

South Korea is top global duty free market with \$7.9bn

South Korea's duty free retailers generated a huge 27% sales increase to US\$7.9bn in 2014, according to reliable duty free retail industry sources in Seoul, *TRBusiness* can reveal.



That total is also expected to rise to around \$8.7bn assuming another 10% sales increase this year, while a 20% increase in duty free sales would boost this year's total – including domestic duty free sales – to \$9.5bn: with both these totals dwarfing duty free sales figures in any other Asian country.

Last year's huge \$1.7bn duty free sales growth was more than double the \$650m increase in duty free revenue achieved by South Korea's operators in 2013, driven mainly by the 6.2m Chinese tourists who visited South Korea last year and the 13.6m foreign tourist arrivals in total.

Last year's record \$7.9bn duty free total represents a massive \$1.7bn increase in duty free spending and includes all airport, seaport and downtown shops (*including internet*) sales, plus 'domestic duty free' sales on Jeju Island, but not inflight sales.

Sales in South Korea's downtown duty free shops surged 38% to reach \$5.1bn in 2014, while duty free sales in the country's airports, rose by some 10% to around \$2.4bn, according to retailers.



Clockwise: The four leading downtown duty free operations in Seoul: Lotte Duty Free; Shilla Duty Free; WalkerHill Duty Free; and Dongwha Duty Free [Shilla reported that it paid \$54.7m for a 19.9% shareholding in Dongwha Duty Free back in May 2013. [Click here for details:](#)

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<http://www.trbusiness.com/regional-news/asia-pacific/shilla-pays-55m-for-199-dongwha-stake/>.

INCHEON AIRPORT CONFIRMS SALES OF \$2BN

Seoul's Incheon International Airport has confirmed to TRBusiness that it generated record sales of \$2bn in 2014, up 11% from last year's \$1.8bn – just nosing ahead of Dubai Duty Free's \$1.92bn (+7.4%). At the same time Incheon accounted for around 80% of South Korea's total airport duty free sales.

Industry sources confirm that strong double-digit downtown duty free sales growth continues to outpace rising duty free spending in South Korean airports by a considerable margin. This is thanks mainly to high spending Chinese customers visiting downtown stores to purchase big ticket items, such as luxury watches and leather bags.

These stores also offer a more relaxed environment where they can browse at leisure through more comprehensive collections within in-store boutiques and speciality areas.

Apart from the rapid increase in Mainland Chinese tourists driving sales in South Korea's downtown duty free shops, another reason for the high downtown duty free sales growth is the strong rise in online duty free transactions that has been very evident for the past two years.



Shilla Duty Free at Incheon Airport, where it also manages the Louis Vuitton store (shown above).

STRONG ONLINE SALES EXPECTED FROM CHINESE

Only downtown shops can offer online pre-order duty free shopping services under current Korea Customs Service regulations. Customers pre-order goods for airport collection on their departure from South Korea.

Originally launched by Lotte Duty Free and Shilla Duty Free as a convenient service for South Korean customers, online duty free shopping services have recently been extended to Chinese customers through

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these operators' Chinese language websites.

Perfume and cosmetics items dominate online sales at present, as many South Korea customers already use internet shopping websites when purchasing duty paid skincare and make up items.

However, the range of duty free goods offered online has been recently extended to include fashion accessories, as operators look to expand Internet duty free sales.

"Online sales showed great growth in 2014 due to the big increase in Chinese internet and mobile phone purchases," said one well known major duty free retailer. "In particular the mobile phone portion of online sales will grow fast as mobile phone transactions are a lot more common in China than in South Korea."



Lotte Duty Free is the biggest duty free operator in South Korea, although Shilla Duty Free operates the biggest concession at Incheon Airport - Perfume and Cosmetics.

SALES GROWTH MORE THAN DOUBLED IN 2014

In addition, last year's 27% growth rate in sales is more than double the 12.1% increase recorded in duty free sales by South Korea's duty free shops in 2013. This reflects the rising popularity of overseas travel amongst China's growing middle class, as well as South Korea's high popularity with Chinese visitors as a short break vacation destination.

Duty free sales are expected to remain in double-digit growth in 2015, based on the anticipated continuation of strong Mainland Chinese tourist arrivals this year.

At the same time, the total number of foreign tourist arrivals to South Korea is expected to rise to 18.7m by 2018, from the 13.6m who visited the country in 2014 – according to the state-run Korea Tourism Organisation (KTO), which is also a duty free operator.

"The number of Chinese visitors will grow very fast. There were 6.2m Chinese tourists last year and the

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forecast is 8m Chinese visitors in 2015, so our industry will enjoy a big increase in sales," the duty free retailer said.

[Historic sales based on reliable 2013 data gathered from the market in Seoul by TRBusiness over the last two years: Click here for the breakdown:

<http://www.trbusiness.com/regional-news/asia-pacific/korean-duty-free-and-travel-retail-market-worth-65bn/>



Korea Tourism Organisation (KTO) runs most of the fashion shops and souvenirs.

ENCOURAGING MARKET SALES DATA

Meanwhile, record duty free sales in 2014 and strong forecast duty free revenue growth this year are good news for IIAC and the Korea Customs Service – both of which are due to award important duty free shop licenses this year.

KCS recently tendered four downtown duty free shop licenses, three in Seoul and one in Jeju, with all expected to attract strong bids considering the sharp increase in downtown duty free sales in South Korea last year.

At the same time, Incheon International Airport Corp (IIAC) is now in the process of evaluating bids from 11 companies for 12 duty free concessions that are due to be awarded shortly. According to IIAC, some 45.5m international arrival and departing passengers used the airport in 2014, a 9.7% increase compared to the previous year.

International passenger numbers are also continuing to grow this year with 4.3m international passengers using Incheon Airport in January 2015, according to IIAC, a 13.7% increase year-on-year.

The number of international passenger arrivals is also expected to jump in February as more Mainland

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Chinese tourists choose to visit South Korea during the Chinese New Year.

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