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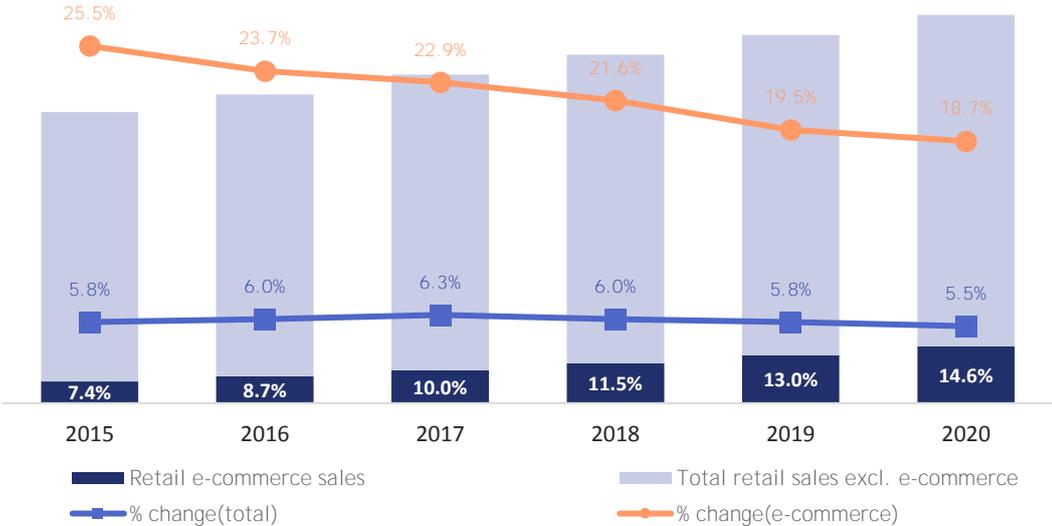
## Research Paper for YEA 2018

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# Introduction - Growth in the E-commerce Market

The e-commerce market is experiencing remarkable growth. As shown in Chart 1, in contrast to an expected growth rate of 6% in the global retail market, e-commerce has posted an astounding growth rate of 20%, and is estimated to comprise 10% of the entire retail market in 2017. Yet concerns persist in regard to changes in consumer buying patterns due to increasing e-commerce on the internet and resulting in falling sales in "bricks-and-mortar" shops.

■ Chart 1: Worldwide Sales and Growth Rates for Total Retail Sales and E-commerce Sales



Source: eMarketer, Aug 2016

Observation of this trend has led Japanese retailers to place more expectations on the spending by the foreign visitors to expand with the increase in number of visitors to the country; indeed, the economic impact of inbound traveler’s purchases has grown year by year not only at retail complexes in town but also at Narita Airport where more than 50% of the passengers today are from overseas.

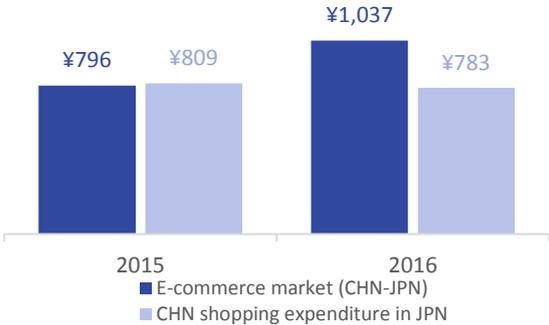
According to “Japan Tourism Agency” surveys, total spending by visitors to Japan increased 7.8% over the previous year to 3.7476 trillion yen<sup>1</sup> in 2016. However, if we exclude the amount of spending on items such as accommodation, dining, transport, and entertainment, etc. and focus on shopping expenditure alone, the total is 1.4261 trillion yen (or 12.96 billion USD)<sup>1</sup>, a fall of 1.9% from the previous year's total of 1.4539 trillion yen (or 13.22 billion USD)<sup>2</sup>. Sorted by country and area of origin, etc., Chinese travelers contributed for more than 50% of the total amount on shopping, but their shopping expenditure in 2016 fell by 3.2% to 783.2 billion yen (or 7.12 billion USD)<sup>1</sup> compared to 808.8 billion yen (or 7.35 billion USD)<sup>2</sup> in the previous year. Although there were over 20% more<sup>3</sup> visitors than in the previous year, a declining trend in shopping was observed, and this has put the brakes on the excessive expectations in inbound travelers spending.

In contrast to concerns of a slowdown in inbound travelers spending growth, shopping beyond their national boundaries has become simpler and more robust, and the market is growing in scale year after year thanks to the growing availability of global cross-border e-commerce sites. Chinese consumers are the leaders in inbound

<sup>1</sup> Consumption Trend Survey for Foreigners Visiting Japan - Annual Report for 2016, Japan Tourism Agency  
<sup>2</sup> Consumption Trend Survey for Foreigners Visiting Japan - Annual Report for 2015, Japan Tourism Agency  
<sup>3</sup> Visitor Arrivals by Country/Area and Purpose of Visit 2016 (Provisional Figures), Japan National Tourism Organization (JNTO)

traveler related sales but also demonstrate a large presence in global cross-border e-commerce. According to statistics by the “Ministry of Economy, Trade and Industry”, the total amount of Japanese goods purchases from Japan by general consumers in China in B-to-C transactions via cross-border e-commerce grew 30.1% from 796.2 billion yen (or 7.24 billion USD) in 2015 to 1,037 billion yen (or 9.42 billion USD) in 2016 (refer to Chart 2); the results already exceed the aforementioned shopping expenditure by Chinese visitors to Japan both in terms of growth rate and market size. Viewed globally, the size of the cross-border e-commerce market in 2016 was valued at 400 billion dollars, 31.6% more than the previous year, and a growth rate of between 20% and 30% is expected until 2020 (refer to Chart 3).

■ Chart 2: Cross-border E-commerce Market Sizes between China and Japan versus Chinese shopping expenditure in Japan in billion yen(2016)



Source: Infrastructure Development for a Data Driven Society in Japan in Fiscal 2016 (Market Survey of E-commerce Transactions), Ministry of Economy, Trade and Industry

■ Chart 3: Global Cross-border E-commerce Market Size in billion USD and Growth Rate



Source: Infrastructure Development for a Data Driven Society in Japan in Fiscal 2016 (Market Survey of E-commerce Transactions), Ministry of Economy, Trade and Industry

In operating our retail business at airports, we will continue to target passengers with our selling in our existing facilities but we will not be able to avoid the impact of the shifting trend in consumer activity away from "bricks-and-mortar" shops to "virtual" shops on the internet. That being the case, airports should take advantage of our favorable locations as the first and last ports of call for passengers and proactively devise strategies that will enable us to engage and prosper alongside the e-commerce marketplace so that we can tap into the growth in e-commerce purchasing and achieve sustainable growth.

