



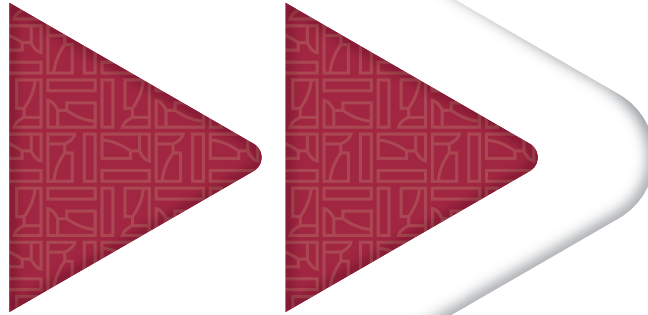
الهيئة الاتحادية  
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FEDERAL COMPETITIVENESS  
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United Arab Emirates

# Policy in Action

Dubai Duty-Free .. Where Over 50 Million Global  
Citizens Meet and Shop Every Year



**Fast-Forwarding the Nation**

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## Dubai Duty-Free: Where Over 50 Million Global Citizens Meet and Shop Every Year



*Determined to make Dubai International Airport world class, Dubai Department of Civil Aviation opened Dubai Duty Free in December of 1983. With the support of international expertise, Dubai Duty Free grew into a robust and globally competitive enterprise in the ensuing years, achieving one of the largest volumes of sales among airport retailers, high levels of customer satisfaction, and sales per square meter of retail space that more than doubles the global average.*

The resounding success of Dubai Duty Free is underpinned by being a customer-centric enterprise and continuously introducing a series of innovations along all segments and functions of the value chain to the basic duty free business model throughout the years. Beyond being a globally competitive enterprise in its own right, Dubai Duty Free has had a large and lasting impact on the aviation sector, the promotion and identity of Dubai as a tourist destination, its supplier network, and on the growth and maturity of a global duty-free retailing industry that is now valued at US\$46 billion.

### **Dubai Duty Free: The Rapid Rise to World Class**

Dubai Duty Free opened for business on December 20th 1983. Over the ensuing years, its rapid growth made it the world's single largest airport retailer for the first time in 2008, as measured by total sales. Based on the latest available data (2011) Dubai Duty Free reached a record turnover of AED 5.311 billion (US\$1.455 billion) in that year, which represented a 16% growth over 2010 and an average processing of 61,000 transactions per day. In 2010, Dubai Duty Free ranked 1st and along with Seoul, London and Singapore was among the 4 duty-free operations with at least US\$1 billion. (See Box 1: Top Ten Duty Free Stores)

### **A Fascinating History**

In 1983, the Department of Civil Aviation received a proposal from Ireland's Aer Rianta, Ireland's state-owned national airport authority, to provide technical assistance in the development of the duty free concept in Dubai. About thirty years before, Aer Rianta pioneered the first duty free shop in Shannon Airport, located 135 miles from Dublin, which served as a hub for transatlantic flights. Shannon faced the challenge of being over own as aircraft became technically more efficient, and as competing hubs in Paris and London developed. An innovation was required and in May 1947, the first duty free opened on Shannon's terminal building with much success.

**Box 1: Top 10 Duty Free Stores Ranked by Travel Retail Sales, 2010**

1	Dubai International Airport	
2	Incheon International Airport (Seoul, Korea)	
3	London Heathrow Airport	
4	Singapore Changi Airport	
5	Hong Kong International Airport	
6	Paris-Charles de Gaulle Airport	
7	Frankfurt am Main Airport (Frankfurt Airport)	
8	Tallink/Silja Terminal (ferry port), Finland	
9	Suvarnabhumi Airport (New Bangkok International Airport)	
10	Amsterdam Airport Schiphol	

*Source: Generation Research, Tax Free World Association (TFWA)*

The Dubai Department of Civil Aviation was considering options on how to enhance the retail area at Dubai's International Airport when Aer Rianta's proposal arrived. A team from Aer Rianta traveled to Dubai to assess the potential. This resulted in the department issuance of a 6-month consultancy contract to Aer Rianta to develop the concept at Dubai International Airport, with the deliverable of opening Dubai Duty Free by the end of December of 1983.



