CHAPTER 1.2

Crisis Aftermath: Pathways to a More Resilient Travel & Tourism Sector

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Over the past two decades, Travel & Tourism (T&T) has become one of the world's leading exported commodities with airlines, hotels, restaurants, and other tourism-related businesses driving a multibillion-dollar global industry. During the economic downturn of 2008–09 it came as no surprise that this sector could not escape the impact of the most significant economic collapse since the Great Depression. Even so, tourism officials and market observers were astonished by the pace and intensity with which major tourism destinations and economies tumbled into recession after years of continuous growth. The number of international tourist arrivals dropped by 4.2 percent from 2008 to 2009—the sharpest decline in history.

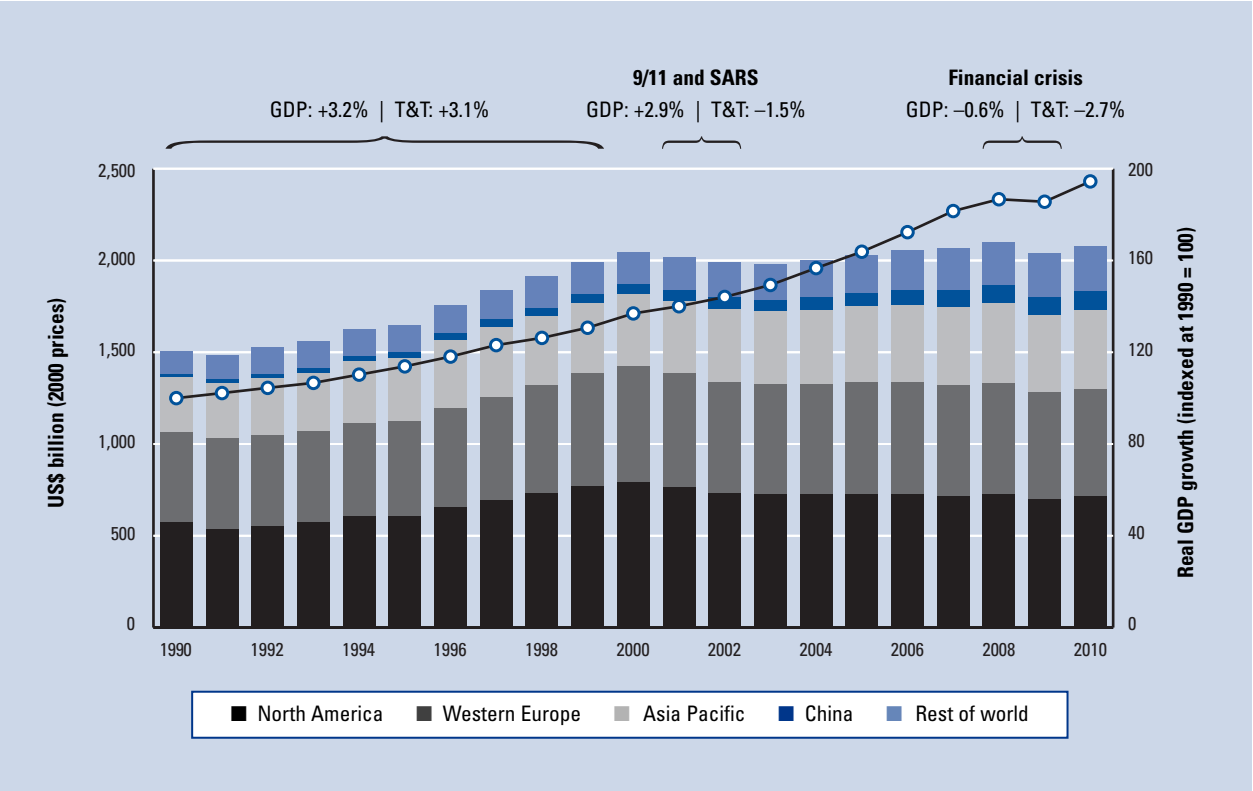
Despite increasing numbers of international tourist arrivals in the last decade prior to the setback of this crisis, global spending on personal Travel & Tourism has stagnated since 2000 when measured in real terms, with an average annual growth of just 0.1 percent, and has not followed the general economic growth (compound annual growth rate, or CAGR, of 3.6 percent) experienced in the decade of 1990 to 2000, as shown in Figure 1.

