

Global Report 2015

A business, financial
and sustainability overview

2. Travel industry overview



Travel and tourism is a thriving industry, making a substantial contribution to the global economy. In 2015, its total Gross Domestic Product (GDP) contribution accounted for nearly 10% of the global total. This represents USD 7.2 trillion and 1 in 11 jobs. This is the same GDP share as the global mining industry, and appreciably more than chemicals and manufacturing (8.6%), agriculture (8.5%), education (8.4%), automotive manufacturing (7.0%) and banking (5.9%).¹ The economic growth of the sector is projected to increase by around 4% each year up to 2026, significantly outstripping the forecast global GDP growth rate.²

According to the World Travel & Tourism Council, over 75% of travel-related expenditure globally is derived from leisure travel, and the remainder from business. At the same time, domestic travel accounts for over 70% of total expenditure.

In terms of tourism, the United Nations World Tourism Organization³ estimates that the 2014 level of 1.1 billion international tourist arrivals (those spending at least one night in the host country) will rise to 1.8 billion by 2030 (an annual average growth of 3.4%).

At a global level, travel and tourism is generally resilient in the face of economic and geopolitical shock. While the industry can be damaged by high-profile events, travel volumes tend to recover well and the local damage is compensated at least partially by the growth in other regions. According to the World Economic Forum,⁴ the top 10 countries ranked as the most competitive destination markets across a wide range of indicators are among the most politically stable; they are also best placed to benefit from new technologies and handle increasing numbers of visitors.

Growing number of travellers

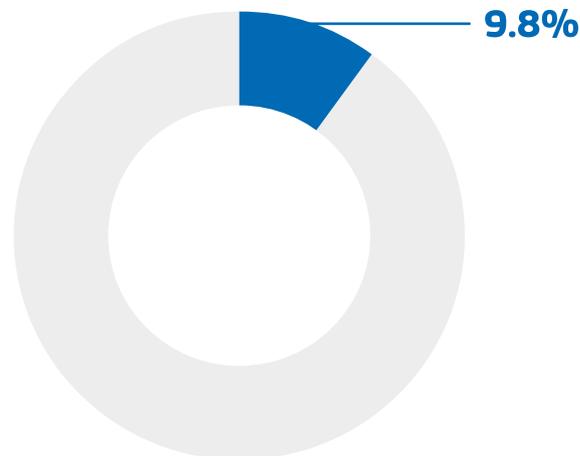
In 2015, the economic performance of the travel industry was robust and stable. Predictions for the coming years are favourable, indicating that sustained growth in the travel industry, already confirmed in previous years, will likely be maintained.

On the demand side, the number of travellers is growing, stimulating both public and private sector spending in destination services and transportation. The travel and tourism sector drives a virtuous circle covering three core economic components – travel, accommodation and destination activity – where growth in one component (due to e.g. special fares, attractive accommodation rates or a major exhibition) generates business for the other two.

Even though international arrivals is one of the most common industry metrics and is important to governments in the light of the export value,⁵ the infrastructure created to cater to international traffic acts as a major catalyst for domestic travel. This infrastructural development further triggers local and regional economic development.

In this overall positive scenario, two important external economic factors need to be considered. Firstly, the slowdown in the emerging economies will provoke a decrease in the number of travellers from these regions. Secondly, the fall in oil prices is expected to have two major impacts on the travel and tourism sector. On the one hand, cheaper oil will alleviate the pressure on airlines' profits and airfares, as well as on other travel providers. On the other hand, low oil prices have a negative effect on Middle Eastern economies.

Travel and tourism's contribution to Gross Domestic Product in 2015



¹ WTTC (2016). *Travel & Tourism Economic Impact 2016 – Annual Update Summary*.

² Source: The Conference Board (2016). *Global Economic Outlook 2016*.

³ UNWTO (2015). *Tourism Highlights – 2015 Edition*.

⁴ World Economic Forum (2015). *The Travel & Tourism Competitiveness Report 2015 – Growth through Shocks*.

⁵ Expenditure by international visitors is considered as an export.

The travel industry is undergoing profound transformation

The travel industry is going through rapid transformation, partly fuelled by new technologies.

Among travel providers, the trend towards corporate consolidation and the search for efficiency is expected to continue. Driven by the growth of the low-cost model, flagship airlines will continue to optimise their operations and operate via low-cost brands. In addition, the low-cost model is also beginning to take hold in other travel-related businesses such as accommodation, ground transportation and destination services.

The hotel sector is being shaken by the expansion of new business models and the growing competition that such models pose even to traditional market segments such as business travel. This means we can expect possible mergers between hotel groups in the search for greater volume and efficiency.

In terms of distribution via the internet, business models such as online travel agencies, travel metasearch websites and opinion sharing sites, which until recently had remained distinct, are beginning to combine and compete with each other, as they constantly seek to attract the greatest volume of travel buyers to their sites.