The late His Highness Sheikh Rashid bin Saeed Al Maktoum, ruler of Dubai from 1958 to 1990 was responsible for the transformation and development of Dubai as a vibrant city and economy. His visionary son, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Minister of Defense at the time, and current UAE Vice President, Prime Minister and Ruler of Dubai, shared with his father the vision for a world class airport for Dubai, which included the concept of a world-leading duty free.

The idea was for an enhanced shopping area that could drive high volumes of passenger growth, and be run locally. As such, the mandate of Dubai Duty Free from the start was three-fold, namely to:

- 1) Be a World-Class Operator,
- 2) Promote Dubai,
- 3) Support the local economy.

The operation was thus started with a finance agreement of AED 3 million (Approximately US\$800,000) from the National Bank of Dubai, guaranteed by the Dubai Government.



*Before: One of the electronics counters at Dubai International Airport's retail area in the early days*

# ►► A Globally Competitive Enterprise

## A Globally Competitive Enterprise

Dubai Duty Free was designed and conceptualized to be a world-class operator. It currently operates some 18,000 square meters of retail space at Dubai International Airport, and the operation will grow by a further 8,000 square meters with the opening of the dedicated Concourse A in Terminal 3, which is due to open in the first quarter of 2013. It has remained throughout the years true to its founding principle of providing travelers with a first class retail experience in a shopper-friendly environment with a wide and diverse range of products. Dubai Duty Free has always kept focused on providing service to its premier customer - the passenger - rather a focus on maximizing turnover.

