries
700 outlets

Foodservice
20 countries
900 outlets

➤ **€4.9bn***

Source: Lagardère Travel Retail

Note: * Sales @ 100%; numbers may not add up to 100% due to rounding

“Chocolate is one of the very interesting areas we can develop. IDF has some of the best relationships in the world with the major chocolate manufacturers and sells around two tonnes a day, which is huge. The company knows the category well and there is an opportunity to grow the Belgian Chocolate House concept in other locations. We will look at this closely and use the local team to help us roll it out where it makes sense.

“In addition, as always with our strategy, once we are in a country with one business line we will try to grow in other business lines.”

That could signal a move to expand in food or travel essentials in Belgium, but also in adjacent travel channels such as rail. Lagardère Travel Retail entered the Netherlands with the Gerzon acquisition, and last year built on its airport presence by taking over 28 Smullers food outlets from Dutch Rail across a network of rail stations. Expect the company to eye similar opportunities in Belgium.



Sense of Place: Dag Rasmussen pledges an even stronger focus on destination goods to drive the business



Dag Rasmussen says the company remains heavily committed to its Changi business despite sitting out two major tenders this summer (pictured is one of its Discover Singapore destination stores)

Risk assessment

Despite its long-standing presence at Singapore Changi Airport, Lagardère Travel Retail opted out of bidding in two major recent tenders, for liquor & tobacco and chocolate & candy respectively.

As reported, the French company expressed early interest in the liquor & tobacco business, worth sales of around S\$590 million (US\$430 million) in 2018, but ultimately did not table an offer. Incumbent DFS surprisingly decided not to bid, leaving Lotte Duty Free, The Shilla Duty Free and Gebr Heinemann as the candidates for a concession that DFS has run for close to 40 years.

In confectionery, Lagardère Travel Retail has enjoyed a long relationship with Changi Airport Group, notably through its So Chocolate stores. In this summer's tender covering nine stores across all four terminals, however, it took the view that the tender structure would make it difficult to make money.

Chairman & CEO Dag Rasmussen says: "For liquor & tobacco we did more or less the same homework as DFS. We didn't see how we could make this business work out. In these cases we prefer to put our business development efforts into other areas.

"We have a great relationship with Changi Airport, but some tenders don't work out. It depends on the conditions and the type of contract. Also, in airports with many different terminals you have the risk of flights changing and that can have a huge impact on sales.

"Changi is a great partner and we love the confectionery business, and although we have been there a long time, in this case we found the structure not worth taking the risk on."

Discussing contract structure more broadly, Rasmussen notes: "We would like more flexibility in some cases. We see accelerating speed in the business. We need the flexibility to allow us to cope with different hypotheses. If you have too many risks, you are more likely to tender low and lose, and in this case it's better not to bid at all.

"More airports are open to being flexible and we share with them how we see the future and how it can be shaped, taking into account their views and strategies."

For Rasmussen, tackling the business model is among the group's strategic priorities. "We have worked a lot on this conceptually," he says. "We have thought a lot about everything from fixed rents to variable rents to profit-sharing models; how we can best operate from one store to bundles of stores to master concessions and from management contracts to joint ventures. It is multi-dimensional thinking and in each case we are sharing our ideas on best practice with our airport partners.

"That will help us make a difference to how we work. And it will help us deliver on our strategy built around four enablers: driving operational excellence, profitable expansion, being a great partner and being an efficient and agile organisation."

Lagardère Travel Retail made an approach for IDF some years ago, but did not proceed at the time. Explaining why it makes sense now, Rasmussen says: “That was before the modernisation of their stores, which was very capital intensive with lots of uncertainty and risk. Now the major capex is completed and we can see the results. We identified what we can add to that and were able to reach a deal on that basis.”

On the potential synergies, Rasmussen notes purchasing (consolidation of volumes leading to

greater bargaining power with suppliers), but also the systems and even the top line. “IDF do a great job in many areas but there are some areas in which we may be able to do better. These could include being stronger on Sense of Place or on impulse purchasing, which we have executed well across our existing platforms. It’s also about taking their ideas and developing them further. We recognise that we don’t know everything, we want to learn each time we make an acquisition and we want to improve. This is how we will do it with IDF too.”