Travel spending from major source markets such as Western Europe and North America still fueled the overall sector's growth in the 1990s, but this has declined slightly in the past decade in North America (with a CAGR of 1.0 percent) and Western Europe (CAGR –0.7 percent), while China has maintained impressive momentum with 7.2 percent per annum. These developments highlight the point that structural change is already underway and has been amplified, but not initiated, by the current economic downturn.

The T&T sector has always been sensitive to external shocks, although the most recent crisis has caused a stronger dip than previous downturns. For example, in the aftermath of 9/11, travelers avoided flying for a couple of months but quickly picked up their usual travel behavior thereafter. This led to a drop of 1.5 percent in travel spending from 2001 to 2002, while overall GDP growth was unaffected (+2.9 percent). The recent economic crisis led more people to change their travel plans more significantly because of their worsened economic situation, reflected in a 0.6 percent drop in real GDP growth from 2008 to 2009.

Consequently, the economic crisis left travelers from the western hemisphere insecure about their future economic well-being and for a short time in late 2008 and early 2009 made distant travel look like what it was just a few decades ago: a luxury affordable to only a lucky few. However, from 2009 to 2010, spending on personal Travel & Tourism is expected to have recovered somewhat, with an increase of 1.6 percent. This increase still, however, lags significantly behind global GDP recovery which is 4.7 percent, according to the International Monetary Fund (IMF) October 2010 *World Economic Outlook*.

Figure 1: Personal spending on Travel & Tourism (US$ billion in 2000 prices) vs. global GDP (real growth rate)



Sources: WTTC; IMF, 2010; Booz & Company analysis.
Note: *GDP* refers to the indexed real growth rates; *T&T* refers to personal spending on Travel & Tourism.

Even if the short-term outlook for the global T&T sector is considered promising, tourism destinations will continue to face increasing volatility of traveler demand caused by short-term shocks such as economic downturns, oil price spikes, carbon cost/environmental regulation, currency fluctuations, pandemic outbreaks, terror attacks, and political upheaval.

Tourism nations are also exposed to longer-term structural shifts that challenge tourism development strategies and range from destination marketing to product offerings and infrastructure planning. Overarching forces set to shape the future of the T&T sector include:

1. a continental drift of economic gravity to the East,
2. lack of growth in western hemisphere markets, and
3. shifting travel patterns to more regional/domestic travel.

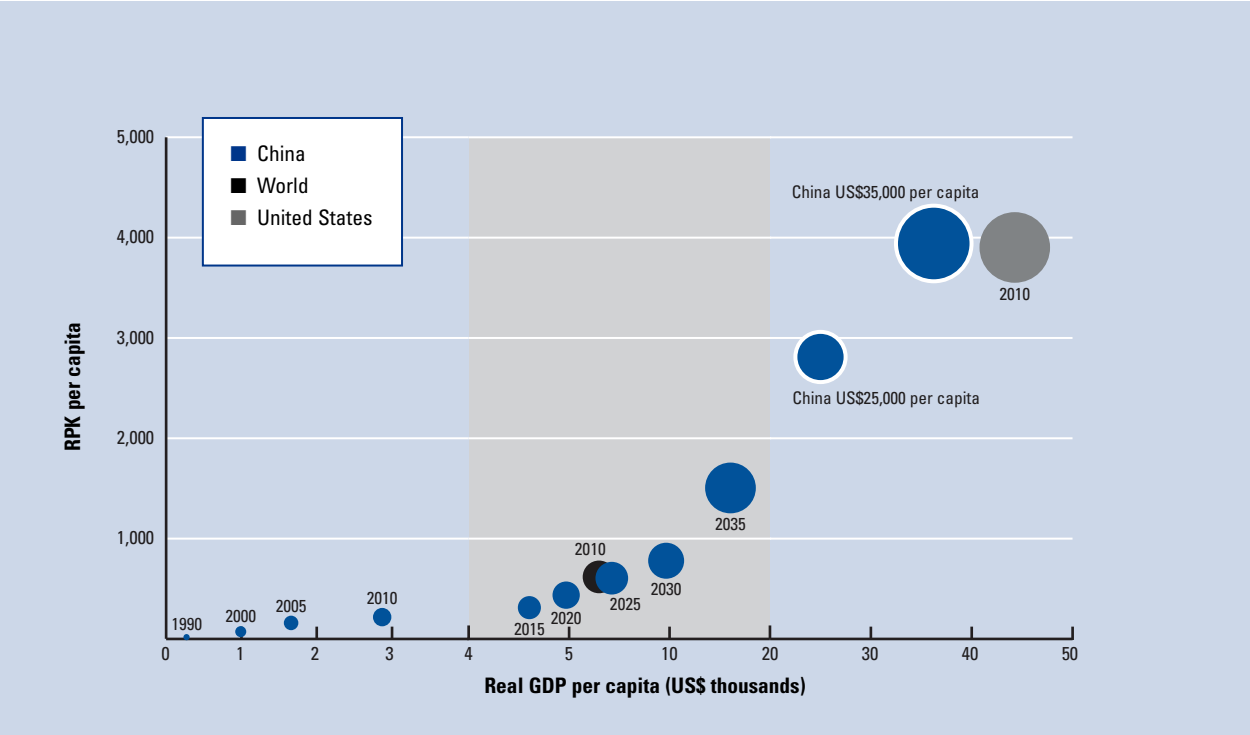
Both short-term and long-term factors will urge policymakers to develop new answers to looming new realities. The interplay of short-term demand shocks and long-term structural drift is slowly but surely changing the global T&T landscape, demanding quick-response capacity combined with strategic foresight from policymakers to enable national T&T sectors to continue to create economic benefit.

