

Kian Gould Interview with Peter Marshall During The Duty Free and Travel Retail Global Summit in Cannes

PART II of III

In this second installment of a three-part video interview, Peter Marshall of [Marshall Arts International](#), and Kian Gould, CEO of [AOE](#), discuss the DNA and USPs of airports, barriers to digitalizing non-aviation revenue streams, AOE's OM3 Suite and dropping spend per passenger in travel retail.

- 1. You talked earlier about how each airport has its own DNA, its own USP. Would it be fair to say that your platform is very much tailor-made for each individual airport? There is no kind of “one size fits all” solution? And of course, this is quite costly. Is the resource in the airports up to speed with what is required to deliver this platform?**

That’s a good question. A few questions actually.

As for the first question, we designed OM³ as a suite. Suite, for us, means that it is a collection of solutions that you can plug-and-play. And, each of those can be customized to that airport’s specific business requirements. Of course, you have a lot of common ground, such as order management, logistics, payment, product information management, search, recommendation – all of that. Those are all individual solutions inside OM³. However, the airport wants their own unique user experience in the frontend, their own workflows, their own locations. They have their own layout of the airport. Sometimes, they already have solutions in place. Heathrow, for example, had a loyalty program, so we integrated with it in real-time. Whereas Frankfurt didn’t have one, so we built it to be integrated with the platform. We can use the facilities the airport already has – we don’t need to do a rip and replace, which is something a lot of airports would be afraid of – and we integrate it into the ecosystem of the airport.

Some airports underestimate the costs to roll out a solution, integrate it with 30-plus retailers and all of their systems – which are often legacy, which are often not fully real-time and so on – plus, integrate it with the flight information system, the loyalty system, the CRM, the BI, etc. However, if you do it right, the return on investment can be accelerated. For example, in Heathrow, we are going to see the return on investment of the first release of the platform within twelve months. This is of course based on the maturity that airport already has in communicating with its passengers. If you’re starting with zero, that ROI takes longer. But if you are starting somewhere, that ROI can be strongly accelerated.

- 2. Where have the barriers been? Where have your challenges been? Is it because that many of the internal resource within the airport, especially IT, get upset because the idea wasn't invented there? And, maybe, they haven't got the far-reaching experience that's required to deliver this and therefore construct barriers? Or is it because there is a lack of vision amongst airports? Because they think the cost is too high. Based on what you've said about Heathrow's ROI, for a lot of developed airports that's a no-brainer. A one-year return is a no-brainer. Seven or eight years they may think about. Reasonable term would be about three years for a medium-sized airport – not the size of Heathrow. Would that be fair?**

Typically, we calculate the ROI on a couple of numbers that are pretty consistent across airports. It's how many visitors do you have to your website and app; how many passengers do you have overall? How many transactions are you already doing potentially on parking and things like that.

From that, we can interpolate how many transactions we can generate. Once you do that and look at what the brand mix is, what the retail spend average is, we can figure out what the most likely average basket value will be online. From that, we can calculate the ROI. From what we have seen, if it's an airport with 30-40 million passengers, the ROI is typically within three years or less. If it's a smaller airport, it can be five years. However, one thing that isn't even considered in these ROI calculations is what you as an airport can do to acquire more traffic onto your platform. Do you maybe have a hub airline, which has stopped doing in-flight duty free and is willing to do an integration where they get a small commission and, in return, in every E-Mail they send for check-in reminders, etc. they actually promote your platform? That is when we have been seeing massive results and conversion rates that are much, much better than what you can get from an airport website visitor who only wants to look at the flight information and then stumbles across that the airport is also doing E-Commerce.

- 3. This business is slow to move. Do you feel, compared to the domestic market, and some of the major online operators, is that the business (airport, travel retail), is significantly behind? We almost act like dinosaurs, because the marketplace has been so cocooned for such a very long time. How can they harness the technology quicker and buy into what you are offering?**

As a previous outsider to the industry, I noticed quite early that the travel retail industry is really a protected bubble to some extent. Spend per passenger is dropping almost everywhere across the board, whether inflight or at the airports (except at a few major hubs, where we are still seeing increases in spend per passenger), but it's all been cushioned by the fact that we have massive passenger growth globally. Even if a geopolitical event causes one airport to suffer, others will benefit. So, overall, the industry has been growing, but it has been far behind its potential. Just to give you an idea: The average spend per passenger on a global scale was only about eight to nine dollars in 2017. That same passenger roughly spent about 580 dollars on E-Commerce elsewhere and more than 6,000 dollar in retail elsewhere. So, that is kind of the pie that we are talking about that we are targeting. And, of course with the airports and retailers always having considered purchasing at an airport an impulse purchase, that is actually declining significantly. Opening us up to the idea, "Hey, people are actually planning what to buy, so let us help them what to buy before they come to the airport – weeks before, days before, hours before – it opens a completely new arena for them.

4. So the golden hour becomes a golden week or month?

Exactly. However, a lot of passengers are not aware of that possibility yet. This is what has been our challenge. If we were live at all airports, we would see huge sales across the entire ecosystem. But, because we are still pioneering, if you asked 50 million passengers at an airport, probably only one percent of them would even know that the airport offers such a service. That's the challenge.

5. Most of the airports you are speaking to are operating a wait-and-see policy. But, certainly the figures from Heathrow, the growing figures from Auckland and Frankfurt should tip them into conversation with you that is actually more robust and meaningful. Perhaps, when online retail sucks up 20-25 percent of the airport business, and is directly seen to be cannibalizing it, there might be a serious wake-up call, but then it is almost too late. And, 75 percent of the remaining business isn't enough – given the demands of the infrastructure and so on from the airports.

That's one way to secure retail sales, but what you have to keep in mind is that what we are building for these airports is not just another channel for selling, it's actually a way to know the passengers for the first time. This is absolutely crucial. I strongly believe that advertisers will be less and less willing to spend for billboards at an airport that are not personalized. They will be much more interested to speak to 200 passengers that have shown a certain behavior, that fly in a certain class to a certain destination, and market to them directly.

As an airport, to accumulate that sort of data will be much more valuable than the concession fees that you can generate from incremental sales to these passengers. This brings me back to the point you asked earlier about "Are the airports ready for it?" Many of them are not yet and they have to build this know-how internally – because, in the end, E-Commerce is no "auto play" whatsoever. It's something that needs attention, it needs to be fostered, it needs to be marketed. You need to look at "how can I personalize to my passengers?" "How can I market to my passengers?" "What promotions work with which groups?"

The potential that you have, where I can send a very targeted message to only 50 of my passengers and I will get a conversion rate of 30 percent because it's so targeted, is completely different from these mass activations that you see in retail stores. These only work for a tiny fraction of the passengers running through that store.

6. So it's narrowcast with less wastage effectively?

Yeah.

Read more about Omnichannel E-Commerce in Travel Retail in the transcript of Parts I and III of Kian Gould's interview with Peter Marshall.