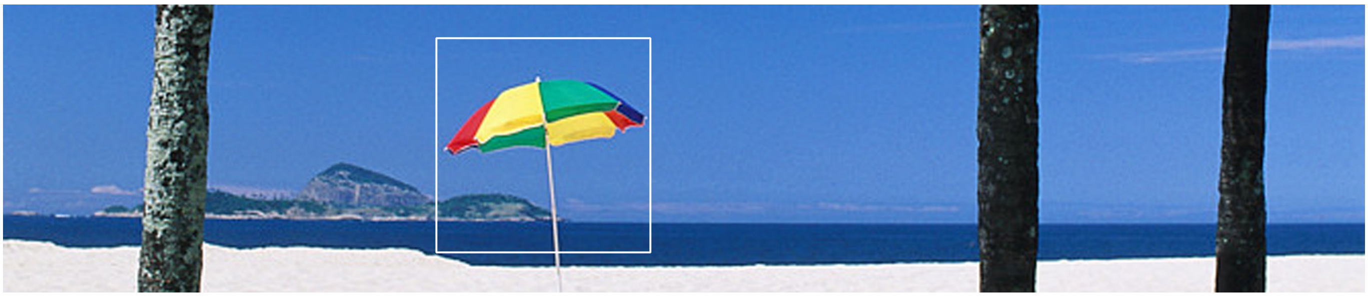
Traveller 2020 – Change of Mind

Are you ready for the new traveller?



The structure of Travellers is changing as well as their requirements and buying behaviour. In this abstract, Arthur D. Little analyzes the 'change of mind' of the Traveller 2020 compared to today's travellers. The industry must significantly change its business model to prepare for the upcoming challenges within the next decade. We define the relevant future trends and derive recommendations for the four core business segments of Tour Operators, Airports, Airlines and Hotels. The traveller is changing – so should be the industry.

At the beginning of this century, the global travel industry suffered from the terrorists attacks of September, 11th, as well as from the SARS- and the Bird-Flu-Crisis. These days, exploding oil prices and increasing environmental discussions and policies are threatening the industry. Nevertheless, forecasts indicate a 4,3% annual growth in revenues of the global travel industry until 2020. Thus, in 2020, worldwide revenues will reach €8 trillion, from €5 trillion in 2008 (see figure 1).

Demographic, global and emotional trends are now challenging the tourism industry: While the average age of European travellers is increasing, an intensely growing Asian market can be expected within the next years and decades. The share of Asian travellers in Europe just reached 20% in 2008, with Europeans accounting for the majority of 55%. Until 2020 the European proportion will decrease to 46%, while Asian travellers will form the second largest group representing at least 25% of all people travelling to European destinations (see figure 2).

Several factors can explain this mega-trend, with a sample look onto China as the largest Asian economy;

Mega-Trend 1:
"Travellers are getting … more Asian"

- Asian markets are growing rapidly. The current GDP growth rate in China is 10%
- Urbanization is continuing. Today Beijing is growing by some 1.400 inhabitants per day
- Industrialization, and along with this the general level of wealth, is increasing drastically. Today some 1.000 new cars are registered in Beijing per day
- In Chinese culture, it is typical to excessively demonstrate newly gained wealth. Status symbols and Western brands are a must have. Travel to Europe and America are proof of cosmopolitanism
- Chinese people love to show where they have spent their journeys. Round-trips covering several countries in a couple of days, always documented by photos of the touristic hot-spots, are a common way of travelling
- Chinese travellers like to travel in groups. Guided tours and full-service supervision are essential

Beside the growth market China, additional Asian countries are supporting this trend. India especially will play a major role in the next years and decades. India follows the Chinese economical development with a time-lag of about 8-10 years, slightly less intensely so– from 2015 onwards, India will be the next giant traveller country. Russia and other Eastern European countries further increase the trend.

