

KTO fights for duty free future in South Korea

The Korea Tourism Organisation (KTO) is literally fighting for its future in the South Korean duty free market where it is preparing to hand over its 14 fashion and general merchandise shops at Incheon Airport on August 31, plus the loss of two out of three seaport duty free licenses at Incheon Port and Busan Port during the past year.



Government-owned KTO lost its Incheon Port Terminal 1 license in June 2014 after being outbid by Entas Duty Free and more recently opted not to defend its Busan Port duty free shop which it will hand over to the Hyundai Paint Co at the beginning of July.

As it works out its final months at Incheon Airport, KTO says sales have actually improved slightly, after KTO returned total duty free sales up 3% to W180bn (US\$170m) at Incheon Airport in 2014.

The operator's three duty free ferry shops also returned combined sales of about W40bn (\$36m) in 2014. These sales were down by around 10% from 2013 following the immediate drop in foreign ferry boat passenger numbers following South Korea's tragic MV Sewol ferry boat disaster in April of last year.

As it winds down its Incheon and ferry port shop businesses, KTO has also suffered losses, as it tries not to buy too much stock, knowing it may well not be able to sell it within the few months of trading it has left at these outlets.



KTO is currently operating its Incheon shops under a six month license extension that expires on August 31 this year. The extension is the fourth awarded to the organisation after its original five year fashion and general merchandise license expired on February 28, 2013.

Speaking exclusively to *TRBusiness* a KTO spokesman said: "Business has been so-so this year; it's been

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going up a little. Recently South Korean people have started to travel overseas more, but the economic conditions here are still not good.

“Our Chanel boutique *[at Incheon Airport-Ed]* is our number one outlet as ever; South Korean red ginseng products are our second largest selling items. MCM fashion items are third – especially bags; Korean and Chinese travellers buy MCM goods.

“Our Burberry and Montblanc boutiques also are popular; and sunglasses are very popular items all kinds of sunglasses brands are selling.”



The Korea Tourism Organisation bid unsuccessfully for both liquor and tobacco and perfume and cosmetics contracts in the last round of tenders at Incheon International Airport.

Reliant on South Korean travellers for about half of its total sales at Incheon Airport, KTO is believed to be less affected by the impact of the MERS outbreak on Chinese passenger numbers and spending at Incheon than its competitors, Lotte Duty Free and Shilla Duty Free.

In addition, KTO has started organising special promotions to run down its merchandise stocks since early June. The spokesman also added that KTO did offer bids for some duty free licenses at Incheon *[P&C DF2 and L&T DF3 and DF4-Ed]* but he readily admits that the minimum guarantees were higher than it expected.

[A full and exclusive interview with the Korea Tourism Organisation will appear in the July issue of TRBusiness magazine-Ed].