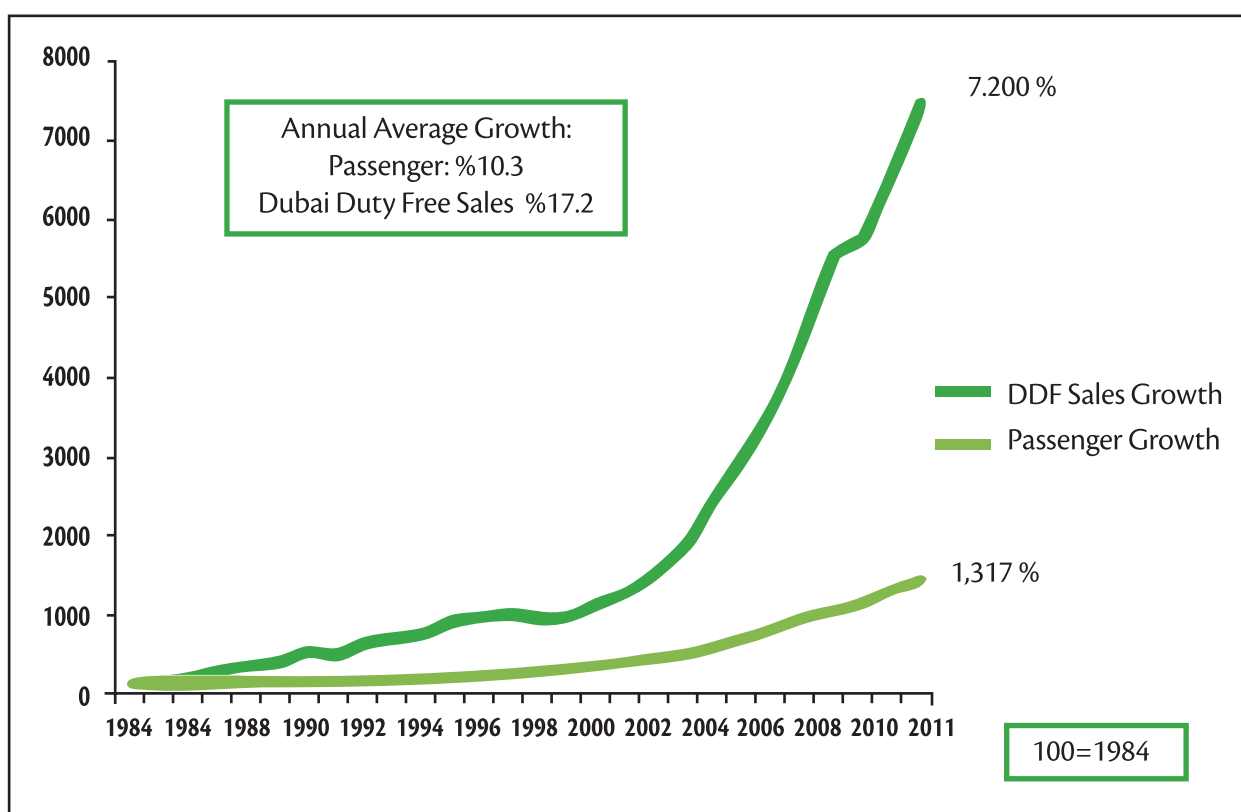


*After: Dubai Duty-Free Shop today, panoramic view of Terminal 1*

Dubai Duty Free sales growth has been impressive soaring from around US\$20 million in 1984 to US\$1.455 billion in 2011. This translates to an average of 17.2% growth annually for the entire period. The increase in sales is an even more impressive 20% if we only count the most recent decade. In 2008, it became, the largest airport duty-free operation in the world as measured by turnover and retained this position up to and including 2010.

Beyond mere sales growth, Dubai Duty Free has shown its competitiveness in more discerning metrics. The growth of the enterprise has not been only driven by the upsurge in passenger numbers, but by a focused strategy to increase sales to them. Indeed, Dubai Duty Free sales have increased at a rate much faster than passenger growth. Over 1984-2011, the number of passengers through Dubai International Airport grew significantly from 3.6 million to nearly 51 million in 2011 - a total growth of 1,317%, averaging 10.3% per year. Sales during this period saw an even more dramatic rise of 7,200%, at an average rate of 17.2% per year, nearly doubling the rate of passenger growth. (see Fig.1: Percentage Passenger Growth vs. Dubai Duty Free Sales Growth between 1984-2011).

**Figure 1: Percentage Passenger Growth vs. Dubai Duty Free Sales Growth between 1984-2011**





Similarly, Dubai Duty Free has consistently grown what's known in the industry as passenger penetration rate, which measures the percentage of passengers that purchase at least one item. Dubai Duty Free's penetration has grown to reach 50%, meaning that half of passengers purchase at least an item. This passenger penetration rate is more than double the global industry average of around 20%. (In 2011, departing passengers spent on average US\$50 and arriving ones US\$9 in Dubai Duty Free).



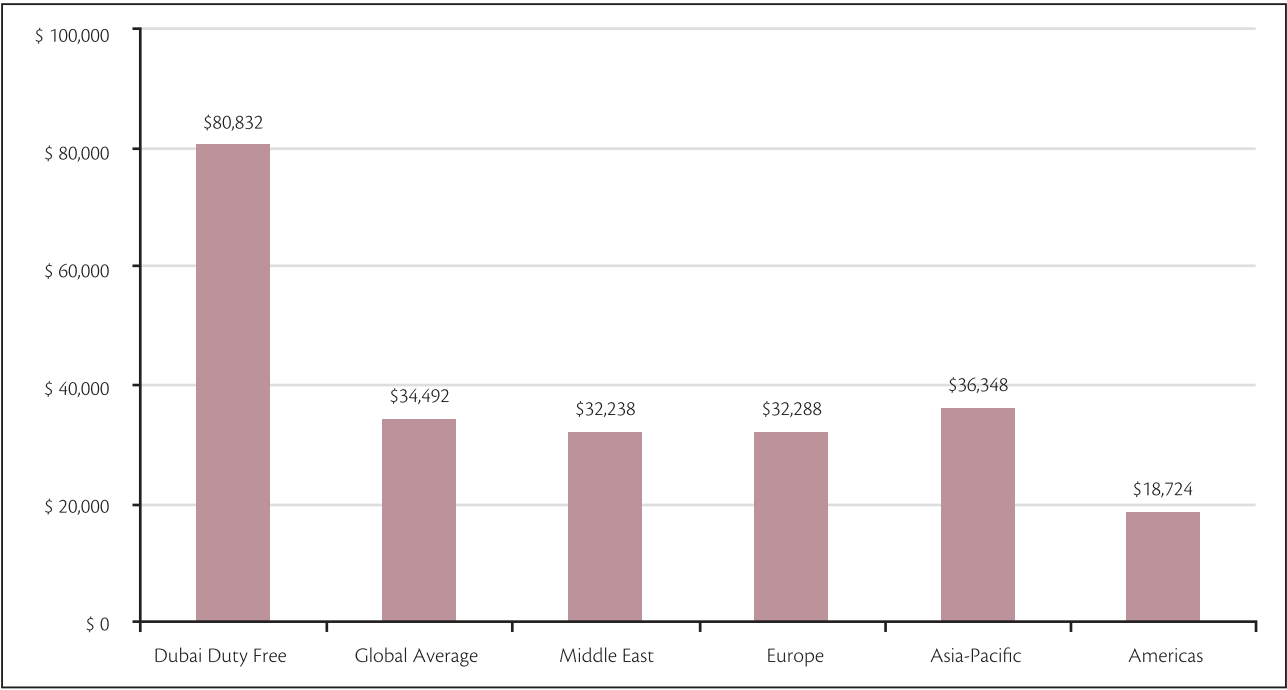
*Dubai Duty Free has awarded 1,500 luxury cars to winners*