This chapter discusses the major driving forces that continue to influence the T&T sector throughout and after the crisis period of 2008–09. We also analyze which countries have felt the pain from the downturn and which have managed to grow throughout the crisis, and discuss reasons and change factors using individual country examples. Finally, from these cases, we outline implications for policymakers and map out potential pathways for managing downturn periods tactically while simultaneously developing consistent strategies for turning structural market drifts into opportunities. When these efforts are successful, the T&T economy will experience more crisis-resilient growth and show a consistent advantage over competing tourism destinations.

Trend 1: A continental drift of economic gravity to the East

Nascent middle classes from emerging outbound markets in China and other regions continue to move up but have not yet reached the critical volumes needed to fully replace the western hemisphere as the global T&T growth driver. However, BRIC countries (Brazil, Russia, India, and China) alone represent 42 percent of today's world population, which makes tourism officials dream

Figure 2: Propensity to travel vs. GDP per capita: China, world average, and the United States



Sources: UN Population Department; IHS Global Insight, 2010; FAA, 2010; National Bureau of Statistics of China, 2009; Booz & Company analysis.
Notes: GDP per capita is shown in constant 2005 prices. Bubble size indicates RPK per capita in respective year. Bubbles outlined in white indicate estimated RPK per capita based on assumed values for GDP per capita. The projection for China's theoretical RPK per capita on assumed values for GDP per capita of US$25,000 and US$35,000 is calculated based on the correlation of GDP and RPK 1975–2010 (linear progression with $R^2 = 0.98$).

of an enormous demand waiting to be unleashed as increasing prosperity enables people to travel abroad.

Outbound travel from China has proven resilient to the economic downturn. It has continued to grow by 4 percent in trips and 4 percent in spending from 2008 to 2009, whereas global Travel & Tourism contracted sharply by 4.2 percent and 5.7, respectively. Sixty-one percent of all Chinese travel activity in the past 15 years has been undertaken since 2005, showing swift growth. Notably, 90 percent of Chinese travelers prefer to stay in Asia for their holidays, and a large portion of the population is able to afford only domestic travel.

The downturn following the meltdown of financial markets in 2008 has not altered the fundamentals of the T&T industry because the propensity to travel increases with disposable personal income available for discretionary spending, as shown in Figure 2. China's travel activity—measured in revenue passenger kilometers (RPK) per capita—is well below the world average for 2010 and is not expected to reach that average before 2025. Thus even by 2025 there will still be a huge gap between air travel activity in China and that in developed economies.

