



## PERFORMANCE REPORT FY 2014

**Duty Free Philippines Corporation** had a rewarding FY 2014 in terms of achievements. Given the unfavourable industry and economic conditions, the company still has risen to the challenges, continued with its programs and services, all to better serve its customers. DFPC's efforts were rewarded with an international recognition as well as the highest global quality seal.

### *2014 Highlights*

- ***Frontier Awards Winner for Outstanding Contribution to the Industry***

DFP was awarded a Frontier trophy for "Outstanding Contribution to the Industry", the most prestigious among the awards given to "...honour those outstanding travel retail professionals or groups whose achievements transcend individual businesses to bring enduring benefits to the industry as a whole." This was the first time the award was given to a corporation. The Frontier Awards is considered the Oscars of the international travel retail industry.

DFP was also a Frontier finalist this year in two other categories:

- **"Partnership Initiative of the Year"** category for *"Celebrate and Donate"* -- a collaboration with Diageo wherein U\$1 was donated for every unit of Johnnie Walker product sold to victims of Typhoon Yolanda; and
- **"Specialty Concept of the Year"** for *"Media Noche Pack"*, an in-store project of DFP's flagship store DFP Fiestamall wherein customers bought and donated baskets of food and drinks to be given to Typhoon *Yolanda* victims for their traditional New Year's Eve family get-together

- ***ISO 9001:2008 Certification***

DFP was finally conferred with the international quality seal by TÜV Rheinland Philippines. DFP successfully met the requirements for the Quality Management System hence proving the agency's commitment to provide the highest quality products and services to its customers, the international travelers, most especially the *Balikbayans* and Overseas Filipino Workers.

DFPC's overall performance and business operations were however affected by various critical external forces which led to the non-attainment of targets. Sales failed to meet expectations, posting a 3% year over year downturn from \$237 million to \$229 million. Customer count for the Fiestamall, the agency's flagship store, also recorded a drop of 2.6%, or 8,081 from 305,561 in 2013 to 297,480 in 2014. DFPC's plans for the year were derailed by the following uncontrollable factors:

- ***Typhoon Yolanda's Adverse Impact On Consumers' Shopping Habits***

Typhoon Yolanda devastated the Philippines in November of 2013.

The holiday season historically is the strongest period of the year for the Duty Free Philippines. Sales revenues peak during the period November 16 to January 15 as arrivals of Balikbayans and OFWs, the primary markets of DFP, spike due to the Christmas holidays.

The fallout from Yolanda hit DFP immediately. As expected, shopping was the farthest from every Filipino's mind – most especially for aspirational and luxury items which DFP is most known for. Add to the fact that for the first time in more than 2 decades, the implementation of a sales incentive program was disapproved – a vital component of any retail sales operation to encourage efforts to push for incremental sales. The effects persisted in the first 3 months of 2014.

- ***Sin Tax Law's Effect on Consumer Demands for Sin Products: Liquor and Cigarettes***

Though implemented in January 2013, this legislation only hit DFP in the 2<sup>nd</sup> quarter of 2013 due to the fact that inventory sold in the 1<sup>st</sup> quarter were purchased pre-Sin Tax 1<sup>st</sup> half of 2012. As a result, with the Sin Tax Law in full effect in 2014, this had a profound effect with the significant reduction in DFP's gross profit.

- ***DFP's Slow Transition to Government Caused Dip in Employee Morale***

Employee morale was also sliding, already without a sales incentive, the delay in the release of the Performance Based Bonus was also a source of dissatisfaction and resentment. Add to this the ongoing transition from being a private sector entity to a GOCC which resulted in no employee salary increases since 2008.

- ***Airport Renovation and Relocation of Major Airlines Affected Store Operations***

The renovation of the NAIA Terminal 1 disrupted operations of our DFP outlets situated there. Existing store structures were torn down to give way to the construction activities. Arrival Gate 1 outlet closed in March. An interim alternative selling space was provided around the restrooms but was then closed by mid-May resulting to only one Gate operating until July. At the Departure area, our boutiques (Lacoste, ETC, Body Shop) at the east side lounge were moved to the Sampaguita area while the west satellite shop was permanently closed.