# 1. Adapting to diversifying “Omni-channel Retailing” opportunity to tap on “Pre-travel Consumers” Demand

## 1-1. Outlook for the Inbound Travelers’ Purchasing Trend Consumption

As mentioned earlier, inbound travelers purchase has slowed down recently. This is especially the case with mainland Chinese travelers, the largest spenders, and it can be attributed mainly to unfavorable currency exchange rates<sup>4</sup> as well as increases in import tariffs overseas and more stringent Customs inspections and controls<sup>5</sup>, leading to decreased purchase of higher priced items, which appear relatively less inexpensive and affordable.

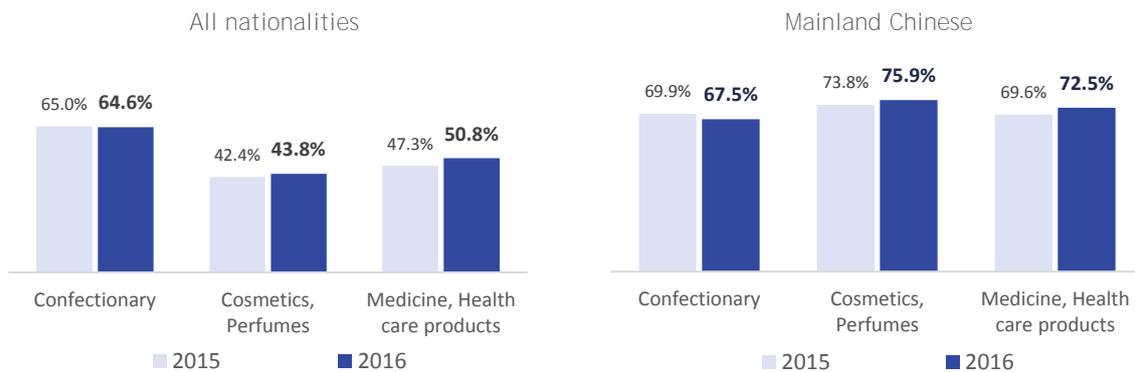
In contrast to that, purchases remained favorable in food items and cosmetics as well as pharmaceuticals and

<sup>4</sup> The exchange rate in 2015 was 20 yen to the yuan but fell to 15 yen to the yuan in 2016.

<sup>5</sup> Import tariffs imposed on personal items are known as personal postal duty. In the changes introduced on 8 April 2016, this system was amended and the four levels (10%, 20%, 30%, 50%) were replaced with three levels (15%, 30%, 60%). Duty was increased from 30% to 50% for high quality wristwatches, 50% to 60% for cosmetics, tobacco products and alcohol, and 20% to 30% for electronic devices. (Source: Cross-border E-commerce in China, February 2017 edition, Japan External Trade Organization (JETRO))

other daily necessities, as shown in Chart 4.

■ Chart 4: Purchase Ratios by Item



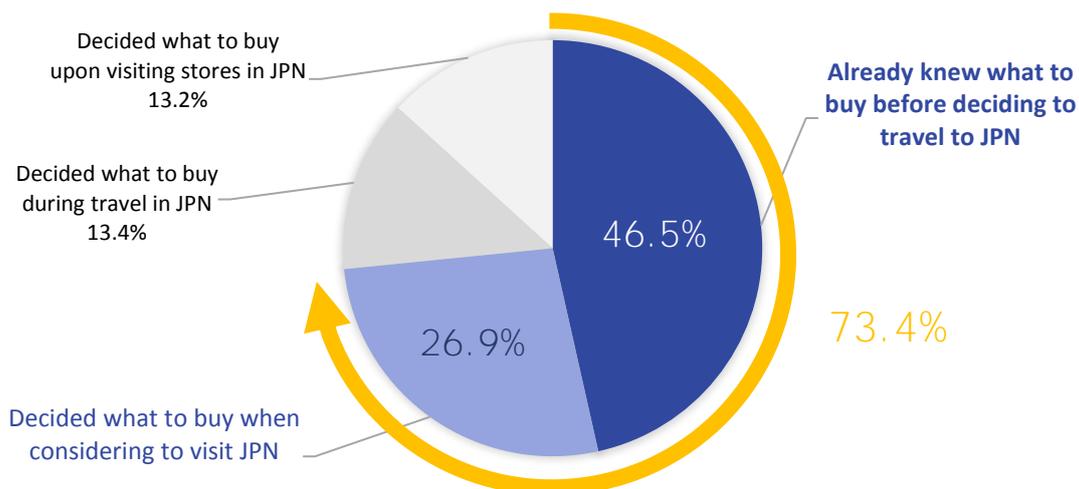
Source: Consumption Trend Survey for Foreigners Visiting Japan - Annual Report for 2016, Japan Tourism Agency

The rise of global cross-border e-commerce has greatly lowered the barriers to purchase products sold overseas directly from their homes. However, it has to be noted that duty and other handling charges are added to the purchase price, and the variety of merchandise line-up is still limited. That said, it can be assumed that there still is enduring demand and attraction for travelers to engage in leisurely shopping in travel destinations.

### 1-2. Travelers Has Shopping List Before They Start Travel

An internet survey reveals a particular purchasing pattern of visitors to Japan: travelers draw up a "shopping list" before leaving their homes. The survey was conducted by an advertising and research firm, Hakuhodo Inc., based on the responses gathered from people who had visited Japan from mainland China, South Korea, Taiwan and Hong Kong—the largest groups of visitors to Japan. The results show around 70% had decided on the items they would purchase before they left for Japan (refer to Chart 5).

■ Chart 5: Timing of Purchase Decisions



Source: Hakuhodo Inbound Marketing Lab - Results of Survey of Chinese Consumer Trends in Japan During the Chinese New Year, 10 July 2015 media release by Hakuhodo.

Modern travelers make full use of a wealth of information largely available on the internet prior to visiting Japan. They are now able to check product information and reviews from travel information websites and multi-lingual online stores; some may opt for weblogs and social networking services to learn from personal experiences of

family, friends and acquaintances on how to optimize their “shopping list.” By “web-rooming (showrooming on the web)”<sup>6</sup> across international boundaries, the majority of travelers identify the products that suit their needs and decide on their purchases before they travel. These changes in purchasing patterns could present a concerning outlook for airports: travelers will allot a smaller share of their budget to airport shopping.

