company owner who has worked for all three stakeholders in the Trinity chain, presents the latest figures plus commentary on the gradual re-emergence of airport commercial activities in Australia and New Zealand. Although these are two countries that are acknowledged to have handled COVID-19 pressures well and airport retail and food & beverage openings are moving in the right direction, he cautions that most terminals still have more outlets than they can sustain at current traffic levels.

“Are we there yet?” Anyone who has travelled with young children will be familiar with this nagging refrain that starts early in any long journey and tests the patience of the calmest parents who know there is still a long, tortuous road ahead.

The travel retail recovery from COVID-19 in Australia and New Zealand is starting to feel the same. The journey has started, we all want to get there sooner rather than later, but we begrudgingly acknowledge that there may be stops and starts on the way.

For the last three months, the team at The Mercurius Group – led by Senior Consultant Diane Owens – has been conducting an analysis of the impact of COVID-19 on travel retail in Australia and New Zealand and we have started to measure the rate at which travel retail stores are reopening across both countries.

The analysis covers 778 duty free, food & beverage and speciality retail outlets across 27 airports (those with more than 0.5 million passengers – 19 in Australia and 8 in New Zealand). In May’s analysis we saw the green shoots of travel retail recovery as both countries started to emerge from their respective lockdowns.
Green shoots: By the end of June, 27% of retail and F&B outlets had reopened across the 27 airports surveyed (Pictured: Airport Pharmacy Group store at Adelaide Airport)

In June, the COVID-19 recovery had gathered momentum in both countries, with the easing of lockdowns and allowing of inter-state travel in most cases. There has also been the finalisation of the sale of Virgin Australia, providing airline competition certainty and aggressive fare discounting by all domestic airlines as they ramped up services. Alas, international borders in both countries remain hard closed, with even repatriation flights being cut back.

For travel retail, these positive signals saw outlets maintain their acceleration in openings with 27% of all outlets trading once again by the end of June – a 50% increase from the previous month’s 18% of outlets open. While 27% of outlets opened sounds good, it’s not quite the whole story, with many stores operating on restricted trading hours during peak travel periods, and limited openings on weekends, which in Australia can attract significantly higher wage costs.
Mapping out the pace of reopening since COVID-19 lockdown began (click to enlarge)

F&B re-openings for June 2020 show a continuation of the upward trend from May, with 132 sites open – representing over a third of pre COVID-19 levels. This was also aided by government’s easing of COVID-19 restrictions on F&B operations, allowing the range of food & beverage offers to be widened and for pubs and bars to open – a welcome improvement for thirsty travellers.

Notwithstanding the easing of restrictions on F&B operations, many outlets remain closed, unable to trade on a cash-positive basis given impaired traffic levels. Most terminals still have more outlets than they can sustain at current traffic levels.

For speciality retail the road to recovery is much slower with only 20% of pre-COVID-19 stores open at the end of June, increasing from 13% in May 2020. The increase in speciality reopenings is driven predominantly by travel essentials stores (news and books), together with some beauty and fashion sites. How sustainable the more discretionary (e.g. gifting) categories will be remains to be seen.

The vast majority of all reopened stores (both F&B and speciality) are in domestic terminals.
Domestic terminals have seen the most stores reopen (Pictured: Heinemann Duty & Tax Free at Sydney Airport)

In Australia, while more domestic intra-state and inter-state is now allowed, it is not expected that domestic travel numbers will reach 2019 any time soon. Given the geography of Australia, a large proportion of domestic passengers are actually international visitors on a domestic leg. For some airports, such international/domestic passengers account for up to 30-40% of the traffic mix. Without these typically higher spending passengers in the mix, it is anticipated that some speciality concepts now have questionable relevance to a purer domestic traveller base.

In New Zealand airports, where domestic travel is unfettered by social distancing concerns and internal border restrictions, the proportion of F&B and speciality stores opened is more robust with 42%, compared to just 23% in Australia (resulting in the overall F&B average of 36%).

The main airline carriers in both countries – Qantas, Air New Zealand and Virgin – have recently made sobering predictions of just how long the post COVID-19 recovery will take.

“Notwithstanding the easing of restrictions on F&B operations, many outlets remain closed, unable to trade on a cash-positive basis given impaired traffic levels. Most terminals still have more outlets than they can sustain at current traffic levels.”
Qantas Group CEO Alan Joyce recently outlined Qantas’ plan to re-commence 40% of pre-COVID domestic services in July (noting that 40% of services does not necessarily mean 40% of pre-COVID passengers, depending on load factors) with 50% of its workforce back by the end of the year. Qantas does not anticipate re-commencing most international services until 2021.

Air New Zealand CEO Greg Foran has indicated that his airline will be operating at 55% of pre-COVID services in July and August and that the carrier anticipates that it will take two years to get back to 70% of its former pre-COVID size.

New Virgin Australia owners Bain Capital have also signalled a heavy restructuring with a strong emphasis on bulk routes, suggesting that they too will be operating only a fraction of pre-COVID services for some time.

While the business, airport and tourism sectors keeping talking about a trans-Tasman bubble between Australia and New Zealand, hopes appear to be fading.

New Zealand’s adoption of a COVID-19 elimination strategy appears incompatible with Australia’s containment strategy. And the re-emergence of significant COVID-19 outbreaks in Victoria and to a lesser extent New South Wales has effectively taken the bubble concept off the table for the foreseeable future. The outbreaks in these two places are again threatening inter-state borders as well.
Ivo Favotto predicts a ‘saw-tooth’ recovery of commercial activity (Pictured: Dufry at Melbourne Airport)

Uncertainty over the timing of the return of international travellers will continue to prevent further outlet reopenings in international terminals and suppress reopenings of outlets in domestic terminals.

So in summary, some good news from Australia and New Zealand travel retail with more stores trading again but with the ever present threat of two steps forward and one step back as COVID appears anything but defeated down under.

Are we there yet? Not yet kids. Buckle up and snuggle down – this is going to be a long journey. The most likely scenario appears to be a saw-tooth recovery, with ups and downs as restrictions are lifted and reimposed on a number of occasions in the coming months and years.

*About Ivo Favotto*

Ivo Favotto has a long and distinguished record in the airport and travel retail sectors. A trained economist, he entered the airports/infrastructure sector with Australia’s Federal Airports Corporation in 1992 as GM – Planning & Economics.
He later built a highly successful international airports/infrastructure consulting practice, working with three firms – Bach Consulting, Arthur Andersen and URS Corp – and advising many of the world’s leading airports, governments and investors in the areas of retail planning, master planning and privatisation/transaction support.

In 1998 he established the market-leading Airport Retail Study, selling it to Moodie International so he could join The Nuance Group (now owned by Dufry) as Executive Vice President – Strategy & Business Development in Zürich. He later returned to his native Australia as Director – Sydney Airport before being named Executive General Manager of Duty Free & Luxury, Pacific for Lagardère Travel Retail.

Favotto has now formed The Mercurius Group, a Sydney-based consultancy focused on industry research, consultancy and benchmarking studies.

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