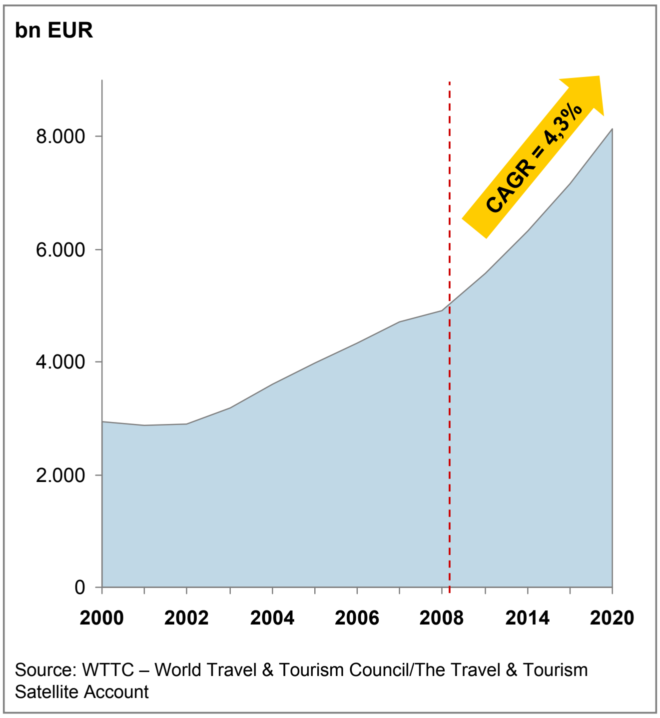


Figure 1: The travel and tourism market will grow with an average growth rate of 4.3%

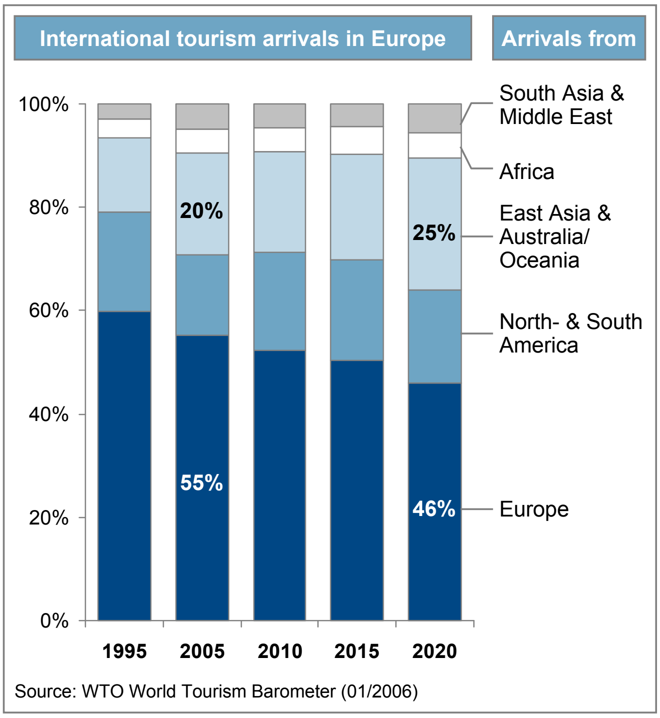


Figure 2: The share of European travellers decreases significantly – growth market Asia

"The Travel industry is facing a drastic change of traveller mix – Asian consumers require specialized products and services."

By in-depth market analysis, Arthur D. Little has identified 5 additional mega-trends beside the "Asiatization" (see figure 3):

Mega-Trend 2: "Travellers are getting… older"

- Until 2030, the share of ages 65+ in Germany will increase by 40%, making this group with a proportion of 29% a major sector in German demography
- Today, already 22% of all travellers are 60 years or older
- For travellers conducting at least 3 short trips annually, the share of age 50+ is already at 43%
- Monetarily, travellers above 65 years account for 31% of total travel spendings
- The buying power of the so called "Silver Agers" is more than 3 times higher than those of the 14-20 year old customers
- A similar development can be seen in most European countries

Mega-Trend 3: "Travellers are getting … more digital"

- Usage rate of electronic tickets is still increasing by 18% and will reach an worldwide average of 46% in 2007 already
- In 2007, 70% of all European air travellers used check-in machines
- In 2007, 57% of all European air travellers conducted online-self-check-in
- 37% of worldwide travellers plan to do online booking whenever possible in the future
- Usage of online media is done for information and booking purposes – in 2007, 40% of all travellers conducted online research and 19% booked their journey online
- The share of online- & phonebookings will increase from 20% today to 50% in 2015

Mega-Trend 4: "Travellers are getting … hybrid"

- A hybrid customer behaves penurious and lavish at the very same time (e.g. with Low Cost Carriers to 5* Hotels)
- Polarization: The gap between luxury and low cost is increasing in size - luxury travel is growing drastically
- Share of low cost carriers in Europe is about to reach 30%, future growth is definite

vices. Not all airlines do offer special Kids Clubs and not all tour operators do address specific target groups with customized catalogues like "Golf Tours" or "Silver Ager Vacations".

Looking at the four business segments, different recommendations for the preparation towards the Traveller 2020 derive.