If shopping decisions are made in advance, then travelers will identify the shop locations where they can purchase the desired items in advance. Conventionally, popular shopping destinations include department stores and retail outlets situated in tourist areas, or large-scale outlet malls in the suburbs; airports are also one of them because travelers can purchase cosmetics, alcohol and tobacco products, etc. at duty-free prices.

Recently, retailers in Japan have gone beyond providing conventional services and started adding more relevant content and supplementary services such as multilingual support for inbound travelers on their e-commerce sites. The improvements in online retail platforms have allowed travelers to plan shopping and even engage in shopping on a “pre-travel” stage. For example, the tourist-favorite retailers such as Don Quijote<sup>7</sup> and electrical appliance chains such as Bic Camera<sup>8</sup> have launched services in which items can be reserved in advance online and collected at a specified branch when travelers visit Japan.

This type of sales is referred to as “Buy Online, Pickup In Store (BOPIS)” and has been popularly adopted by bricks-and-mortar retailers as a means to tap into demand in the growing e-commerce market and to compete with the e-commerce giants such as Amazon. It also provides a convenient solution for travelers with limited time to collect their pre-ordered purchases efficiently in an unfamiliar destination.

Traditionally, airports have differentiated their retail facilities from off-airport retailers by offering convenient shopping environment for last-minute shoppers returning home through providing a wide array of duty-free items and souvenirs. However, airport retailers will face a harsher competition as these e-commerce sites improve its service and become more commonly used by inbound travelers, allowing them to make shopping choices and even purchases at an earlier stage of their itinerary or before their trips. In the product categories where there is no clear differentiation between off-airport shops or e-commerce operators, we will likely see an increasing number of cases where passengers have already purchased the items on their “shopping lists” and used up their shopping budgets when arriving at the airport for their journey home.

### **1-3. Tapping into Travelers with Pre-travel Shopping List and Desire (Needs) for Assistance at the Airport**

There is a room for airports to expand their commercial opportunities by devising strategies to capture the needs of travelers with pre-travel shopping-lists and encouraging travelers to shop for their listed items at the airport or if travelers could not fill their shopping lists before traveling.

One way to do this is to encourage retailers which have already established wide recognition among inbound travelers as well as strong presence in both bricks-and-mortar and virtual e-commerce markets to set up a systematic sales scheme at the airport. The previously mentioned Bic Camera opened its “Air BICCAMERA”

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<sup>6</sup> A type of shopping in which the consumer searches the internet for product prices and information and makes a purchase at a bricks-and-mortar store rather than online. This is the opposite to “showrooming” where the consumer checks the product in a bricks-and-mortar store but purchases the item on the internet.

<sup>7</sup> Don Quijote Opens Global Shopping Site on 9 February 2015 (Mon) - More Services for Tourists Visiting Japan before Chinese New Year! Press release of 4 February 2015.

<sup>8</sup> How to order on the net from Bic Camera and collect the item in the store  
<http://www.biccamera.com/bc/c/info/order/shop.jsp>

store in Terminal 2 at Narita Airport in November 2016, and their sales have since exceeded expectations. According to the shop, not an insignificant amount of revenue stems from online sales; quite a few travelers place orders on its multi-lingual online shop and pick up their pre-order merchandise when they depart from Narita Airport.

In exchange for allowing over-the-counter delivery and collection service at the airport, BIC CAMERA is asked to include the amount of such commercial transactions as revenue of the airport shop so that the boosted sales from online transactions leads to increased profit for the airport, who collects an agreed percentage of revenue as concession fees. As an airport, there is another expected positive impact; because passengers need to stop by the shop to collect their ordered items, they would also be encouraged to visit the airport's retail area, allowing other tenants to market new customers who may not have showed up without the service.

For the retail tenants, having a shop at the airport means gaining another contact point with travelers, creating further opportunities for incremental sales. Contact with customers does not end with the delivery of the online order; when customers visit the shop to collect their orders, they will engage in face-to-face conversation, which presents additional opportunity for sales representatives to recommend related products and increase sales revenue. This effect is called the O2O (Online to Offline) in which the customer is directed to a bricks-and-mortar shop via e-commerce. The reverse effect can also be observed, where customers visiting the airport shop are encouraged to shop online in the future.

Utilizing this type of sales opportunity or “omni-channel<sup>9</sup> marketing” has become an important strategy in creating contact points with modern customers who make purchases through various means; airports need to keep this in mind when reaching out to travelers.

The combination of online sales and airport pick-up service also benefits passengers with increased convenience; they are now able to allot sufficient time to browse through the various merchandises and compare prices at home before making a purchasing decision and also able to spare the hassle to carry around the purchased items while travelling by collecting the orders at the last moment before departing.

The duty free shops, the major sellers at airports, are ones of the early adopters of this type sales methodology. An increasing number of duty-free companies accept advance orders for duty-free items on their e-commerce sites and deliver the orders to designated locations at airports for pick-up before passengers board flights.

South Korea's Lotte Duty Free, one of the largest travel retailers in the world, has been quick to adapt to this trend and successfully expanded the share of online sales of duty-free items. In 2016, 24% of their sales revenue were brought from online and has contributed to the business growth<sup>10</sup>. Due to the government policy, the duty-free items that can be sold online are restricted to perfume, cosmetics and some fashion items only; moreover, face-to-face sales at bricks-and-mortar shops still remain in main stream. Nevertheless, the retailer finds the value of e-commerce sales in its ability to offer promotions and competitive prices because they can approach the consumers directly, not through sales agents.

The airport duty-free operators in Japan<sup>11</sup> have also launched online sales platforms which allow travelers to

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<sup>9</sup> Omni-channel: A situation in which the customer can search for and purchase products in a real shop, through a catalogue, computer or with a smartphone or any type of channel at all without being conscience of the differences in the individual channels (Source: Omni-channel Words that Get Dentsu Into Trouble, Dentsu Report (10 July 2015) <https://dentsu-ho.com/articles/2710>)

<sup>10</sup> The Moodie Davitt Report (10 Feb 2017), Powerhouse performance in 2016 propels Lotte Duty Free's global ambitions <https://www.moodiedavittreport.com/powerhouse-performance-in-2016-propels-lotte-duty-frees-global-ambitions/>

<sup>11</sup> Duty-free shop operators at Narita Airport: NAA Retailing Corporation, Japan Airport Terminal Co., Ltd., JAL-DFS Co., Ltd., ANA Trading Duty Free Co., Ltd.

order selected duty-free items and collect them at their airport shops before boarding the flight. We expect to see further growth in this type of operation when a broader range of products are made available for purchase online and when it becomes more widely recognized among travelers.