*Dubai Duty Free sales rate exceeded the global average by a wide margin of 2.3 times*

Another telling metric that points to the excellence of the operation is annual sales per square meter. In 2011, Dubai Duty Free sold approximately US\$80,832 per square meter of retail space, compared to the global average of annual sales per square meter of \$34,492. The high sales rate makes Dubai Duty Free a global leader in this space, and exceeding the global average by a wide margin of 2.3 times. (see Fig 2: Duty Free Annual Sales, US\$ per Square Meter).

**Figure 2: Duty Free Annual Sales, US\$ Per Square Meter (SQM)**



Source: Dubai Duty Free, Moodie International Airport Commercial Revenues Study 2010/2011



# A Creative Business Model with Innovation at the Core of Operations

## **Dubai Duty Free A Creative Business Model with Innovation at the Core of Operations**

The rapid rise of Dubai Duty Free to a world-leading operator setting new international standards has been by a business-savvy model that is focused on innovations. This includes the company's keen ability to focus on its customers and its capacity to introduce new concepts and innovation to airport and duty free retailing deploying of latest technology. In addition it has forged close collaborations along the value chain with suppliers and service providers that have also been key to its success. As well, a commitment by Dubai Duty Free to developing and retaining talent, using creative and sophisticated marketing techniques, and being a socially responsible enterprise have all contributed to the sustained growth, economic and social well-being and performance of the company.

All these themes are ubiquitous in diverse international indexes that aim to capture the competitiveness strength of countries, such as the World Economic Forum (WEF) Global Competitiveness Index (GCI) and the Institute for Management and Development (IMD) World Competitiveness Yearbook.

### **Catering to the Needs of its Worldwide Clientele**

International competitiveness indexes include a variety of indicators that measure how well companies focus on customer satisfaction. Indeed, the degree of customer orientation (WEF-GCI) and the emphasis companies place on customer satisfaction (IMD-WCY) are two examples. Over the years, Dubai Duty Free has excelled in this area. Dubai Duty Free has focused on providing service to the passenger by keeping its shelves stocked with a wider variety of items that would be expected from a duty free operation, rather than simply stocking items to maximize turnover. For example, they maintain qualified pharmacists in the shops, and have available over the counter as well as prescription medicines.

Additionally, Dubai Duty Free has in place a very strong warranty system that makes shoppers confident in the knowledge that the product is guaranteed and genuine. While some luxury items are covered under multi-year warranties issued directly by the manufacturers, Dubai Duty Free provides on its own a one year warranty to all products sold in its outlet. In the absence of the warranty coverage for a particular country, Dubai Duty Free takes the responsibility in arranging for the repair, provided it is within the warranty period against manufacturing defect. Items purchased can be returned within 6 months from the date of purchase provided it is unused, in good condition, in original packaging and with purchase receipt.

