



TENDER ANALYSIS: The Changi Airport Group (CAG) closed its two six-year duty free L&T and P&C tenders yesterday.

As is well documented, DFS Singapore is the current holder of the L&T business, while Nuance-Watson Singapore is defending its perfume and cosmetics contract.

Both of these contracts have already been extended and the new contracts will eventually cover all of the shops located in all of Changi's terminals *[including T4, which is expected to open by 2017-Ed]*.

The contract lengths will also break new ground for Changi's core anchor L&T and P&C contracts, with the former three-plus-two year models now making way for six-year terms which should enable and encourage higher investment over the course of the new contract periods than was possible with the previous three-year terms.

[The fact that CAG has placed no renewable options on either of these new contracts also says much about how the market has changed since the last round of anchor core tenders-Ed].

As for the businesses on offer, the retail companies who are known to have shown initial interest in bidding for one or more of these contracts obviously include the incumbents DFS Group and Nuance-Watson, Dufry, plus the two Korean giants of Lotte Duty Free and Shilla Duty Free.

Hong Kong's Sky Connection has also confirmed its interest to *The Business*, along with the King Power Group (Hong Kong) and the World Duty Free Group. Heinemann and LSTR will certainly have taken a look both businesses and interest from Mainland China cannot be ruled out either although this would probably have to be in a joint venture. Interestingly, it is also little known that Hong Kong's Sky Connection was the third largest L&T bidder the last time around, offering \$217.9m, behind DFS Venture's \$242.1m and Lotte's \$245.7m *(although Lotte did not win either see below)*.



Nuanne Watson Perfumes & Cosmetics shop in Changi Airport Terminal 1.

THE KOREAN FACTOR....

Lotte is expected to mount particularly strong challenges for both contracts and especially after losing out on L&T at Changi in the last round of L&T bidding even though it had the highest monetary bid. Hotel Lotte as it was then known bid around S\$5.5m a year more for the L&T business than DFS.

Of course, Lotte is currently facing strong legal opposition to its duty free contract 'win' from DFS on the Pacific island of Guam and this might make it all the more determined to mount a strong offer at Changi. Alternatively, it might bid less.

At the same time, Shilla Duty Free is not likely to stand by and risk being outbid again by its arch rival at Changi and especially after it was so disappointed at being outbid for the duty free contract by Lotte in Guam. To suggest that the competition between the two groups is intense is an understatement.

Stepping back for those unfamiliar with the last L&T bid, Lotte management told The Business then that it missed out because its logistics were simply not considered to be sufficient to service the L&T contract.

But this is unlikely to be an issue this time around. The retailer has implemented a massive overhaul of its back office since then and now supports its on-Korea based DF&TR businesses in Indonesia and Singapore and aims to extend that reach to Guam from next month.

Lotte has also been encouraged by the CAG's decision last year to award it the three-year Terminal 1 'Fashionwear' contract (*from October through to September 30 2015*) after CAG had already sought proposals from the market.

[For regular readers we should point out again that CAG has told The Business that this contract was not agreed 'by way of a direct award', as was stated incorrectly in one of our earlier reports-Ed].



Changi Airport Air Traffic Control Tower at Night.

CONTRACT TIMING AND BACKGROUND

Looking at the new L&T tender today, this consists of a six-year contract running from April 9, 2014 until April 8, 2020 with no renewable option and covers Terminals 1, 2 and 3 and eventually the upcoming Terminal 4.

Meanwhile, the tenancy period for the P&C contract is also six years, but this runs from the slightly later date of October 1, 2014 until September 30, 2020 again with no renewable option and also covering Terminals 1, 2 and 3 and the upcoming T4. Both tenders closed yesterday.

Of course, the last round of bidding in 2007 can hardly be held up as any kind of like-for-guide for these contracts, since the traffic at Changi Airport in that year was 15m less a year at 36.7m, compared to the 51.7m passengers using Changi Airport last year (46.5m in 2011; 42m in 2010; and 37.2m in 2009).

In precise terms and using the S\$/USD exchange rate of the day related to the L&T contract, Lotte offered a straight minimum monthly guarantee of S\$10,486,000; (\$6,821,882) for the three years of the contract, compared with DFS' minimum monthly guarantee of: (i) S\$10,166,667 (\$6,612,853) for Year 1; (ii) S\$10,333,333 (\$6,722,344.75) for Year 2; and (iii) S\$10,500,000 (\$6,830,990) for Year 3.