The commercial opportunities of airports may remain limited to their physical capacities unless airport operators undertake large-scale projects such as building new terminals and developing business opportunities outside the existing airport boundaries. However, by employing the sales methodology relevant to e-commerce, airports are able to again reach out to the customers who have shifted their attention to digital platforms and capitalize on the growth of the e-commerce market, allowing the business to sustain growth. It is worth noting that Air BICCAMERA sales per square meter out-achieved those of other shops of a similar size, and it is not difficult to explain why the shop is more successful: they have an edge in capturing sales opportunities beyond the limited space of the bricks-and-mortar shop.

#### **1-4. Optimizing the Commercial Environment to Suit the Needs**

If airports are to expect the volume of online purchases and subsequent airport pick-ups to grow, the airport retail set-up must be optimized to accommodate such services. The first priority would be to make changes to the retail facilities so that there are sufficient merchandise holding space and delivery counters.

Airports can also promote the convenience of “pre-travel” shopping and airport-pickup on their websites by adding a dedicated section where prospective passengers can easily spot the shops that offer such services. It will also become necessary to fully utilize various media such as travel magazines and social network services in order to improve the recognition of the new style of airport shopping.

Ultimately, an airport operator itself could opt to own and operate its own online shopping platform as Frankfurt Airport already did. Frankfurt has recently established an E-commerce market place where selected products from various airport retailers are integrated into one platform, allowing passengers to place an order on the airport e-commerce site or application and then collect them at the designated shops or have them delivered to the departure gate or their home. It took tremendous effort to develop the system but this cutting-edge initiative has made the airport’s commercial offerings more accessible to passengers in various stages of their journey, including the “pre-travel” stage, and also widened the opportunities for the airport to gather data and optimize the shopping experience based on passengers’ shopping behavior patterns<sup>12</sup>.

As mentioned earlier, airports may be better off with inviting retailers that already own strong e-commerce business channels to operate bricks-and-mortar shops at airports if there are existing competitive players who know how to market to travelers; after all, building an online sales platform from scratch and promoting it may involve a large sum of investment which not everyone can afford. In either way, the key to win the share of traveler’s shopping budget is for airports and retailers to cooperate in creating a sales environment that lives up to expectations and needs of contemporary travelers, who like to decide what and where to buy at an earlier stage than ever before.

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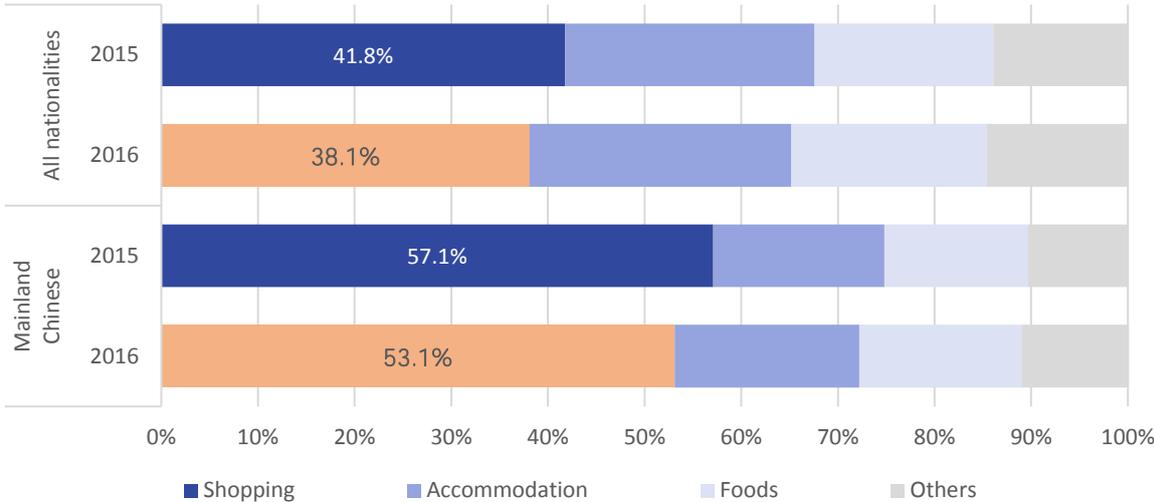
<sup>12</sup> AOE, Frankfurt Airport: From Airport to global Omni-channel Travel- and Shopping Hub <https://www.aoe.com/en/clients/frankfurt-airport.html>

## 2. Tapping Into Travelers Needs to Place Order During Their Stay

### 2-1. The Transition from Spending on Items to Spending on Experience

The growing interest for Japan and increased spending on cultural experience are observed among increasing number of repeater travelers to Japan; accordingly, tourism in regional areas of Japan are experiencing growth. According to the Japan Tourism Agency<sup>13</sup>, spending on shopping maintained a high ratio of 38.1% of travel expenditure in 2016 but was down 3.7 points on the 41.8% recorded in 2015 (refer to Chart 6).

■ Chart 6: Expenditure on Travel by Nation and Item



Source: Consumption Trend Survey for Foreigners Visiting Japan - Annual Report for 2016, and Consumption Trend Survey for Foreigners Visiting Japan - Annual Report for 2015, Japan Tourism Agency

Further, the ratio of respondents who named shopping as the primary point of interest before visiting Japan has shrunk from 17.0% in the previous year to 14.4%. On the other hand, a growing number of people expressed interest in visiting natural and scenic destinations, experiencing the four seasons, and participating in cultural and intellectual activities, which are often available outside of urban areas. In fact, the increase in the number of visitors is seen across Japan beyond major cities such as Tokyo and Osaka; there has been a particularly significant growth rate in guests staying in Kansai (excluding Osaka, Hyogo and Kyoto), Kyushu, Okinawa and Shikoku<sup>14</sup>.

With frequent flights arriving and departing to and from countries and regions around the world, Tokyo and Osaka (and their airports) continue to serve as the gateways for tourism to Japan. However, it can be foreseen that less time and money will be allocated to shopping activities when there is a shift from spending on shopping to spending on experience as well as a shift of travel destinations from urban cities to regional areas. It is quite possible, therefore, that this will result in a slowdown in spending not only at stores in large cities but also at airports. How would airports adapt to these changes in traveler’s behavior and mindset and maintain retail sales momentum? Here too, taking advantage of the airport location and e-commerce services becomes vital.