Lagardère Travel Retail: Key projects 2019

A major development plan is taking shape across Lagardère Travel Retail’s duty free & fashion and travel essentials network in partnership with Groupe ADP and their joint ventures at the two big Paris airports. This year the major developments include:

- renovation of Paris CDG 2E/L Terminal (2,500sq m/eight duty free stores; opening of two Buy Paris Duty Free stores plus boutiques for Bvlgari, Fendi, Bottega Veneta, Salvatore Ferragamo, Longchamp (pictured) and Moncler)
- opening of new Paris Orly T3 stores (3,200sq m/11 stores)

In other parts of the network, duty free & fashion-related projects and brand openings this year include, by airport location:

- Paris Beauvais: (Smart Traveler)
- Libreville: (multiple openings)
- Vienna: (The Fashion Gallery)
- Geneva: (The Fashion Gallery)
- USA & Canada: Austin (Brighton), Cincinnati (No Boundaries), Sacramento (No Boundaries, Brighton), Montreal (Lolè)

In food service key projects include:

- Austria: Vienna (Aida), Salzburg (Wolfgang)
- Czech Republic: Acquisition of ten food outlets at Prague central station

- Italy: Nattoo openings (Cagliari and Naples), Beercode (Florence), Emporio del Grano (Treviso), Bontà (Catania)
- USA: Austin (Hut’s Hamburgers), Dallas (Bar Louie, Brewed, Caribou), Denver (Breckenridge Brewery, Brothers BBQ, Snarf’s Sandwiches), Asheville (Auntie Anne’s & Cinnabon), Detroit (Air Margaritaville, Detroit Street, Atwater Brewery), Orlando (Vino Volo), San Francisco (Bourbon Pub)

In travel essentials major projects include:

- France: Montparnasse station (Relay, Fnac/M&S, Nespresso), Paris Orly (Relay, Monop’ Daily, PSG)
- Spain: Canary Islands (12 stores)
- Italy: Brindisi (Relay)
- Turkey: Sabiha Gökçen (Relay, franchise)
- China: Hong Kong (Monocle)
- Australia: Sydney (Relay, Lego/Kaboom, Newslink), Avalon, Perth (The WA Store), Ballina Byron Gateway Airport (Relay)
- USA & Canada: Austin (Barton Springs, Scoreboard), Charlotte (Charlotte’s Got A Lot), Cincinnati (Trip Advisor, Gaslight Gifts, Over the Rhine Market), Dallas (Relay, CNBC News), Sacramento (Sactown Market, Chocolate Fish Coffee Roasters), Raleigh (TripAdvisor, WRAL, CORSA luggage & accessories, No Boundaries, Swarovski), Vancouver (Relay, Relay/Illy, Coastal News), San Francisco (Cargo Mills), Phoenix-Costa Mesa (Trip Advisor, First Jet Market)



Moving fast in F&B

The other major acquisition of the past 18 months is HBF, which is at the heart of the company's Dining Division in North America. With dining revenues expected to hit €1 billion for the first time this year, Lagardère Travel Retail is becoming an ever stronger player in what it calls food service.

At the time of the HBF move last year, Rasmussen said: "We won't be the number one in food service but we will be a significant player, and we'll be better equipped to tackle new opportunities."

A year on, how has that integration proceeded and what are the next steps to accelerate expansion?

Rasmussen says: "The HBF integration is progressing well. All our food & beverage activities in North America are now under a common leadership and we are using the HBF management to cross-fertilise and improve what we do already. We have some work to do on systems, but the processes are in place. It has made us a strong number three player in the USA across 110 airports, with around US\$350 million in food sales today. We have gained contracts in San Antonio, New Orleans, Ottawa and others, so we have managed to add business and still focus on improving our current operations.

“Both IDF and HBF will be positive in terms of our profitability and our ratios. They are significant in terms of synergy generation.”



“So it has been a success so far. Our wider expansion and quality delivery in food service has been shown in our FAB Awards wins in 2019, where we were proud to be the travel retailer with the most awards.”

Lagardère Travel Retail was among the big winners at The Moodie Davitt Report-organised awards, held in Dallas in June. Of the global prizes it captured Airport Smoothie or Juice Bar of the Year (Naroo, Venice Marco Polo Airport), Airport Casual Dining Restaurant of the Year (Teppan, Paris CDG) and Airport Food Hall of the Year (The Daily DXB, DXB).