The transfer of five major international airlines (Delta, KLM, Emirates, Singapore and Cathay Pacific) to Terminal 3 led to a -48% or approximately \$6.2 million decline in 4<sup>th</sup> quarter arrival sales against SPLY of DFP's Terminal 1 store. The sudden relocation of these airlines rendered our existing arrival store at Terminal 3 --- with its size and layout --- unfit to accommodate such heavy influx of arrivals.

The airlines' relocation of operations to NAIA Terminal 3 also led to sales opportunity loss for DFP as arriving passengers found it inconvenient and time consuming to travel from Terminal 3 in Pasay City all the way to DFP's biggest branch, the Fiestamall, in Paranaque City.

- ***Road Constructions Influenced Customer Behavior***

The construction of the elevated toll-way linking NAIA to the Entertainment City in Manila Bay has also resulted in a traffic gridlock in the North bound portion of Sucat Road beginning from the gates of DFP Fiestamall stretching to Nayon Pilipino. This is the same stretch of road whose traffic North bound arriving passengers will endure upon exiting NAIA and thus would likely lessen their enthusiasm to return and shop at the Fiestamall.

- ***Port Congestion Resulting To Out- of- Stock Situations***

From an operations stand point, the ongoing problems at the ports have also impacted DFPC. The lack of space to unload incoming containers has led to the delay of the arrival and consequent unloading and the release of DFPC's imported cargo. Furthermore, the crackdown on colorum trucks as well as the shorter trucking hours in Manila has resulted in the tripling of hauling services.

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To manage and compensate for the abovementioned external factors, DFP implemented several enhanced plans and programs to basically push customer traffic and spend.

- ***Marketing Campaigns to Improve Customer In-store Traffic and Purchase***

A marketing initiative anchored on the tagline "*The New Duty Free*" was developed. The said campaign aimed to introduce to DFP's target customers the opening of new provincial stores, the renovation of existing outlets and the introduction of new brands exclusively available in DFP's outlets.

DFP has also tied up with suppliers to increase in-store promotions to boost Average Sales per Customer. Cross category promotions to build incremental sales as well as in-store raffles were launched so as to be able to generate impulse purchases. Efforts were also exerted in building up Seasonal events to increase awareness for DFP - examples of which are the Anniversary Sale, end-of-season discounts and Chinese New Year/Easter/Halloween festivities to name a few. Lastly, specific to liquor and tobacco products, DFP has initiated sharing subsidies on product specific discounts for traditional *Pasalubong* SKU's to ensure their competitiveness against predatory pricing of DFP's competitors.

To build on its corporate image but with customer focus and satisfaction remaining our topmost priority, DFP has taken it upon itself to supply refreshing ice cold drinks and breezy hand held fans to both arriving and departing passengers to help alleviate the scorching heat due to ongoing construction activities at the NAIA.

- ***Sales Promotions to Arrest the Low Sales and Customer Turn Out***

A Peso Power Promo was implemented during the months of February and March 2014 at the Fiestamall. By pegging the exchange rate to P40 per U\$1, it effectively gave DFP customers at least a 10% discount on all purchases across the board. Note that payments in foreign currencies would also be discounted in the form of a discount rate based on the percentage difference between the BSP US Dollar rate for the day and P40. This helped lessen the impact of the Sin Taxes but more importantly, it cushioned the effects of the weakening Peso which effectively made DFP's US Dollar based prices more expensive in Peso terms.

The Peso Power promotion was coupled with an intensified distribution of flyers at the NAIA terminals to inform and entice arriving passengers to take advantage of what effectively was a 10% price reduction at the Fiestamall. Efforts were made to identify so-called "buying flights" - those filled with returning *Balibayans* and OFWs - whose passengers were historically more prone to purchasing "*Pasalubong*" for their families and loved ones.

- ***Store Expansion to Address Shoppers' Persistent Demand for Accessibility***

The 1<sup>st</sup> quarter of 2014 saw the opening of two new Duty Free stores. Tourists and balikbayans' can now get their favorite duty free branded items upon arrival in Iloilo. The 70 sq.m. Duty Free shop at the Iloilo International Airport is well-stocked with a considerable mix of confectionery, liquors/wines/champagnes, cigarettes and local merchandise. While those coming home or visiting Iligan and Cagayan de Oro, the provinces of Misamis Oriental and Lanao del Norte can shop for their pasalubongs at DFP's Laguindingan International Airport arrival store.