### 2-2. Travelers See E-commerce as a Reliable "Shopping Assistance Service"

As discussed in the previous paragraph, pre-travel shopping via online platforms is set to become more common

<sup>13</sup> Refer to Footnotes 1 and 2

<sup>14</sup> Consumer Trends and Needs of Visitors to Japan - Observations of Survey Results (December 2016), Japan National Tourism Organization (JNTO)

among inbound travelers as Japanese retailers improve and expand their e-commerce services. These e-commerce sites can be extremely useful in eliminating barriers for travel shopping not just in the pre-travel stage but also during travel when travel shoppers with time constraints may experience inconvenience in shopping in unfamiliar settings.

For instances, imagine a situation where a traveler has a shopping plan in mind but the main purpose of the trip is to unwind in a hot spring resort situated deep in the mountains; it may not be easy for him or her to allot sufficient time for downtown shopping in the itinerary in just a few days of holiday he or she managed to secure, away from hectic work life. Or perhaps a traveler has passed by a glamorous show window where she or he finds something nice but bulky; since she or he is taking public transport to hop around regional cities to visit temples and scenic sites, it may not be the best idea to carry around a large bag during the journey; regrettably, she or he had to forgo shopping. Such sales opportunity losses may occur more frequently when travelers place a lower priority on shopping activities and experience inconvenience during journey.

However, it is possible to prevent this loss by utilizing multilingual e-commerce services with “buy online and pickup in store (BOPIS)”<sup>15</sup>; when travelers browse items at a shop, they no longer need to make a rushed purchasing decision; they can later go back to a hotel, sit down, thoroughly compare prices and quality online, and place an order for in-store pick-up or express delivery. This kind of shopping behavior known as “show-rooming<sup>6</sup>” is commonly seen and preferred among modern consumers today; with the help of the e-commerce services, it can be done even during journey abroad. How convenient would it be if travelers are given the option to pick-up their orders at the very last place they know for sure they will visit—an airport.

### **2-3. Promoting Hands Free Travel with an Online Purchase Pick-up Concierge**

In earlier paragraphs, suggestions are made on how inviting retailers that has a strong online sales platform to become airport tenants may help address the needs of inbound travelers. However, given the limited retail space and difficulties in reaching business agreements, it is difficult to cover all categories of products that travelers seek within the existing premises. Moreover, retailers with strongest sales networks in the e-commerce marketplace do not always operate bricks-and-mortar shops. How do airports set a new framework to fill this gap in anticipation of greater use of e-commerce by inbound travelers? Setting up an “Online Purchase Pick-up Concierge” may be an answer: with the suggested new initiative, travelers are able to pick-up majority of products ordered online at airports.

In fact, airports in Japan already function as a pick-up point for merchandise and baggage but in a limited way. Under the leadership of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), various service providers are moving forward with the Hands Free Tourism initiative by making the best use of the existing logistics networks and services in place today<sup>15</sup>. This policy aims to offer greater convenience in traveling Japan and thereby improve traveler’s satisfaction.

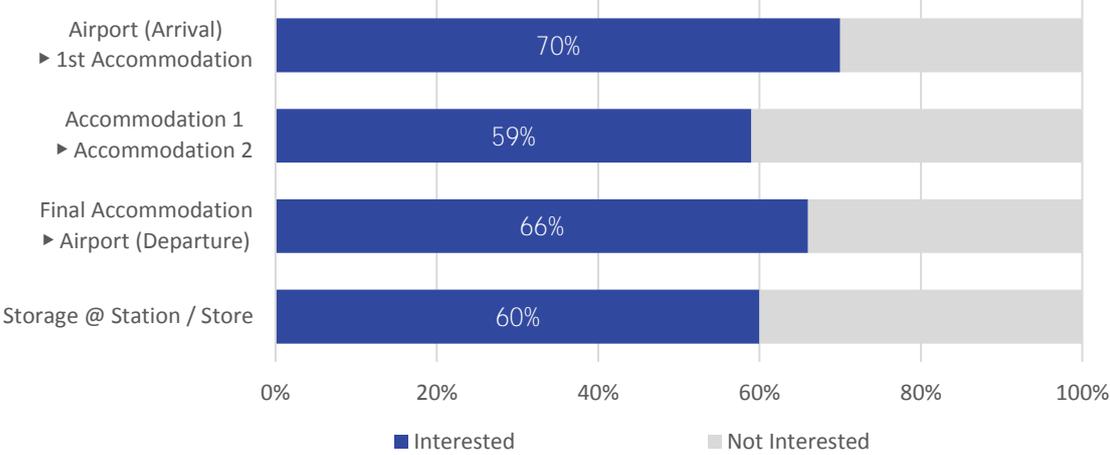
A survey conducted by the MLIT revealed that same-day delivery from the airport on arrival to accommodation is the most sought after delivery service (selected by 70% of respondents). Subsequently, around 60% of respondents indicated that they would want to use same-day delivery from one accommodation to another, same-day delivery from final accommodation to the airport, and temporary storage at a station or retail facility (refer to

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<sup>15</sup> Hands Free Tourism Promotion Council, Ministry of Land, Infrastructure, Transport and Tourism

Chart 7). From the results of this survey, we can interpret that travelers are eager to relieve themselves from the stress of carrying luggage around so that they can make optimum use of their limited time while moving between places.

■ Chart 7: Interest with Same-day Delivery Service



Source: 1st Session, Hands Free Tourism Council, Ministry of Land, Infrastructure, Transport and Tourism, 24 December 2014, Reference Data 3. Progress of Studies to Date and Current Fiscal Year Initiatives for the Promotion of Hands Free Tourism

Some logistics operators are already taking part in this initiative and are working with certain tax-free stores, department stores and mass retailers to enable delivery of purchased merchandise to accommodation or to designated airport counters for pick-up<sup>16</sup>. However, with the former, travelers still need to carry the delivered items from accommodation to the airport or to the next destination; even with the latter, travelers are still expected to stop by a conventional shop to make purchases. While these services offer a certain level of hands-free convenience to travelers, they are under-recognized because each logistics company or retailer offers the type of service individually through different platform.

Therefore, there is a greater room for airports to step in and proactively participate in the Hands Free initiative. The concept of the Online Purchase Pick-up Concierge is to integrate the existing delivery services to allow for easier recognition of the services and to encourage a broader range of retail operators, including online players, to deliver purchases to airport for the convenience of travelers who seek Hands Free Travel.

Realistically speaking, massive efforts and resources required to forge partnership agreement with each individual retailers on such service may make the concept seem unachievable. However, given that airports often act as logistic network hubs, airports may opt to form strategic partnerships with major logistics companies that are based at airports. At Narita Airport, there are already logistics service providers which offer delivery of suitcases and luggage from homes or accommodation to the airport for pick-up at service counters in the passenger terminals<sup>17</sup>. The Online Purchase Pick-up Concierge can simply extend on the existing services and develop them further.