The Daily DXB: A vibrant celebration of cuisine from around the world





Vino Volo: Primed for expansion beyond North America (Orlando International pictured)

Leveraging the HBF portfolio is a central target now, with in-house brand Vino Volo primed for potential expansion beyond its 34-outlet North American base.

Rasmussen says: “We have a task force assessing how we can grow Vino Volo in other countries, and we are working on how to adapt it for new

markets. We believe it can expand in EMEA and in Asia Pacific.”

On the impact of HBF and (soon) IDF on profitability, Rasmussen is upbeat. “We cannot give details but both of these acquisitions will be positive in terms of our profitability and our ratios. They are significant in terms of synergy generation.

Lagardère Travel Retail: Pipeline projects

The Paris-based company says that 2020 will be a “record year” in terms of development with over 28,500sq m of development in the pipeline. This will include 2,800sq m at **Rome Fiumicino’s** Schengen Terminal next May, and the opening or upgrade of 24 stores at **Prague Airport**, following the renewal of the duty free concession after a tender.

At **Abu Dhabi International Airport’s** Midfield Terminal, openings will include:

- *Duty free*: 3,000sq m, 13 stores, four new concepts
- *Food service*: 1,800sq m, seven restaurants (one with Chef Todd English; four own brand stores: So! Coffee x 2, Culto, Yasamin and two local franchises: Meat District and The Majlis)

Across the two major Paris airports, the retailer will open 16,700sq m of new space over the next two years

(with the potential of more travel essentials and food service to come):

Paris Charles de Gaulle: 12,000sq m

- *Duty free*: 42 shops across 11,000sq m including: CDG 2E Hall L (S3), four stores, Q1 2020
CDG T1, 15 stores, May 2020
CDG 2E Hall K, nine stores, H1 2020
B/D junction: Six stores, June 2020
- *Travel essentials*: 700sq m including CDG 1: Fnac, January 2020 and CDG T2 B/D Junction: three Relay, July 2020

Paris Orly: 4,700sq m

- *Duty free*: An additional 3,800sq m including a Buy Paris Duty Free walkthrough
- *Food service*: 465sq m including two stores with Chef Anne-Sophie Pic (André, Daily Pic) plus an Itsu restaurant
- *Travel essentials*: Relay stores across 350sq m