Currently, designs for a new land side arrival store in Terminal 3 are being developed. Set to open end of the 1<sup>st</sup> quarter of 2015, it will become DFP's largest airport based store with a massive 6,000 square meters of retail space. It seeks to address the increasing traffic of arriving passengers in the said terminal due to the impending transfer of the major international airlines. It also will become a viable option to customers coming from the North of Metro Manila looking to avoid the traffic congestion prevalent in the vicinity of the Fiestamall. Similarly, the air side outlets of Terminal 3 for both departure and arrival are also being expanded and renovated.

Also set to start construction this 2015 once contract is signed is another arrival store at the new Bacolod Silay Airport.

- ***Store Renovations to Sustain DFP's World-Class Image***

As part of DFP's commitment to stay at par with world class standards and remain competitive with the international travel retail environment, DFP has undertaken various renovations and refurbishment works.

In Fiestamall, the Fashion and Fragrance area was given a new look. The ceiling and flooring were improved with a more modern visual aesthetics. Several boutiques were also renovated, such as Coach, Time Square and Pandora.

For the first half of 2014, the Departure stores at the NAIA Terminals 1 and 2 introduced new boutiques at the Perfumes, Cosmetics and Fashion areas boasting of a more streamlined design so customers can easily and conveniently browse and shop for their favorite brands. By the second half of the year, the Liquor and Tobacco area at the Terminal 2 was also renovated to create a contemporary travel retail environment.

Construction of new and bigger areas were undertaken at the NAIA Terminal 3 such as the Liquor and Chocolate sections at the Departure area, as well as the Arrival Landside store.

For DFP's provincial outlets, renovations were undertaken at its Mactan International Airport Arrival store, Pre-departure store and Waterfront Hotel branch in Lahug.

Construction of the arrival and departure outlets at the Laguindingan International Airport was completed in January.

- ***New Product Offerings to Meet Travel Retail Standards and Customers' Demands***

Despite the reduction in customer penetration, DFP had to expand its merchandise lineup to remain competitive, be at par with international duty free standards and meet the rising demands and discriminating taste of duty free shoppers.

This year, DFP was able to introduce more brands of watches such as Michael Kors, Cerruti, Etienne Aigner, Armani, Superdry and Timberland in a more elegant and fully redesigned Time Square

boutique. More variants of cigarettes were promoted and a new Tobacco brand, Seneca, was launched. The Philippine Gifts section now accommodates more products such as the Laguna and Manila Chocolates. The Electronics section now houses more brands such as Fedders, Dyson, Panasonic and a fine selection of gadgets. The Fashion, Beauty and Sporting sections welcomed more popular brands this year such as Coach, Coccinelle, Milano, CK Eyewear, Villebrequin, See by Chloe, Bath & Body Works, Adidas, Sperry Topsider, Merrell, Sketchers, and Herschel. DFP 's shelves now display more products for babies and toddlers.

- ***Social Media Campaign to Boost DFP Awareness***

DFP has been active on Facebook, YouTube, Twitter and just recently, Instagram. It's official portal at [www.dfp.com.ph](http://www.dfp.com.ph) is constantly updated. The social media has been DFP's effective marketing machinery to provide potential online customers instant information, satisfaction and gratification. DFP intends to sustain this program as it provides an excellent opportunity to reach the global audience at the lowest possible cost.

- ***Corporate Social Responsibility Program to Boost DFP's Image***

DFP C.A.R.E.S. which is DFPC's Corporate Social Responsibility program, has been deep in activities raising funds to be used for the immediate rehabilitation of the victims of Yolanda. Donations from its peers in the travel retail industry have been channeled into DFP C.A.R.E.S. with the vision of building 100 homes in a community in Leyte which would one day be known as the Travel Retail Village.

### ***2015 DFPC Plans to Appeal for the Amendment of Specific Legislation Regulations Affecting DFP Operations***

The DFPC shall seek the help of its partners in Government on two major issues.

The granting of an exemption from the Sin Taxes arising from new legislation is on top of the agency's wish list. This would allow DFP to compete with local retailers who utilize "loss leader" strategies in order to undercut the pricing of DFP's most popular alcohol and tobacco items.

DFP shall also lobby for the extension of the shopping window / privilege granted its customers. Given the worsening traffic and the opening of numerous alternative retail outlets, the 48 hours and 15 days shopping period allowed for regular international travelers and Balikbayans/OFWs respectively should ideally be extended to 7 days and 30 days.