Japan's major delivery companies, Yamato Transport and Sagawa Express, provide delivery services for a number of e-commerce operators and offer customers the option to pick up purchased items at their branches or major convenience stores in town. Airports can work with these companies to “add” the delivery pick-up points

<sup>16</sup> Seino Holdings Co., Ltd., 3rd Session of the Hands Free Tourism Promotion Council (26 March 2015), Reference Data 5. Cooperation with Duty Free Stores

<sup>17</sup> Companies offering luggage delivery services at Narita Airport: Yamato Transport, Sagawa Express, JAL-ABC, KTC Co., Ltd., etc.

within the terminals and further extend their already-extensive in-town delivery networks to airports; by forming strategic partnership with delivery companies, airports get linked to countless e-commerce players indirectly and thereby allow a wider range of products to be delivered and picked up at the airports.

On the airport side, to begin with, the Online Purchase Pick-up Concierge collection counters must be set up in locations that can be easily found and accessible even for foreign travelers. Multilingual capable staffs must be placed to provide adequate face-to-face service. It is also desirable to secure adequate space for travelers to organize and pack items that have been picked-up. Ancillary services and equipment may be needed such as a weight scale to check the weight of the luggage; for those with overweight luggage, the Online Purchase Pick-up Concierge may provide a cardboard box for packing and subsequent delivery service for a fee. Airports could also generate secondary revenue by selling large suitcases and carry bags, etc. Ideally, all these baggage and delivery associated services are integrated at one location so that travelers can easily recognize and take advantage of the convenience of the Online Purchase Pick-up Concierge.

#### **2-4. “Online Purchase Pick-up Concierges” Drive Purchase to the Airport**

Unlike the retail tenants who own online sales platforms, the Online Purchase Pick-up Concierge would not directly generate profits from increased transaction in the e-commerce marketplace. The revenues of the Concierge service would be derived mainly from handling charges agreed between logistics operators and also the sales of the ancillary services and items; unless the agreed rate is set high, the direct contribution to airport revenue would not be substantial. However, the Concierge service has a potential to create an opportunity for airports to attract the interest of travelers who may have shifted their shopping focus from conventional stores to online portals and redirect some of their attention back to airport retail market.

For example, when consumers place an order online, notification emails are sent out to confirm the order and delivery address, etc. Here, airports can use a little creativity; rather than simply including the address of the pickup point, airports can add a precautionary message such as "check your pick-up point at the airport" or “arrive early to collect your items” and include a link to a special website detailing how to locate the Online Purchase Pick-up Concierge and procedures for pick-up. Most shoppers would not miss the message and the link because they would not want to get lost in the unfamiliar terminal and fail to receive the items they have longed for. The simply email notification also creates the perfect opportunity for airports to approach these passengers and entice them to shop at the airport.

While providing information to navigate through the passenger terminal, the special website can also offer information on discounts, product recommendations and shop descriptions, and thereby encourage travelers to shop at the airport's retail shops. More personalized web marketing would be ideal: if it is possible to customize the content and display relevant information based on browsing logs, languages, etc., airports would be more likely attract those online shoppers to shop at the airports after they pick-up their item at the Concierge.

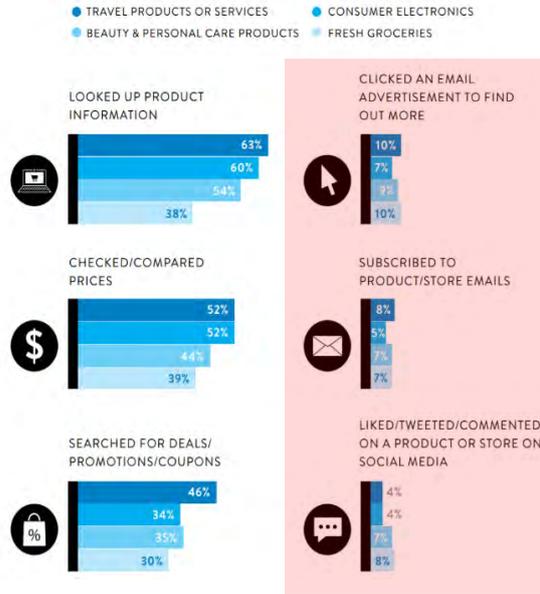
Taking a step further beyond the online approach, when a passenger shows up to pick up orders at the Online Purchase Pick-up Concierge, an opportunity presents to engage in direct face-to-face interaction and distribute promotional materials such as a coupon book. It may further appeal to passengers to set up large digital signage screens along the path that leads to the Concierge and air commercials.

The pick-up services at Japanese convenience stores mentioned earlier are aimed at prompting customers to visit stores more frequently and are based on proven observation that customers are likely to make additional

purchases when they browse the store along the way. Likewise, the Online Purchase Pick-up Concierge would promote shopping at the airport because it encourages passengers to arrive at the airport earlier for pick-up and creates opportunities for the airport to promote its retail offerings. If space permits, the Concierge should be placed adjacent to a retail area to maximize the opportunity to stimulate shopping at the airport.

According to a survey on e-commerce consumer trends carried out in 26 countries worldwide by Nielsen, modern-day consumers place high importance on looking up information before shopping. They prefer to obtain product information, compare prices, as well as search for deals and promotions, especially on travel products or services. Less than 10% react to random advertising emails or commercial posts on social media (see Chart 8). Unlike random online advertising, the Online Purchase Pick-up Concierge would create more direct customer contact opportunities through providing services and assistance relevant to the needs of travelers; furthermore, the potential users of the Concierge service would tend to have a stronger appetite for shopping. These characteristics would help airports to approach and influence travel shoppers more effectively than existing online tools.

■ Chart 8: Primary Online Shopping Activities - By Product Category -



Source: Nielsen Global Connected Commerce (January 2016)

E-commerce users are expected to increase in travel sectors as digitalization removes national boundaries and language barriers in shopping. As travel gateways for travelers, airports should remain to function as convenient transport and logistics hubs and commit to providing needed assistance and services for passengers rather than competing with the emerging online market. Through providing a service like the Online Purchase Pick-up Concierge, airports would be able to retain connection with the growing online shoppers and remain competitive in the retail market.