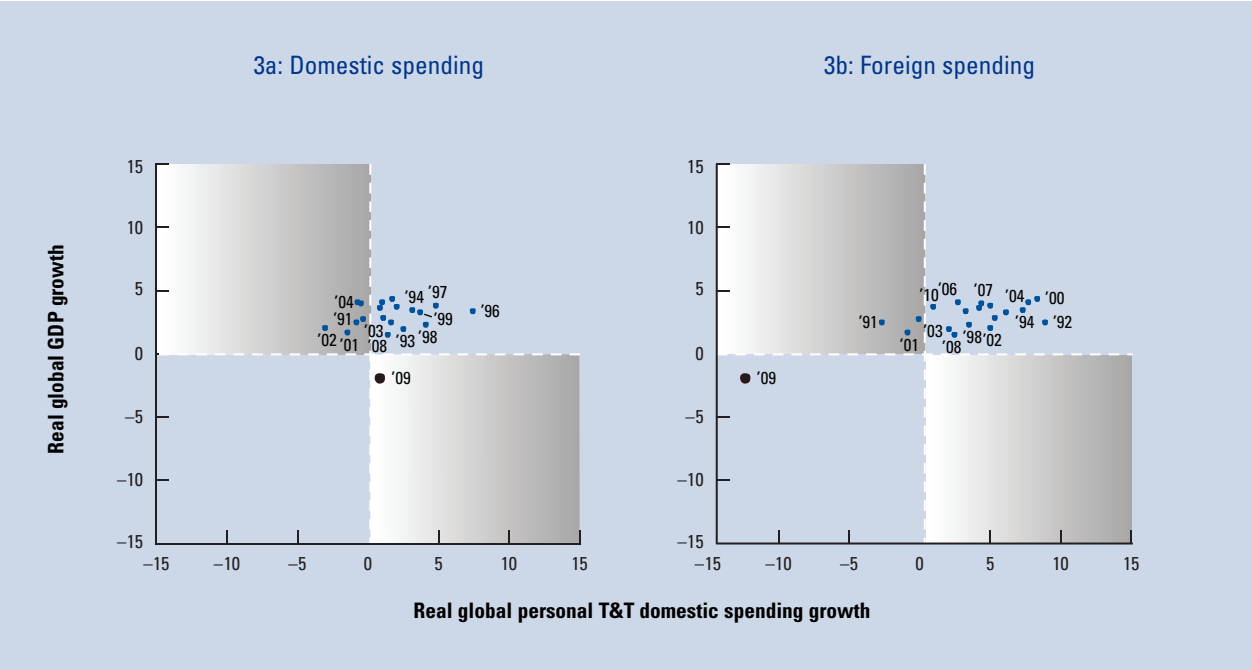
Ultimately, the growth of new source regions is going to push the economic center of gravity from the western hemisphere eastward. To cater to the needs of tourists from BRIC countries bears enormous potential for both traditional tourist destinations as well as emerging touristic hot spots that compete for visitor shares. To tap into these emerging tourist segments, destination managers must develop a clear value proposition for this group of travelers and reduce access barriers in terms of regulations, tour packages, and—last but not least—cultural and language issues.

Trend 2: No growth in western hemisphere markets

Western Europe and North America represented 70 percent of total global personal spending on Travel & Tourism in 2000, but this share decreased to 62 percent by 2010—an average annual decline of 1 percent (North America) and 0.7 percent (Western Europe) based on real terms. This trend has been accelerated by the greater price sensitivity of travelers who get used to seeking the best bargain when it comes to private consumption of any kind. The travel industry has been experiencing price competition for a long time, forcing the sector to take advantage of new distribution channels such as online and to establish new business models such as low-cost carriers. This has resulted in improved efficiencies along the tourism value chain that offset price pressure.

During the downturn, travelers became less engaged with the traditional sun-and-beach destination brands and looked instead for the best value in a two-hour flight range. This has fueled growth along the cheaper

Figure 3: Sensitivity of personal T&T spending to GDP growth by year (in real terms, 1991– 2010)



Sources: WTTC, 2010; IHS Global Insight, 2010; and Booz & Company analysis.

Mediterranean countries and left euro zone countries such as Spain, Greece, and Portugal coping with declining tourism traffic. For example, in the summer of 2009, UK travelers cut trips to Portugal (–28 percent), the Canary Islands (–21 percent), and the Baleares (–13 percent) over the summer of 2008. They opted instead for Egypt (+34 percent) or Tunisia (+21 percent), which offer similar experiences at more favorable cost. Notably, exchange rate fluctuations as a side effect of the crisis have played an important role as price drivers in choosing where to go. Exchange rate fluctuations can be expected to become even more eminent with future currency volatilities on the horizon.

Mass markets in European destinations are likely to remain under the influence of consumer austerity and demand volatility. Prospects can be expected to lighten up with the baby boomer generation reaching pension age in the western hemisphere in the mid term. However, the demographics of this group of affluent travelers will differ from today's mass markets. Tourism destinations will need to fulfill the needs of well-traveled sophisticates with diversified and high-quality travel experiences rather than mass market products.