1) Tour Operators

Tour operators, as the first segment of the travel value chain, need to attract people for their offerings. The main trend here will be customization and service orientation to reflect the changing client requirements and especially the changing traveller structure.

Potential future products and services include:

- Highly individualized offers and sales process (private banking concept for travel agencies)
- Individualized homepages (comparable to network platforms) to give travellers the opportunity to get information about destinations, book local day-trips, network with other travellers before the journey, etc.
- Broader product range. Tour operators as "one stop shopping"-provider for travel, covering all price ranges from private jets to low cost carriers and from youth hostels to best hotels worldwide. This also addresses the hybrid consumer trend
- Increase local presence in booming markets to become the operator of choice when travelling to Europe
- Space Travel

2) Airports

Key to success of airports is growth. This implies the attraction of new airlines. Booming markets are looking for hubs in Europe which will generate a heavy and steady revenue flow with perfectly targetable customers.

Potential future products and services include:

- Become "hub-of-choice" for airlines – install cooperations with tourist service companies (e.g. day tour operators) to increase attractiveness during airlines' site selection process
- Target group specific offerings regarding shopping and catering
- Airport as temporary office (communication and bureau infrastructure)
- Installation of the feel-good atmosphere by flowers, gardens, water installations, etc.
- Usage of terminal infrastructure in off-peak periods for conventions, parties and other events
- Install seamless downtown-links to allow efficient weekend-trips
- Positioning as airport theme world: become an attractive destination for day-trips by attractive shops, playgrounds, experiences, etc. By this positioning the "my home is my castle"-travellers who stay at home during their vacation can be addressed for day trips
- Digital airport: On-site navigation, full WLAN coverage, CUSS terminals (Common-User-Self-Service Terminals), etc.

3) Airlines

Airlines need to install flight services to the booming markets and have to develop target group customized solutions for mature markets. Potential future products and services include:

- Install services into booming markets as a first mover
- Increase brand awareness in booming markets, locally
- Provide specialized O&Ds like oil-industry services
- Cooperate with airports at origin and destination to collectively build the best product for the passenger
- Develop small-step loyalty programs allowing passengers to achieve the next level in a shorter period of time while offering clear level benefits
- Provide full scale of tariffs – from restricted low cost ticket to flexible business tickets to offer target group oriented prices
- Offer high-tech services to integrate the traveller into the travel process – reduce paper, improve tracking services, develop customized marketing and steering solutions
- Install segmented lounges, addressing the different needs of business travellers, families, elderly people, Asians
- Install O&D-customized in-flight services including local flight attendants, in-flight entertainment, F&B
- Develop revenue generating full-service offerings (e.g. HON-service for non-HONs)
- Use downtown-airports instead of cheaper airports nearby to allow efficient weekend-trips

4) Hotels

Hotels currently lie behind the other business segments in terms of specialized product and service offerings. However, hotels will face an increasing number of group bookings by Asian travellers. This might even result in negative impact of the other clients satisfaction level. Some hotels already started to install contingents like "max. 10% Asian guests" to secure their historic client mix. Potential future products and services include:

- Pick-Up service at airport for (especially Asian) hotel guests
- Enhanced pick-up service including planned multi-day-trips for entertainment and sightseeing purposes
- Translated websites with detailed information about shopping, relaxation and dining opportunities (e.g. including cooperation with selected partners)
- Simplified booking and check-in procedures (best practice: Airlines)
- Optimized placing of product offering in dynamic packaging environments (e.g. websites)
- Dedicated sections for different customer groups (Women-Wellness, Asian F&B areas, etc)
- WLAN coverage on the entire hotel site
- Digital gadgets: e.g. hotel community (communicate, find/meet people or navigate through the hotel-site with the help of a handheld device)
- Real "All Inclusive" hotels: not only food and beverages, but also massages, other wellness treatments, WLAN, Golf equipment, etc. are included in the price. Travellers do not want to care about money during their vacation

These potential products and services represent only a small selection to target the Traveller 2020. All affected business segments need to adopt the trends described in this abstract to avoid a significant loss of market share within the next decade. Professional innovation management and target group orientation is key for success.

Arthur D. Little has a strong 122 year track record in innovation projects resulting in valuable selections of innovations. We are supporting leading companies in the travel and tourism industry on their way to become market leading innovators. Strategy development and marketing strategy are essential parts of our service offering. We know about the worldwide trends and service ideas in the tourism industry and would be happy to discuss customized solution ideas for your business.

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