### 3. Airport Retail Facility Differentiation with E-commerce

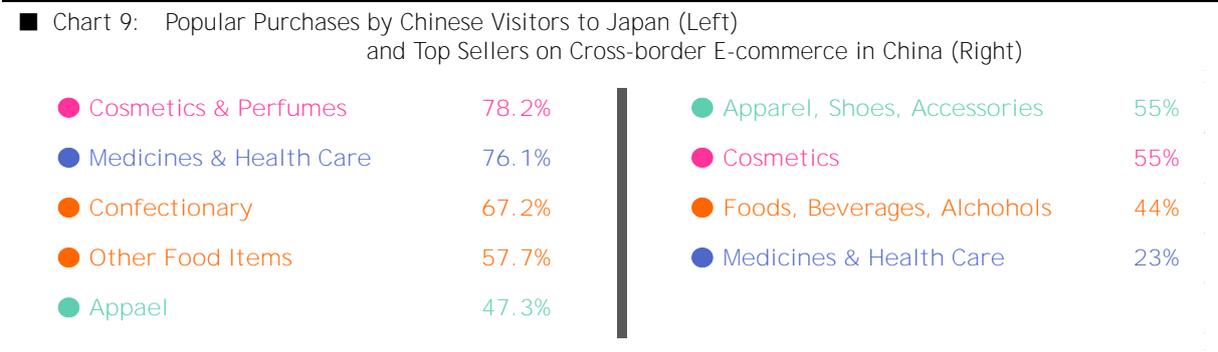
This paper so far has discussed suggestions for airports to tap into the growth of the emerging e-commerce market where pre-travel and during-stay purchases by inbound travelers are expected to increase. In the meantime, the physical stores at terminals remain to be the main field for airport retail; airports are expected to continue to meet and exceed the expectations of passengers who visit airport’s retail areas.

#### 3-1. Current Shopping Trends at Narita Airport

Looking at the current situations at Narita Airport, spending by inbound travelers remains favorable, and it is expected to continue driving growth in sales. However, there has been significant changes with sales patters since the large-volume shopping by Chinese travelers has slowed down. This is exemplified by falling sales of expensive brand products and electronic appliances; a decline in bulk purchases is also observed with both expensive and

inexpensive items. It is generally viewed that unfavorable currency movements and hikes in duties applicable to expensive items<sup>18</sup> have negatively affected consumer psychology.

Furthermore, as mentioned at the beginning of this paper, with a rise of cross-border e-commerce, travelers have more diversified means to shop globally, implying fewer people choose shopping as the primary purpose of their travel. It is now possible to purchase daily necessities such as cosmetics, pharmaceuticals, health products and food on cross-border e-commerce sites on a regular basis while some charges and delivery fees are added. As illustrated in Chart 9, there are similarities between the top sellers on cross-border e-commerce sites in China and popular purchases by Chinese travelers in Japan. It can be assumed that in the “post-travel” stage, travelers choose to repeat the purchase after returning home. Certain products might have gained reputations from travelers’ reviews and become popular sellers in the cross-border e-commerce sites<sup>19</sup>.



Source: NLI Newsletter (15 May 2017), NLI Research Institute  
 Extract from Cross-border E-commerce Market to China Now a 1 Trillion Yen Market - Will There Be a Flow Effect from Inbound Consumption?

Nowadays, consumers can easily make purchases of the latest products sold overseas from their own countries based on up-to-date product information and trends learned from social media and blogs, etc. Therefore, it is natural that modern travelers have lower motivation to allocate a large share of their limited time on shopping during their hard-earned vacation if travel shopping can be partly substituted by cross-border shopping. In fact, as discussed earlier, there are signs in Japan’s tourism market where spending on items is waning while spending on experience is increasing among foreign visitors.

In order to remain competitive, airports are challenged to differentiate their retail offerings from the e-commerce market. With this in mind, the followings discuss the outlook and recommendations on major selling categories at airports.

**3-2. The Unique Airport Shopping Experience**

In the cosmetic and perfume category, domestic brands continue to gain popularity among passengers from Asia, and duty-free sales remain strong. However, certain brands are struggling to retain sales because in some cases, their products are available at more competitive prices at home or on the internet. Duty-free shopping no longer equates to the cheapest means of shopping. The mobile devices provide the means for travelers to look for the cheapest prices across national borders and sales channels; it is common to see customers comparing prices with their smartphones on their hands before making final purchasing decisions at duty free stores.

According to Nielsen’s survey results, of all the consumable products, beauty and personal care items are

<sup>18</sup> Refer to Footnotes 4 and 5 for further information  
<sup>19</sup> Reference: Cross-border E-commerce Market to China Now a 1 Trillion Yen Market - Will There Be a Flow Effect from Inbound Consumption? NLI Newsletter (15 May 2017), NLI Research Institute

purchased online more often than any other product categories.

More than 50% of consumers in South Korea and China have purchased these products online (refer to Chart 10), and these categories are one of the strongest sellers on cross-border e-commerce in China as shown in Chart 9. When it comes to daily essential product categories such as skin care products, consumers would opt to buy regularly from a retail channel which is available for purchase at any time rather than waiting for months to make that purchase at a duty-free shop when the next travel occasion presents.

■ Chart 10: Top Countries for Online Shopping - Beauty & Personal Care



Source: Global Connected Commerce (January 2016), Nielsen

When selling commodities that are destined to be subjected to price competition across national boundaries and sales channels, it is vital for airports to bring about a differentiation. For instance, various brands are selling trial product sets in limited edition packages available only at duty-free shops; they are often labeled as "Travel Exclusive," making the line-ups distinct from downtown and e-commerce shops. Further to this, many airports are investing heavily in upgrading the retail environments, greeting customers with attractive store set-ups and extensive range of products, promoting sales with multilingual staff who have a wealth of product knowledge, etc. These initiatives will continue to be vital in bringing special shopping experiences that cannot be imitated by online retail players.

### 3-3. Maintaining a Fresh Look at Airport Sales Stores

Confectionary is one of the most vigorous sales items at Narita Airport today. Popular product line-ups from Japanese houses such as Tokyo Banana, Royce', Shiroi Koibito and Jaga Pokkuru are widely recognized as must-buys by travelers from Asia. It is a daily sight at the airport that shoppers line up for cash registers with their baskets full of these products.

In many cases, these products can be bought in town but because of the inconvenience of having to carry bulky boxes around while traveling, many opt to purchase at the airport. If the products are chocolates that need to be kept under cool conditions or have a short use-by date, it makes more sense to buy these just before returning home. However, looking at recent trends, sales of these popular products are not as robust as they used to be.

Majority of visitors from South Korea, Taiwan and Hong Kong are repeat visitors who have been to Japan on numerous occasions and are often very keen with the latest trends that they learned through social media and online magazines. An increasing number of these visitors may have started to move away from the "basics" and developed preference to make choices based on their own standards and tastes from a wider range of products available in fancy downtown shops.