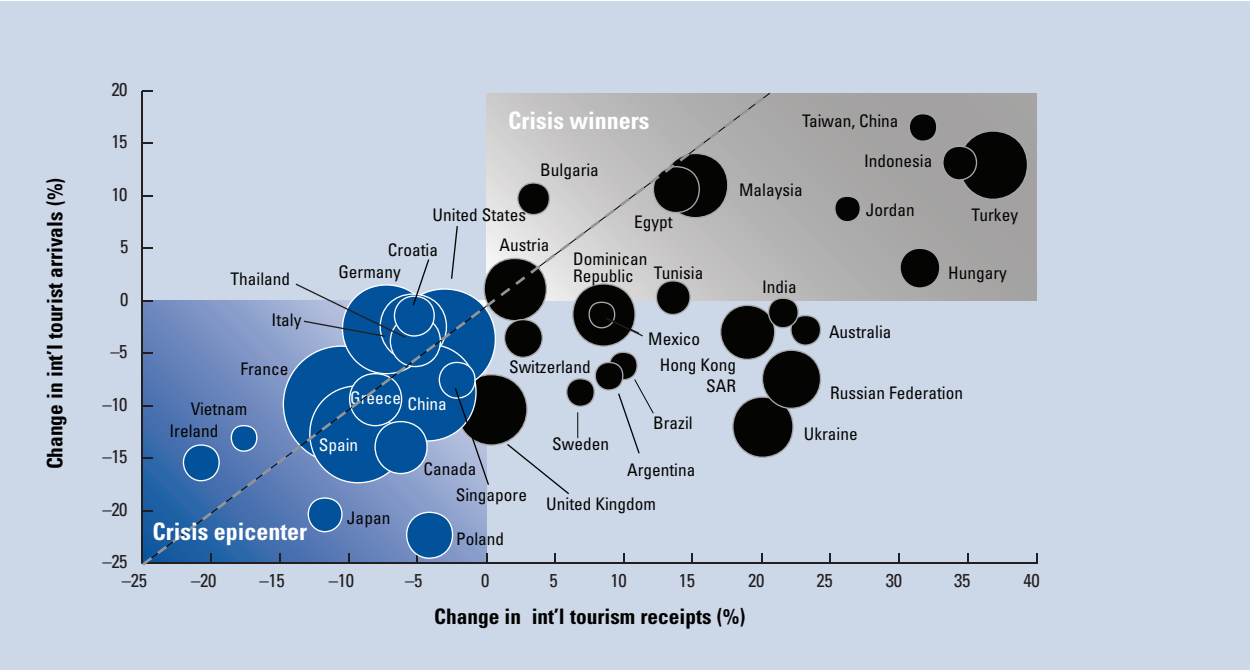
Trend 3: Travel patterns shifting to more regional and domestic travel

In emerging nations, domestic and regional travel represents a highly promising tourism market in its nascent stage, even if long-haul travel has not yet reached significant volume because of low average levels of disposable income. However, domestic travel can mean a massive volume of touristic activity. The Chinese people alone undertake an estimated 1.5 billion domestic trips per annum nearly twice the number of all international tourist arrivals globally.

Underlying consumer trends in the western hemisphere see a shift from the classical annual holiday abroad to more frequent, shorter trips enabled by the proliferation of low-cost air travel and more flexible work-life arrangements. Domestic travel represents massive shares in overall travel spending in some large countries, such as Germany, Scandinavia, and the United States. In Germany, for example, income from foreign visitors has been estimated at €59.9 billion in 2009, compared with €63.3 billion expenditures by residents on vacation in Germany. Although hotel overnight accommodation of foreign visitors in the country fell by 3 percent from 2008 to 2009, inland numbers remained stable (+0.3 percent), helping to stabilize the sector from demand drops.

The economic crisis has prompted even more travelers in predominant source markets to visit domestic destinations, saving on expensive long-haul air transport and leading to countercyclical effects in offsetting fewer international receipts by more domestic spending. External risks such as terrorist attacks or unfavorable exchange rate fluctuations in preferred destinations are likely to drive the propensity for traveling domestically.

Figure 4: Impact of the economic crisis on major tourism destinations (2007–09)



Sources: UNWTO, 2010; Booz & Company analysis.
Notes: Bubble size indicates international tourist arrivals in 2009. International tourist receipts were based on local currency units applying an annual average exchange rate of each currency versus current values in US dollars.