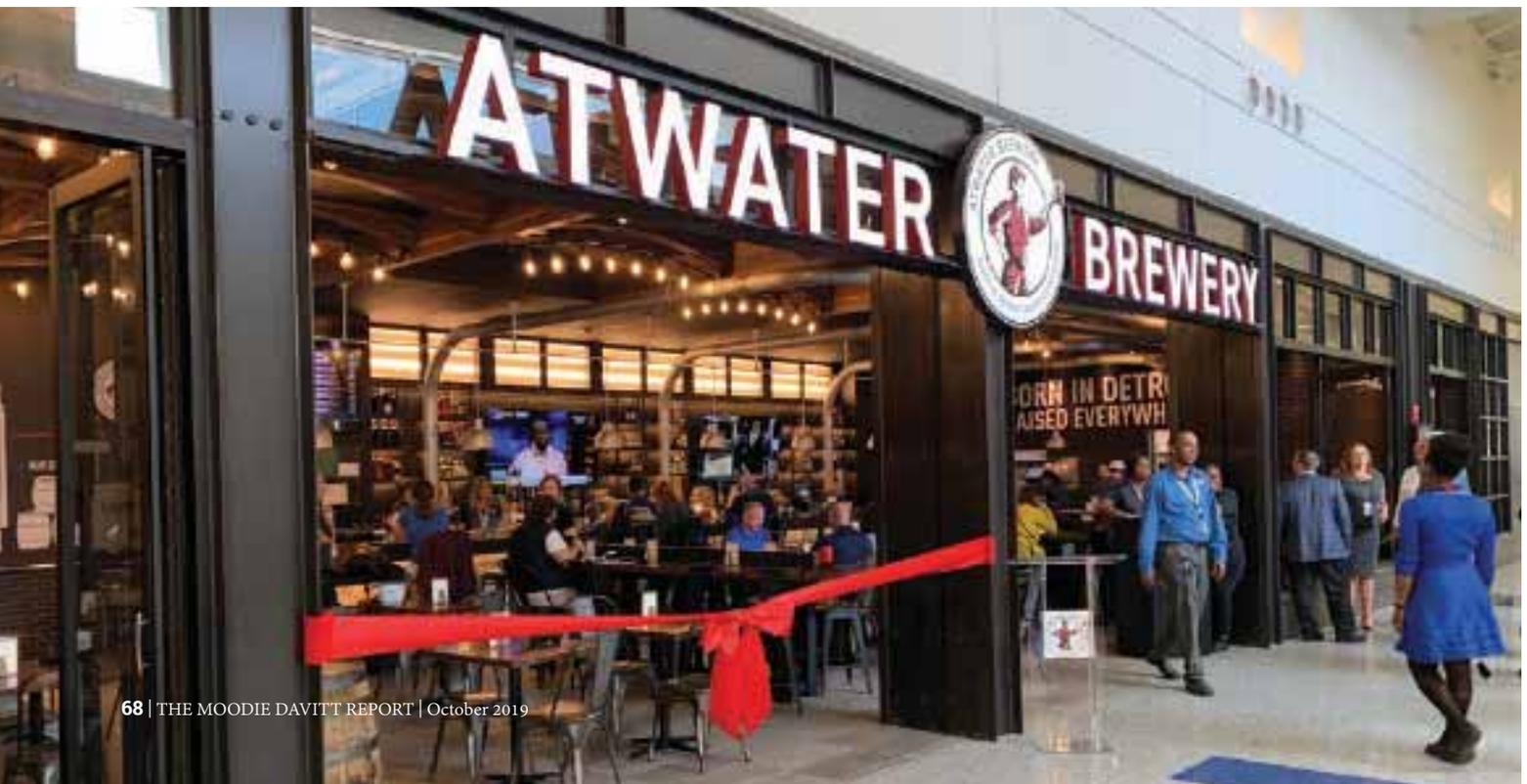
“But acquisition is not the only way forward. We aim for strong like-for-like sales from our existing stores, to gain more territory for our existing platforms, through our three business lines, and to grow via tenders, on which we are active too.”

Rasmussen says there is no grand “number one in the world” target that is articulated internally. “What is important is to have the right size business, to be credible, to have the right relationships in the industry, whether that is in

business development or with brands and partners in F&B, fashion, P&C and so on. I think we have reached that stage now.

“Also what is important is that we have understanding among investors about the strategy, and the full support of [Lagardère Group Managing Partner] Arnaud Lagardère. This allows us to follow interesting opportunities, and helps us when we require capex for renewals and new tenders, as well as acquisitions.”

North America will be a big driver of the company's F&B business (Detroit Metro pictured)



Acceleration of expansion

In its 2019 first-half results the company cited a range of positive and negative influences on trading, with some headwinds such as a changing passenger mix in some locations; labour costs in others, alongside the continuing rise of low-cost traffic and its impact on average spend. With almost three quarters of the year past, how does Rasmussen sum up the big picture for the business this year?

"We have to factor in short-term or seasonal elements such as hurricanes in North America, but broadly speaking the picture is positive. We see a sharp slowdown in business in the Pacific, with some negative market trends. But mostly we see traffic growth almost everywhere, which is a helpful dynamic and mirrors what we saw in the first half.

"We have some major openings coming up, from Beijing Daxing and Shanghai Pudong in China to

Vienna (fashion) and Geneva (at the airport and a new diplomatic store from 1 October); and a positive outlook in like-for-like business."

Other projects to come in 2020 will also generate excitement. "For next year we have many more openings," says Rasmussen. "In duty free we have Abu Dhabi's Midfield Terminal, which should come around mid-year, and Rome with a vast 2,800sq m Schengen duty free store around May. We'll have many openings in Paris, with the B/D connector and new-look T1 at CDG plus 5,000sq m at Paris Orly, and the modernisation at Prague Airport after we won the tender earlier this year."

The Beijing Daxing opening in September represents an exciting opportunity to tap into vast travel numbers at this new airport through 1,100sq m of fashion, beauty and F&B outlets. Brands include Emporio Armani, Gucci watches & jewellery,

The company has made strong gains at Geneva Airport across duty free & fashion, with The Fashion Gallery one of its recent openings



Versace, Pandora, Jimmy Choo, MCM, Kenzo and Tory Burch.