Likewise, a commitment to a strong customer service ethos ensures that passenger queries are given priority. Dubai Duty Free deploys throughout the shop mobile customer care units to ensure customers have the best possible shopping experience. On average, the Mobile Customers Service staff provides assistance to about 1000 passengers per day in both Concourse 1 and Concourse 2 of Dubai International Airport.

More recently, Dubai Duty Free demonstrated a keen understanding of its international customers by adopting of a dynamic currency conversion system that allows customers at checkout counters and cash points to pay in all major currencies, including the Chinese Yuan.

### **Collaborations along the Value Chain**

The WEF GCI measures the extent to which exporting companies have a narrow or broad presence in a given value chain. By extension, the indicator implies that when businesses stick to their core competencies, such as retailing for Dubai Duty Free, one of the keys to unlock competitiveness advantages is to forge close collaboration with other businesses in the value chain. Since its inception, Dubai Duty Free sought to work very closely with suppliers. Many of the outlets that had concessions before launching Dubai Duty Free were competing with each other at the airport retail area, with no clear growth benefit to the airport (other than rent) and adding very little to passenger experience. The operation needed to be brought in-house to create an image that would fulfill its true potential and turn Dubai into a “must visit” destination.

Dubai Civil Aviation purchased all the inventory of existing retailers, and offered concessionaires preferential status as suppliers. Several of those original concessionaires continue to supply Dubai Duty Free to this day and have forged a strong and mutually beneficial relationship with Dubai Duty Free, achieving unprecedented scale and transforming their business models. To provide more value for its customers’ money, Dubai Duty Free negotiates with its suppliers discounts based on volume, as well as brand visibility in the retail area. And, true to its mandate, Dubai Duty Free supports the local economy by procuring 70% of its merchandise through local businesses.

### **Agility, Innovation Capacity and Technology Adoption**

The capacity of firms to generate new products, processes and services as well as their ability to use the latest technology figure prominently in the WEF-GCI and IMD-WCY measures. Over its history, Dubai Duty Free has introduced various innovative solutions to the basic duty-free business model, and also been an early adopter of the most advanced technology to make its operations more efficient.

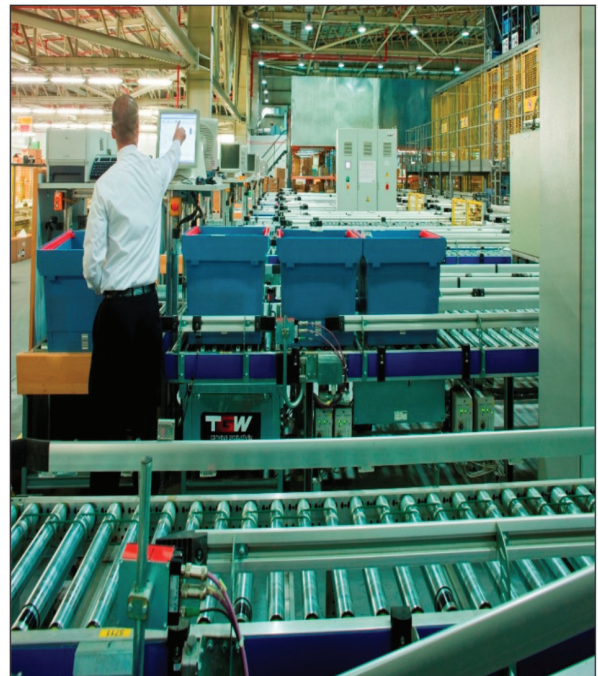


For example, right from the beginning, Dubai Duty Free has maintained a 24/7 operation, which is seen as a key driver of top line growth as well as increased volume of passengers, who are assured to get an opportunity to experience the retail environment as part of their overall travel experience.

Other new concepts for a duty free operator that Dubai Duty Free has developed include the creation of its own brand - Akaru, as well as the development of exclusive products only for sale at DFF. Moreover, in 1987, Dubai Duty Free was one, if not the first, to open retail space available to arriving passengers.

This initiative still has a lot of potential to drive growth in Dubai Duty Free and in the global industry. The dynamic currency conversion system detailed in the preceding section is yet another example of innovations to the basic model that Dubai Duty Free has introduced.