Spending on domestic tourism has proven to be more crisis-resilient than travel money being spent abroad, as shown in Figure 3. It is important to note that, from a policymaker's point of view, domestic spending directly supports the home economy because it originates from residents who would have otherwise spent their money abroad. In the longer run, domestic tourism may gain even more importance because regional travelers will aim to avoid the increasing cost of long-haul travel and benefit from lower transport costs to domestic destinations.[1]

In this respect, regionally focused and domestic tourism is playing an increasingly important role in traditional and emerging tourism economies because residents of emerging nations tend to explore neighboring regions before taking long-haul trips, and Europeans and Americans redirect parts of their travel activity to inland destinations to save money. It will be important for policymakers to put regional and domestic tourism on their T&T development agenda when looking at the sector as a whole.

Crisis winners and losers: Lessons learned

The period from 2007 to 2009 highlights the direct impact the financial crisis has had on tourism economies. The overall performance as a T&T destination is determined by international tourist arrivals as an approximation of demand, and the change of international tourism receipts is an indicator of the sector's overall economic well-being in terms of money inflow.

Most major destination economies clearly suffered during the crisis, but some have managed to weather the downturn successfully and have grown in spite of the global contraction of the travel market. Winning destinations—such as Malaysia, Taiwan, and Indonesia—had already experienced some increasing demand from emerging outbound travel activity out of China. Others—such as Turkey, Bulgaria, and North African countries—gained throughout the crisis by attracting price-sensitive travelers from crisis-struck outbound regions in Western Europe.

Economies losing both on tourist arrivals and international tourism receipts are considered to represent the crisis epicenter, as shown in Figure 4. These are the major European and North American destinations that suffered from weakened long-haul or regional source markets. Most of them—France and Spain being among the most visited countries worldwide—also lost significantly on tourism receipts, hinting at less revenue per visitor and, thus, price pressure. Recovery was already visible during the second half of 2009 and the first half of 2010, but it remains to be seen what long-term effect the crisis might have on price levels in these economies.

Countries that were slow to adapt to changing demand patterns—such as Vietnam—and that bet on continuing growth from Western European and North

American source markets lost significantly during the crisis.

Some countries have managed to maintain growth in tourist arrivals during the downturn by enjoying an increase caused by fortunate events or circumstances. An example of such growth is Taiwan, which attracted large volumes of travelers from the Chinese mainland after direct flights were resumed in July 2008. Bulgaria has kept its growth momentum partly because (and not despite) of the crisis attracting budget-orientated tourists from Western Europe seeking low-cost alternatives to traditional sun-and-beach destinations in the euro zone. More than 75 percent of Hungary's inbound travelers in 2009 were same-day visitors from neighboring countries who were drawn in by the favorable exchange rate of the Hungarian currency.[2]

Winners of the crisis managed to increase international tourist arrivals and value creation in terms of more receipts, thus demonstrating favorable long-term T&T prospects. For example, Turkey has turned the economic crisis into an opportunity for its travel sector by offering attractive prices on sun-and-beach products similar to those of competitors in the Mediterranean such as Spain, Italy, and Greece. At the same time, Turkey started to direct its destination-marketing efforts toward more diversified travel segments such as winter sports, cultural experience, health tourism, and sailing tourism.

As another example of a T&T winner throughout the downturn, Malaysia has harvested the fruits of its long-standing tourism promotion strategy during the economic crisis, driven by dedicated development policy fostering close collaboration between the private and public sectors. Destination marketing has been focused on crisis-resilient demand from regional sources such as China as well as long-haul markets with a clear focus on high-yield segments such as nature adventure (including ecotourism), cultural diversity, family fun, affordable luxury, and MICE (Meetings, Incentives, Conventions, and Exhibitions). Malaysia has also established innovative vacation formats, such as its homestay program, which allows tourists to experience "real life" in resident families while discovering the country by rail. It also encourages high-net-worth individuals to choose the country as a permanent secondary residence ("Malaysia My Second Home").

Countries in the winning zone fall broadly into two categories:

Destinations benefitting from China as an emerging and crisis-resilient outbound market—such as Malaysia, Taiwan, and Indonesia—have done well. And countries such as the Dominican Republic, which anticipated the looming decline in its traditional source markets in the United States and Europe, quickly adapted to grim short-term outlooks by redirecting destination-marketing efforts to alternative source markets with similar spending and travel habits, such as Canada. These countries have managed to keep international tourism receipts above the downward trend by focusing on crisis-resilient source markets.

