

Flying off the shelves

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Fresh arrivals: Sales at Croma's seven stores at airports across India have been growing at 17 per cent annually Photo: VV Krishnan

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The tills are ringing loud and clear at airport outlets, raking in more than shops in the city

Circa 2002: Waiting for a flight at the Mumbai Airport is a nightmare. There is just one coffee shop and a long queue to announce it. Your ability to wait out and pay for a cup of coffee will be of no help. If the shop's staff, employees of the Airports Authority of India (AAI), are not irritated by the time your turn arrives, you'll get your coffee. And if you're lucky, it will be hot. Else, your only takeaway from the shop will be a sullen “khatam hai (it's over)”.

The rest of the airport looks equally sad — bare walls, dark corridors and a disinterested ground staff. Carrying a book is mandatory, for there's nothing to browse through — no shops, no food courts — except the pages of the bestseller in your bag.

Fast forward to 2014: from Starbucks and Café Coffee Day to Domino's and Royal Challengers Bar, there is enough to keep you and your taste buds occupied when your flight is delayed. And if you want to shop, your flight better be delayed, for there's Apple, Sony, Emporio Armani, Roberto Cavalli, Croma, Kimaya and a multitude of other brands to take your custom to.

Not surprisingly, airport retail is estimated to be a ₹6,000 crore industry. With 61.42 million passengers travelling by air in 2013 alone, there is an ever-burgeoning market to tap. One that apparently allows some brands to earn almost eight to nine times of what they earn at malls or high-street outlets.

Taking off

Ajit Joshi, MD and CEO of Infiniti Retail, vouches for this upward trajectory. His company sells consumer durables under the Croma brand, which has a strong presence at airports. “Our retail stores at the terminals are doing very well. We have annualised sales of ₹1.27 lakh per sq ft at airport outlets — the highest among all our formats,” he says. Croma currently has seven stores across Indian airports, ranging from 850 to 2,000 sq ft. In contrast, the company's per sq ft revenues from outlets in cities are just about ₹30,000 to ₹40,000 per sq ft.

Café Coffee Day, which opened its first airport outlet in 2001, has opened 33 more since then and is continuing its expansion. “In the last few years, airports have gone through a major facelift, and many airlines are operational today. This has increased the number of air travellers. Airports have good footfalls that result in better sales,” says K Ramakrishnan, the company's president (marketing).

Dipak Agarwal, CEO, operations and strategy at DLF Brands, which include Boggi Milano, Mango, Sunglass Hut, ELC and Mothercare, says revenues from airport outlets are equally high for them — “Productivity at airports is 80 per cent more than street retail.” This means that if a street store is bringing in ₹2,000 per sqft, shops at airport would rake in anywhere between ₹3,600 and ₹4,000 per sq ft. The reason? “Here, stores operate for 24 hours and traffic is much higher than city outlets,” says Agarwal.

The travelling wallet

Customers at airport outlets are often well-travelled and more aware, so their propensity to conclude a transaction is higher than window-shoppers at stores in the city. “We get a wide range of customers round-the-clock, who have time

to spare till they get onboard. It's a great time to pick up I-thought-of-you gifts, souvenirs, guilt purchases and thank you notes," says Dilip Kapur, founder of Hidesign, which specialises in leather handbags and accessories.

Hidesign set up its first airport outlet in India at Hyderabad's international departure terminal in April 2008. It retails at domestic as well as international airports now, and Kapur says, "Overall, we are doing very well, with Delhi and Mumbai leading the pack."

For Café Coffee Day, no-frills airlines have come as a shot in the arm. "There are quite a few budget airlines today that do not essentially offer food and beverages; many travellers like a quick takeaway for their onward journey," says Ramakrishnan.

Siddharth Sahgal, mall mechanic and chief managing officer at the advisory firm, Beyond Squarefeet, points out that 70 per cent of the buyers here are business travellers. "They have time constraints and shop at airports instead of malls. Since they are an educated, focused group of genuine customers, they also act as ambassadors for the products," he says, "Besides, there is a lot of faith in the merchandise that retails at airports as brands do not typically showcase discounted goods."

Temporary turbulence

But if sales are high, so are costs of operating at airports. The rentals are eight to nine times higher than at malls or high streets. Ankur Bisen, senior vice president, retail and consumer products at Technopak, says, "One reason for such high rentals is the acute supply shortage. Since most of the supply is restricted to Delhi and Mumbai, the demand for these travel retail destinations is high." Apart from these two airports, retail space is also being developed at the Bangalore and Hyderabad airports, which have also been privatised. While GVK group operates the Mumbai and Bangalore airports, GMR manages the Delhi and Hyderabad airports.

GVK charges a fixed rent or offers a revenue sharing arrangement with retailers. So a brand that earns well will have to shell out ever-increasing revenue to the operator, if it opts for the latter. Bisen says the choice of revenue model depends on the category and format. A standard rule cannot be applied to say that one model will work better over the other.

Profitability targets can also be hard to meet since traffic has not grown in keeping with projections. The number of passengers travelling by air grew only 4.43 per cent in 2013 after a decline in 2012, according to DGCA.

Besides, the staff has to be paid for operating 24x7 and that doubles salary expenses. Devangshu Dutta, chief executive at the advisory firm, Third Eyesight, says, "The staff deployed at airport outlets is different from high streets because of the better quality of customers walking in and a superior product mix. That is an addition to costs." Moreover, as Kapur says, "Operationally, it requires a good deal of sophistication in dealing with both security and government regulations."

But Sahgal of Beyond Squarefeet believes that good brands can afford such expenses as airports generate high sales volumes. Joshi agrees: "Airport sales more than compensate for the rentals and will only grow faster as more people travel by air." Over the years, airport retailing has been profitable for Croma, says Joshi, declining to detail the financials. Airport sales add two per cent to Croma's total revenue. And while they have been growing at 17 per cent annually, other stores have reported nearly half the growth at 9 per cent.

DLF's Agarwal is not worried about high operating expenses either. "One can take on high costs as airports offer high visibility. It is an investment in brand-building," he says.

Airports, then, are not just retail outlets. They are also the places where brands are built. Croma's Joshi says, "airports get filtered premium customers." And that makes them the best platform to launch the latest products. "You get to tap India's who's who as well as regular business travellers. These buyers are also the decision-makers for their families." Kapur concurs, "We consider airports critical to the development of the brand internationally. We would target all major airports in India and strategically important stores internationally to help us build the brand."

However, airport retail in India has other challenges. Unlike in Singapore, Dubai or London, India doesn't have airports that act as a hub for passengers. "Most of the airports here are not hubs; there is some traffic getting redirected to other locations in the country, but it is just a fraction. Most of the traffic is meant for the destination, leaving little scope for shopping at airports," says Dutta.

Also, there is a lot of low-cost traffic due to tariff dynamics in the market. "We're living with that as a nation of travellers. But it just means that unless you have a real need for something, you won't buy at the airport. And that's a challenge," adds Dutta.

Shubhranshu Pani, managing director, retail services, JLL India, says, "The future of airport retailing depends on how it evolves and how it's positioned. In the West, airport retail is an option for shoppers who have requirements after normal shopping hours. If Indian establishments make 24x7 shopping their USP and airports do away with some of the access restrictions, it would boost their success."

Creating retail spaces alone is not enough. The retail flight will take off only when the quality of customers improves and impulse buying supplements planned shopping.

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