Behind the retail area, the growth of Dubai Duty Free has been enabled by excellence in logistics. Dubai Duty Free moves over 120,000 pallets per year from the warehouse to the shops and has implemented a state of the art semi-automated warehouse to cope with these volumes. By creatively utilizing the latest information technology solutions, Dubai Duty Free has been able to scale its business while minimizing the warehouse space.



*DDF'S automated warehouse employs the latest technology in logistics and seamlessly moves over 120,000 pallets per year to the retail area*



### **“The Fly Buy Dubai” - An Award Winning Marketing Campaign**

The Fly Buy Dubai marketing campaign was conceptualized early on and launched formally in 1984, lasting about a quarter of a century. It gave lasting identity to the emerging operation. Beyond supporting the aim of promoting the brand ‘Dubai’, it also promoted the wider aspiration and vocation of the emirate as an air transit hub. “Fly Buy Dubai” - those three words are perhaps the best expression of the symbiotic relationship between increased passenger traffic and visits to Dubai with the prosperity of the enterprise. It won in 1986 the prestigious Frontier Award for ‘Best Marketing Campaign’.



*H.H. Sheikh Ahmed Bin Saeed Al Maktoum and Mr. Colm McLoughlin*

### **Creative and Sophisticated Marketing**

Throughout its history, Dubai Duty Free has placed a premium on place creative, internationally recognized marketing campaigns and promotions, which is also a theme featured in WEF-GCI indicators. Dubai Duty Free has awarded 1,500 luxury cars to winners from 70 countries in the Dubai Duty Free Finest Surprise promotion which was launched in 1989. Since 1999, Dubai Duty Free has created 133 Millennium Millionaire winners winning US\$1 million each, and six Double Millionaire winners were awarded with US\$2 million.

## **Diverse, Long-Serving Staff**

Developing and retaining staff is highlighted as a competitiveness theme in both the WEF-GCI and IMD-WCY, as well as female participation in the labor force. Dubai Duty Free has always maintained a commitment towards developing staff and employee retention. Today, Dubai Duty Free employs around 4,680 people, with a very low turnover rate of around 9.9%. About 47 of the original 100 employees are still with the company.

These high levels of staff retention are due, among other things, to a policy at Dubai Duty Free of internal promotion and commitment to train and develop its staff. Dubai Duty Free staff training occurs both in-house and through third-party providers. In-house training programs developed by Dubai Duty Free include courses such as 'World Class Service', 'Selling Skills', Harmony in a cultural diversity. Other courses such as e-Learning training, product training, and selected staff members get access to training opportunities through third-party providers in more specific soft and technical skill areas.

Dubai Duty Free has embraced the importance of diversity as a business imperative and as a source of excellence in service, market insights and overall competitive advantage. It offers a diverse working environment employing staff from 45 different countries. In addition, its strong commitment to gender equality has resulted in over 50% of the total workforce being female. The utilization of female talent is even larger when considering only senior positions, since an impressive 36% of all Dubai Duty Free managers are women, including two vice presidents and several senior managers.

## **Dubai Duty Free: A Good Corporate Global Citizen**

The IMD-WCY measures whether social responsibility in business leaders is high. In this respect, Dubai Duty Free provides ongoing financial support to more than 45 charities supporting diverse causes such as improving medical treatments for terminal diseases, humanitarian relief funds, assistance to the disabled, and promoters of culture and arts. These organizations include the Al Noor Training Center, Médecins Sans Frontières, King Hussein Cancer Foundation, The Smile Train, SightSavers, The Princess Haya KHDA Initiative, the Emirates Diving Association and the Dubai Center for Special Needs, to name a few.

Additionally, the company is committed to reducing the environmental impact and health and safety risks associated with the warehousing and retail of its goods. As such, it operates an Integrated Management System in accordance with the requirements of ISO14001:2004 and OHSAS18001:2007, with the objective of providing a safe and environmentally friendly environment for employees, customers and neighbors.