Providing a low-cost alternative to traditional destinations has been the recipe for success for markets within the reach of Western Europe—such as Turkey, Tunisia, and Egypt—which have enjoyed steady growth while their direct competitors from the euro zone suffered. However, it will be important to consider a sensible balance of tourist arrivals and tourism receipts growth to drive the long-term development agenda of the T&T sector. Tourism nations need to ensure their long-term competitiveness with a consistent sustainability perspective. This includes the expansion of touristic services from mass market to additional high-yield segments. Considering environmental regulation and respective customer preferences for more eco-friendly travel in this respect will become a key differentiator in the future.[3]

Government agenda: Paths to a more crisis-resilient T&T sector

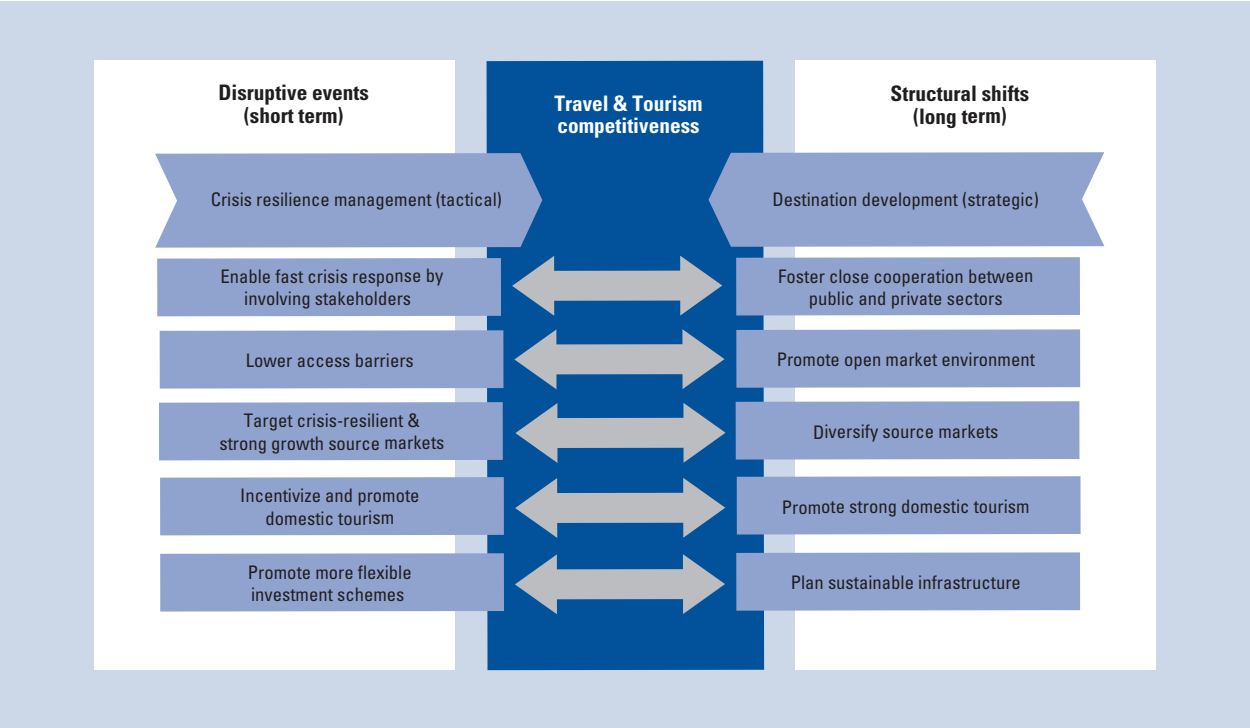
Overall, the T&T sector has navigated stormy waters after the financial crisis, with almost all major destinations having seen a significant decline in visitor numbers and receipts while overarching trends have continued to reshape the sector as a whole. The economic downturn of 2008–09 has left lasting uncertainty on the long-term growth prospects of the sector, which had become accustomed to high growth rates year over year.

Looking ahead, destination countries are increasingly facing risks and uncertainties that have the power to severely impact their T&T economy on very short notice: economic downturn, currency fluctuations, terror attacks, outbreaks of diseases, and so forth. Alarmingly, these risks are less and less under the control of governmental policy and precautionary actions are becoming nearly impossible, as the most recent examples of the upheavals in Tunisia and Egypt demonstrated. To navigate future turbulences more effectively, policymakers should aim to make their T&T sector more crisis-resilient going forward by broadening the foundation on which it is built (Figure 5).

Policymakers should aim to manage downturn periods by linking consistent short-term crisis responses with their broader T&T development agenda to build the resilience of their tourism sector and to find paths to future growth.