Meanwhile, as reported, Lagardère Travel Retail has been awarded the multi-category retail and F&B contract for the new Satellite Terminal at Shanghai Pudong International Airport, with 30 outlets across 3,000sq m at China’s second busiest airport. Among the brand line-up here will be Emporio Armani, Hugo Boss, MCM, Zegna and Jimmy Choo.

Of the wider China business, Rasmussen notes: “China is unique and must be treated as such. We need to customise our development strategies and how we operate the business. It’s not like you can copy and paste as you might do in other markets. We adapt what we do to suit the market. We want to localise not only our concepts but also our support

functions. Everything we do is run from China.

“Becoming successful there has meant a lot of patience and trial and error. You cannot go there and think you can bring anything less than your best game and your latest ideas and concepts. Some brands sometimes don’t understand the market yet, or the opportunity to access the consumer in duty paid for example. But it is there and it holds strong potential. The customer is changing fast, but so too is the technology. It is fascinating to be involved there.”

On the Duty Zero by cdf joint venture with China Duty Free Group (in which Lagardère Travel Retail is minority partner), Rasmussen says each party has brought much to the table. “We have strong management at Hong Kong Airport today and we work together in a positive way. It is a great opportunity.

Sustainability as strategic priority

The evolution of travel retail today comes against the background of a changing consumer mindset: one that demands that a retailer is not only a seller of brands, but stands for something more.

“One of the biggest priorities we have today is CSR and sustainability,” says Lagardère Travel Retail Chairman & CEO Dag Rasmussen. “The consumer is moving much faster than we are so we must accelerate, as a business and as an industry. We plan to share our ideas on this with airports and suppliers to see how we can work together with them.”

The retailer is giving this much attention internally, and its importance is given a voice at Executive Committee level through Chief Business Officer Ambroise Fondeur, who leads its CSR and sustainability direction.

The company bases its activity in this area around its ‘PEPS’

programme, which is an acronym for Planet, Ethics, People and Social.

“Under the Planet heading, we have a responsibility, from plastic to much else, to take care of our future; it is a business priority not only a planet priority,” says Rasmussen. Key elements include a ban on non-reusable plastic at points of sales by 2025 and -50% less food waste by the same year. It involves reduced energy consumption and a commitment to using local food in restaurants.

He adds: “PEPS also includes Ethics, meaning fair trade for one, but also good business relationships and a clean, honest approach to business. Under People, this is about developing our teams, diversity and ensuring our teams are creative, efficient and grow the company’s image, in line with our customer satisfaction obsession in B2B and B2C. Social is all about how we can contribute to the wider community.”

Lagardère Travel Retail’s CSR commitments

Planet	Ethics	People	Social
<ul style="list-style-type: none"> • Reduce energy consumption of POS • -50% food waste by 2025 • Ban of non-reusable plastics in all our POS by 2025 • Develop local food/products in all restaurants and stores 	<ul style="list-style-type: none"> • Anti bribery • Personal data protection • Fair trade practice 	<ul style="list-style-type: none"> • Equal opportunities • Diversity and gender balance • Disabled persons • Employee engagement • Employee recognition • Training • Employees health & safety 	<ul style="list-style-type: none"> • Charity • Local / Community programmes

Source: Lagardère Travel Retail



“Beyond this we have grown at Hong Kong Airport in food and travel essentials. We recently opened our first store with Monocle and I got probably the best feedback I have ever had from an airport, which praised the design and ambience.

“We have TripAdvisor there too, as elsewhere, and are trying to go to a new level with that partnership. We aim to bring to China the best and most suitable modern brands and executions. We spend a lot of time sourcing the right brands we can for the environment.”

That search for partnerships that can differentiate the offer applies to food service too. At Hong Kong

International Airport, Lagardère Travel Retail last year opened the first two stores under a wide-ranging franchise agreement for global travel with New York gourmet food & beverage brand Dean & DeLuca.

This could extend to 150 travel retail locations over the next five years.

It builds on the range of franchise brands, in-house concepts and other partnerships with which the group aims to challenge for market share in travel dining.

“Globally we are a strong number four worldwide,

Newness in the mix: Monocle (a global channel debut) and Stuart Weitzman at Hong Kong International Airport



but if you look at the quality of what we do, we are among the very best,” claims Rasmussen. “We have a strong central team to recruit new brands, whether it is Dean & DeLuca or Itsu [which will open at Paris Orly next year -Ed] or others.