## A Multiple Award Winner Over 250 Awards and Growing

To date Dubai Duty Free has received more than 250 awards from international, regional and local entities, which bear testimony to the operation's retail success. Examples of them are the Global Traveler (US) presentation of the 'Best Duty Free Shopping' trophy to the operation for the past five consecutive years. At the inaugural ceremony held for The Middle East Accountancy and Finance Awards, Dubai Duty Free was presented with the award for 'Excellence in Innovation' for the retail operation's outstanding warehouse projects.

And, from Frontier Awards, which are considered equivalent to the "Oscar's" of airport retailers, Dubai Duty Free is a frequent winner of the annual Airport Retailer of the Year, Best Marketing Campaign, and many others. The operation was also honored at the Sheikh Mohammed Bin Rashid Al Maktoum Patrons of the Arts Award as 'Patrons of the Arts' in April 2012 for its contribution towards cultural and arts initiatives in Dubai.

### **Beyond the Enterprise: The Impact of Dubai Duty Free**

Dubai Duty Free has been a major feature in enhancing and showcasing the Dubai brand and the image of the UAE as a whole. It's been one of the early promoters of Dubai, even before the launch of the also award-winning Emirates Airline. From the start, the symbiotic relationship with the growth of the rest of the aviation sector was envisioned and made an integral part of its strategy: more passengers led to more shopping, and better shopping leads to more passengers.

Dubai Duty Free is a part of, and has been instrumental in the growth of the aviation sector which is a major contributor to the economy. According to a report by the Global research firm Oxford Economics, the sector currently accounts for \$22 billion, or 28% of Dubai's GDP.

Through its strength, innovative drive, and recognition of the synergistic relationship between passenger growth and increased revenues, Dubai Duty Free has been a force in promoting premier sport events in the Emirate. In the early days it organized the World Karate Championship, sponsored the UIM World Power Boat Race, and it is a major sponsor in horse racing events.

Notably, Dubai Duty Free built the Dubai Tennis Stadium at the Aviation Club and owns and organizes the annual Dubai Duty Free Tennis Championships, comprising a Women's Tennis Association (WTA) week played back-to-back with an Association of Tennis Professionals (ATP 500) tournament. This has become a favorite of many top ranked players who have regularly voted Dubai as the 'Tournament of the Year' in the last 20 years and is regarded as a 'mini Grand Slam'.

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<sup>1</sup> Oxford Economics: Explaining Dubai's Aviation Model, June 2011



# Today's Accomplishments, Tomorrow's Aspirations

Dubai Duty Free has proved to be more than a successful adaptation of the Irish expertise in duty free retailing. While the basic model was imported, it was built upon and enhanced with innovations of its own in Dubai. Moreover, in 1983 when Dubai Duty Free there was not much of a duty-free industry in the Middle East. Dubai Duty Free virtually built it from scratch - establishing a powerful precedent and serving as a catalyst for development of the duty free industry in the region. The series of innovations detailed here, have impacted the industry and have been replicated elsewhere regionally and also in other latitudes.

Indeed, over the decades after the opening of the first duty free in 1947, the concept spread globally and is now an industry worth some US\$46 billion. However, one can speak of a mature, consolidated industry only after it reached new heights and being showcased in the way it was done in Dubai. With the advent of Dubai Duty Free managing retail space and duty-free operations as an after-thought became a thing of the past.

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#### About the Article:

The case study was written prior to the opening of the dedicated Airbus 380 Concourse which is expected to open in early 2013 with an expected annual number of passengers surpassing 15 million. The article was initially written by Marcos Arocha, an Advisor to the Emirates Competitiveness Council at the time of writing this paper, on the basis of a series of interviews with Executives from Dubai Duty Free between in June-July of 2012. Contributions and editorial support were provided by Emirates Competitiveness Council staff: Najeeb Al Ali, Alya al Mulla, Samer Kustantini, Shaheena Mohamed, Thuturaya Al Hashimi, Hana Ahli, Hanan Ahmed, Maryam Al Madhani, Fatheya Essa Juma, Kai Chan and Mohammad Hassan Ahli.

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#### About the Author:

Marcos Arocha previously worked as a consultant for many competitiveness programs supported by national governments and development agencies around the globe. He holds a Master of Science in Foreign Service (MSFS) from Georgetown University (Washington DC).

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