1. **Build up fast crisis-response capability based on close cooperation between the public and private sectors.** Reacting quickly to deteriorating demand conditions is key when making the T&T sector more robust against future market shocks in the short term. Countries need to establish resilience management and

Figure 5: Measures addressing disruptive events and structural shifts



Source: Booz & Company analysis.

controlling functions within their sector governance. Close source-market monitoring and detailed understanding of demand dynamics must be established to anticipate market movements up front. A fast-track communication and decision-making framework must be defined between public- and private-sector stakeholders to enable consistent rebound of short-term crisis impacts. It is important to create a single platform, potentially on the national level, that orchestrates local and regional efforts and initiatives. However, even in developed major tourist destinations, tourism-sector governance institutions often lack effective and consistent resilience management and controlling capabilities. Effective collaboration is vital when trying to cope with higher levels of uncertainty in the market environment and higher complexities on the T&T operating side, not only in crisis mode. Ultimately, close and consistent cooperation between the public and private sectors will benefit the whole sector in a variety of ways, including destination marketing, product offering and differentiation, and capacity and infrastructure development.

2. **Reduce access barriers and implement an open market environment.** In times of plummeting visitor numbers, a set of short-term measures such as reducing taxes or visa regulations can help to stabilize declining inbound traffic. In the longer run, a destination needs to make sure that it participates in the proliferation of the internationally most competitive private service offerings. For example, deregulation of the local airline market and the pursuit of open sky policies will ensure a destination's connectivity and accessibility, while open market conditions support development at the local level. Also, factors such as attracting international hotel investors, a world-class telecommunications infrastructure, and comfortable land transport options (e.g., taxi, bus, rail system) increase the competitiveness of tourist destinations.

3. **Redirect destination marketing to diversify source markets.** Apart from focusing on international inbound tourism from traditional source markets, an increased focus on emerging regional markets may help to turn volatile demand into a more robust inflow of tourists during downturn periods and thereafter. To leverage shifting demand and travel patterns, countries should aim to overcome national boundaries in developing their common T&T sector. For example, multi-destination tour packages targeted at important source markets can be supported only when countries consistently establish close cooperation among their T&T industries. For example, the European

Travel Commission (ETC) launched an integrated website (www.visiteurope.com) in 2009 presenting Europe to foreign visitors as a one-stop platform. New customer segments can be exploited by offering ecotourism, upmarket/luxury experiences, health tourism, or voluntourism. These travel formats empower local communities to actively participate in the tourism sector and, thus, drive economic development.

4. **Foster local initiatives and entrepreneurship to promote domestic tourism.** Domestic tourism is a powerful market on its own. In developed countries, it represents huge spending and traffic volumes; in developing nations, it serves as a strong catalyst for internal development as personal income levels allow for more discretionary activities. The increasing cost of long-haul travel and changing demographics will drive more demand for short-distance trips in developed regions. In countries with a focus on long-haul inbound tourism, it has the potential to establish a broader foundation for the T&T sector as a whole. Fostering a vibrant domestic tourism sector helps to steer tourists, and thus investment, into underdeveloped areas. Destination development and marketing needs to reflect this sector by segmenting residents along their domestic travel potential and conclusively cater to their needs to build a strong domestic tourism demand that drives the T&T sector as well as overall economic growth.

5. **Introduce more flexible investment schemes to create sustainable growth.** Flexible, demand-based investment planning helps to avoid accumulating overcapacity. Such adaptability helps to cope with rapidly changing mass markets and mitigates global risk factors that temporarily drive down tourism demand. Because infrastructure investments typically require long lead times, long-term sustainability should be reflected at very early stages in the planning process and should involve stakeholders at all levels. It will become key for policymakers to offer incentives for sustainable development in order to support the long-term prospects of the T&T sector instead of seeking short-term profits.

These years of global downturn have demonstrated that, although the crisis hurt traditional source markets, some emerging tourism destinations have been able to grow not only because of the weakness of competing destinations but also by leveraging the crisis to pave the way for future growth. Any crisis reveals the weak spots of each destination's positioning toward global, regional, or domestic tourism demand. These weak spots must be carefully assessed when formulating and implementing an appropriate policy response. The impacts of a crisis should be leveraged to turn tactical crisis management into strategic opportunities for development that ultimately drive a destination's attractiveness and competitiveness.

Notes

1 See Ringbeck et al. 2009.

2 HKU 2010.

3 Ringbeck and Gross 2008.

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