The sales slowdown can also be attributed to the rise of B-to-C transactions in cross-border e-commerce. A certain group of passengers used to make bulk purchases at shops, apparently for the purpose of resale; however, an increasing number of popular products are now available at cross-border websites and sold directly from reliable operators at lower prices than from individual importers, causing the decline in proxy purchasing for resale<sup>20</sup>.

<sup>20</sup> Known as proxy shopping, products are imported by an individual and sold on social network services and C-to-C sites. However, with the amendments to personal postal duty mentioned in Footnote 5, tariffs on individual imports have escalated and Customs has cracked down harshly. Due to preferential policies extended to cross-border e-commerce by the Chinese authorities and also due to levels of quality and reliability, etc., we can expect to see growth in the sale of B-to-C imports rather than C-to-C. (Source: Trends in Cross-border E-commerce in China, Japan External Trade Organization (December 2016))

Calbee, the maker of Jaga Pokkuru opened a flagship store in TMall Global, the Alibaba's cross-border e-commerce site, and has already started selling Jaga Pokkuru directly to consumers in China through the online store<sup>21</sup>.

Due to the diversification of consumer needs and retail channels, the conventionally popular products no longer experience sales growth in proportion to passenger numbers. To adapt to such changes in the commercial environment, it is becoming increasingly important to continue injecting new products into the market and maintain a fresh look at stores. For example, retailers may offer tasting more widely to stimulate the senses of taste and touch (food texture) of consumers and proactively seek new products that would potentially become the next best sellers. Another effective measure would be to invite "Wang Hong" (a colloquial Chinese word meaning internet celebrities) to recommend airport shops, increase product recognition, and contribute to the making of a new best seller.

### **3-4. Creating a Comfortable Shopping Environment to Attract Travelers**

It is important to remember to go back to basics and continue to improve airport experience from a traveler's perspective. The first priority would be to introduce Fast Travel, which is now in progress around the world, to reduce the time spent on departure procedures and security screening and enable passengers to spend their time more efficiently in the airport. Mitigating stress in the airport and providing a commercial environment where passengers can mark the end of their journey with pleasant shopping and dining will undoubtedly result in increased retail revenue for the airport.

The successful business case of a particular bookselling chain symbolically illustrates how an upgraded commercial environment leads to improved sales. Book sales in conventional shops have lost a substantial share in the market to the major e-commerce players such as Amazon; it is widely recognized to be the product category most hit hard by the presence of e-commerce market. Yet in contrast to overall market shift, TSUTAYA, a bookselling chain in Japan (with 812 stores nationwide) posted 130.8 billion yen in book and magazine sales in 2016, its 22nd consecutive year of record sales since 1994<sup>22</sup>. The company does not simply sell books; it produces a multiplex store designing its' commercial space committed to proposing various life styles with their books in the store that includes cafes and sells accessories, etc. Its drawing power is in offering relaxed atmosphere and time to browse around and allowing customers to indulge in the secluded atmosphere as much time as they want in the stores; the iconic store features make the bookshops stand out from the rest and have led to growth in sales. Likewise, Eslite, the popular book chain founded in Taiwan, also operates multiplex stores which emphasize the same type of interior environment and has developed into a cultural hub of Taiwan. It has achieved popularity not only with the locals but also with tourists from abroad who visit the store as a tourist destination. The company continues to expand its operations; in recent years it has ventured outside of Taiwan with new stores in Hong Kong and Mainland China<sup>23</sup>.

Both are good, symbolic examples emphasizing the importance of creativity in bricks-and-mortar shop's space in the age of e-commerce. The same principle also applies to airports: improving the comfort and enhancing their

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<sup>21</sup> Calbee Group 2016 Third Quarter Financial Report, 2 February 2016, Calbee Inc.

<sup>22</sup> TSUTAYA Posts 130.8 Billion Yen in Sales, Achieves 22nd Consecutive Year of Record Growth, TSUTAYA Co., Ltd. news release of 3 February 2017

<sup>23</sup> Founder of Renowned Eslite Bookstore Robert Wu Dies at 66, 10 May 2017, CGTN.COM [https://news.cgtn.com/news/3d41544f7967444e/share\\_p.html](https://news.cgtn.com/news/3d41544f7967444e/share_p.html)

status as destinations rather than just transit points to board airplanes will encourage travelers to happily choose to spend more time at the airport. This translates to larger opportunities for sales. Constantly creating the motivation and opportunities to visit bricks-and-mortar shops in this e-commerce era today will result in a greater competitive edge for airport retail facilities.

## Closing Remarks

As a result of the relaxation of visa requirements in Japan and various tourism promotion strategies, including the Visit Japan campaign, adopted by government and private sectors, the number of visitors to Japan jumped from 10.36 million in 2013 to 24.03 million in 2016 in just three years<sup>24</sup>. This dramatic increase in foreign tourists and their vigorous appetite for spending on travel, i.e. shopping, dining, experience and etc., has provided a strong favorable tailwind for the revenue growth at Narita Airport's commercial facilities.

However, fluctuation in currency, changes in duties applicable in China since 2015 and other economic and policy-related external factors, as well as the extensive use of smartphones in recent years and rapid growth in the e-commerce market, have brought about great changes to the consumer decision making process and purchasing trends. Consequently, spending trends are no longer as favorable as before when sales simply increased in proportion to passenger numbers.

In this paper, I have pointed out that majority of travelers today already decide what they plan to purchase in the pre-travel stage based on the large amounts of information obtained from online media. I have further demonstrated that travelers place less emphasis to satisfy material desires on shopping during their stay as illustrated by the diversification of sales channels such as global scale cross-border e-commerce, and heightened interest in spending on experience.

For airport retail to continue its growth, we must offer new services that are in tune with the changes in the market environment and consumer trends in this e-commerce era. To address these issues, this paper offers recommendations on attracting shops that have a strong e-commerce presence or introducing the Online Purchase Pick-up Concierges to allow customers to benefit from convenient online retail services before traveling, and to enable customers to enjoy stress-free shopping during traveling, as well as to attract travelers to shop at airports.

At the same time, in the years ahead, we the airports will also need to establish a distinction from e-commerce through innovative services and creation of attractive commercial space that only bricks-and-mortar shops can offer to upgrade their profile as large-scale infrastructures housing a unique mix of bricks-and-mortar stores.

In closing, although this paper is based on consumer trends among visitors to Japan and examples at Narita Airport, I hope that the information provided will serve as useful reference to other ACI partner airports too.

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<sup>24</sup> Visitor Arrivals by Country/Area and Purpose of Visit 2016 (Provisional Figures), Japan National Tourism Organization (JNTO)