Put simply and in summary, the 'original' bids for the three-year L&T contract back in 2007 (*which was subsequently extended*) were as follows:

- 1. Hotel Lotte: S\$.377,496,000 (\$245,721,289)**
- 2. DFS Venture: S\$.371,999.990 (\$242,104,119)**
- 3. Sky Connection: S\$.334,836,000 (\$217,919,852)**
- 4. Nuance Watson: S\$300,000,000 (\$195,268,484)**
- 5. Aelia SAS: S\$.291,600,000 (\$189,795,243)**
- 6. Aldeasa: S\$.186,708.990 (\$121,542,824)**

Based on minimum monthly offer guarantees over 36 months. (*Exchange rate at the time was equivalent to: 1 SGD = 0.650818 USD/1 USD = 1.53653 SGD*).



Changi International Airport Terminal 3 Transit Mall.

INVESTMENT LEVELS

Of particular interest is how some retailers and suppliers view these latest Changi Airport mega tenders now that Hong Kong International Airport's L&T contract has been awarded to DFS Group especially now that it effectively operates the entire core DF&TR retail operation last year.

DFS has been transforming all of its newly won L&T, P&C and GM shops at Hong Kong International Airport over the last six months, with most of this work expected to be completed shortly.

Having said that, there is also potential competitive factor from Lotte Duty Free in Indonesia now that the South Korean retailer has opened its 5,500sq m downtown duty free pre-order store (this month) in Jakarta, Indonesia, which fits nicely with its existing small duty free operation at Jakarta Soekarno-Hatta International Airport.

Lotte's new downtown pre-order duty free store is located on the fourth and fifth floors of the 130,000sq m 'Ciputra World Mall 1' in Jakarta and it is now targeting annual sales of around \$100m from this operation in three year's time.

RETAIL COMPETITION

The relevance of this is certainly not insignificant considering the neighbouring city of Jakarta in Indonesia is the number one international destination from Singapore and Hong Kong, S.A.R. is number two.

According to the Changi Airport Group, the other leading route destinations delivering the most passengers (in high to low volume order) are: Bangkok, Thailand; Kuala Lumpur, Malaysia; Manila, Philippines; Tokyo, Japan; London, UK; Denpasar (Bali), Indonesia; Sydney, Australia; and Ho Chi Minh City, Vietnam.

It is also worth noting that Singapore Changi Airport is in a pretty good place right now coming off record traffic of 51.2m last year – the first time it has passed the 50m-pax threshold.

As Lim Peck Hoon, Executive Vice President, Commercial Changi Airport Group told The Business back in

Changi Airport closes mega tenders

April of this year, this represented strong year-on-year growth of around 10% in 2012 and is impressively above the average yearly growth rate of 6% in the airport's 31-full year history since it opened in 1981 impressive in itself.

TRAFFIC HAS REMAINED STRONG

Right now, Singapore Changi is the seventh biggest airport in the world for international traffic.

As Lim Peck Hoon says, the fact that this was achieved against the background of a sluggish economy and an uncertain outlook for the aviation industry was all the more impressive – along with the new record set by the 12% increase in concession sales to S\$1.8bn (\$1.4bn).

Given the highly competitive offers at both Singapore and Hong Kong, the indicative sales numbers relating to the Hong Kong L&T, P&C and GM business between 2004 and 2010 are also shown below for reference purposes. **CLICK ON TABLE:**

Hong Kong Airport L&T, P&C and GM sales 2004-2010						
Year	Liquor & Tobacco		Perfume & Cosmetics		General Merchandise	
	HK\$m	US\$m	HK\$m	US\$m	HK\$m	US\$m
2004	733m	94.4m	506m	65.2m	501m	64.5m
2005	825m	106.3m	645m	83.1m	584m	75.2m
2006	944m	121.6m	748m	96.4m	632m	81.4m
2007	1.134m	146.1m	914m	117.8m	724m	93.3m
2008	1.298m	167.2m	1.089m	140.3m	729m	93.9m
2009	1.268m	163.4m	1.049m	135.2m	692m	89.1m
2010	1.553m	200.1m	1.320m	170.1m	843m	108.6m
Total	7.755m	999.1m	6.271m	808.1m	4.705m	606m
Note: L&T operated by Sky Connection; P&C and GM operated by Nuance-Watson (HK).						
Source: Tender documents.						

[Top image: DFS Group Liquor & Tobacco shop at Changi Airport Terminal 1].