“We empower our local teams but at the same time we believe we are the only travel retailer to centrally audit hygiene and food safety. That puts a positive pressure on the individual markets as we cannot accept anything but the highest standards. So we are going our own way but it is in the right direction. It is a balanced approach, involving local hero partnerships with chefs; fast casual in-house brands such as Natoo, plus partnerships.”

Converging business lines

Rasmussen has often made the point that the convergence between business lines – food and duty free, duty free and travel essentials or travel essentials and food – is changing. So what might this mean for the airport layout and the store of the future?

“We think that in some small and medium-sized airports that convergence is a must-have. It’s the best way to be able to pay more rent and ensure profitability for the airport while offering the best quality of service. We sometimes challenge for master concessions covering duty free, travel essentials and food. With one team you can lower the break-even point in the contract. Then you have the overlap between food and retail, where we see some evolution.

“We talk to airports a lot about how we see the future of concessions in this regard. It’s one of the issues we have with contracts that are not flexible enough to allow a switch between travel essentials or food or duty free, even if the demand is there for one or the other. So we certainly see convergence and some evolution, though not everywhere.”

Lagardère Travel Retail is adapting to evolving and converging needs where it can, for example among low-cost travellers, with a leaning towards travel essentials and impulse items. At another level convergence can be seen in the overlap between food and retail that Vino Volo offers as both wine bar and shop.

From airports, a higher level of flexibility in space planning is likely in the future, Rasmussen notes, with more square metres allocated to convenience and non-traditional, lower margin but potentially higher volume categories.

“Airports today are competing with each other more and more,” says Rasmussen. “The revenue is obviously important but so too is customer satisfaction. You don’t have the same penetration between travel essentials, food and duty free everywhere. So to optimise satisfaction you need to have the right mix between the three, at least in the offer.”

Engagement with the consumer comes not just in the store of course, but before, during and after via digital platforms. Where is Lagardère Travel Retail on the digital journey today?

Focus on fashion: The retailer’s new luxury store at Vienna Airport (see also our Category Insight supplement)

“First, we don’t want to become an online retailer. It’s not our business and other players do it far better than we ever can. We see digital as a support to our present activity. There are several elements to the approach.

“It allows us to communicate with the consumer throughout the journey. There is a pre-order element, which we offer through Aelia Duty Free. It doesn’t bring much revenue unless we discount, but we have to offer it and we believe it will grow. There are also shop & collect services for the frequent traveller that we manage well.

“But the most important part of digitalisation is inside the store. It serves to give more information to the store staff, from product knowledge to range to exchange rates, and most of all it allows the front line team to tell a story and offer an experience. It also helps ease payment through all of the different methods, and means we can give a better service and engagement at the right level to the customer.”

The right service can only be relevant with the right offer, and here Rasmussen expects more change in the mix.

“Retail is changing and being rethought all the time. We have to ensure the offer is not boring as, frankly, it has been in the past. We want to create that ‘wow’

impression and be different, offering a flavour of the city wherever the shop is located.

“So for me the ‘category’ that will grow is not a product category in the classic sense but Sense of Place. That means a local touch, products that you can only find at one airport and nowhere else, sourced from one country. It runs across categories and can include liquor, fine food, cosmetics, perfumes, tobacco, fashion, anything. Sense of Place in that sense will help compensate for the fall of some other categories that are at risk, I believe.”

As we enter the final quarter of 2019, Lagardère Travel Retail can point to a solid position as a global business and strengths across each of its business lines. In 2018, the group reached €2 billion in managed sales from its duty free & fashion arm for the first time. From travel essentials it delivered €2.2 billion, while F&B continues to grow as the company becomes a challenger on the world stage.

As Rasmussen notes, it is rethinking its formats and proposition and providing ‘phy-gital’ experiences across its network, as its New Age Beauty concept at Paris CDG underlines, and as innovative speciality concepts such as Monocle also demonstrate. Expect more newness in the retail footprint in late 2019 and through 2020, as Lagardère Travel Retail seeks to build on its position as a true global heavyweight. 🇫🇷

Brand showcase:
Lagardère Travel Retail
has established a powerful
position in the European
airport retail luxury market,
led by its Paris CDG presence

BVLGARI