At the same time, the pace of innovation driven by the start-up phenomenon is accelerating the emergence of competitors. Access to easy finance in many parts of the world and the decreasing costs of technology – for example, hosting in the cloud and the use of open software without licence fees – are easing the emergence of new companies and business models, which occasionally grow rapidly, propelled by the internet.

The following three specific drivers of change in the travel industry are particularly illustrative.

Smartphone revolution

Today, 95% of travellers use digital devices when organising a trip,⁶ and the resources available to them through smartphones, tablets, apps and websites are more powerful and sophisticated than ever. Concretely, the emergence of smartphones has changed the ways in which travellers access information. Mobile phones now form an integral part of the travel experience, from the moment of inspiration (for example, discussing initial ideas with friends over social networks) until returning home, when photos and comments are shared. Thus, mobile phones have become permanent log-in screens for travellers, through which they are recommended new content and can obtain critical information and tools to manage, for example, travel disruptions. Moreover, the smartphone is now the traveller's 24-hour assistant, functioning as a means of payment, a way to consult maps and search for directions, a translator, etc. All content relating to the traveller's destination (restaurants, events, museums and so on) is now directly available through smartphones.

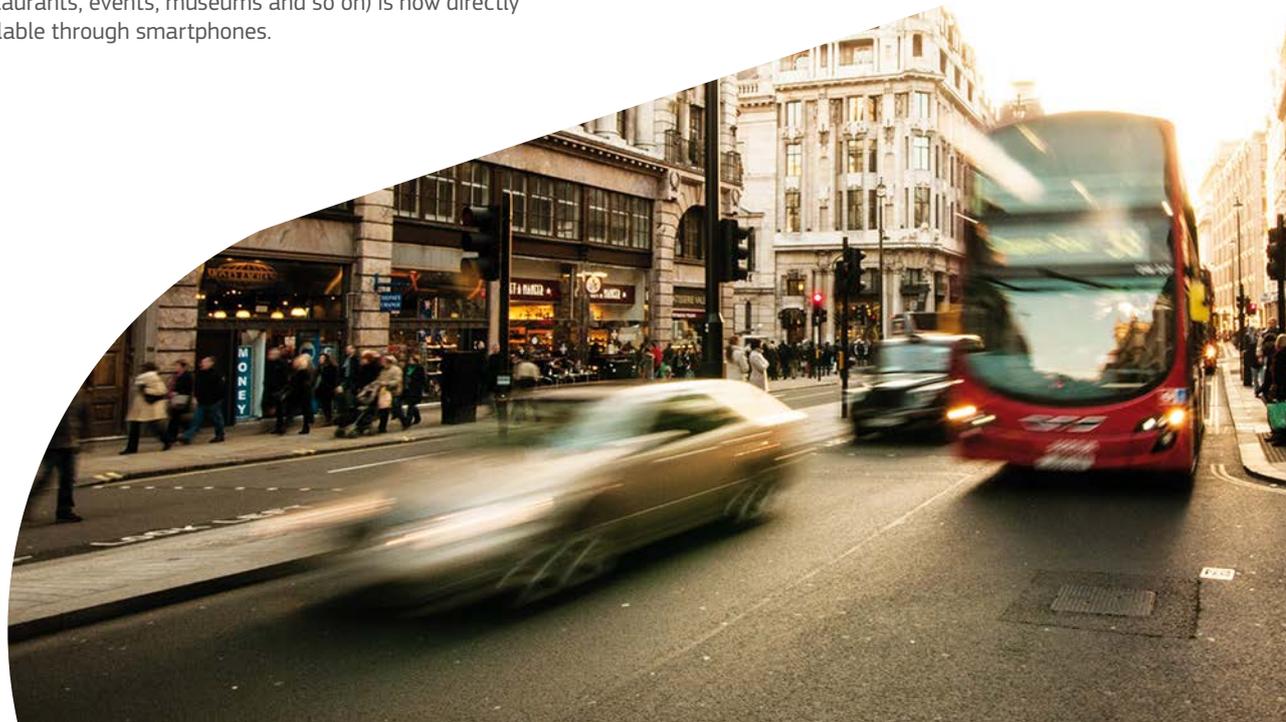
Sharing economy

Increasingly driven by the emergence of smartphones, sharing economy initiatives (based on the peer-to-peer exchange of services through the internet) are on the rise, enriching the traveller's experience. Although home-sharing is the paradigm example of the sharing economy, other activities are also becoming popular, such as car- and ride-sharing,⁷ city tour guide services, pop-up restaurants and even Wi-Fi sharing.

Technology is also enabling providers to knit the entire experience together with social media interaction, providing inspiration along with new products and services, which make both the booking process and the journey simpler and more enjoyable.

⁶ World Economic Forum (2015). *The Travel & Tourism Competitiveness Report 2015 – Growth through Shocks*.

⁷ Sharing a journey by road to the same destination.



Growing importance of merchandising

The travel sector's most traditional companies are increasingly being forced to reinvent themselves. On the one hand, distribution over the internet tends to turn their offering (a seat on a plane, a hotel room) into a commodity, making price comparisons transparent and pushing their margins downwards. On the other hand, technology facilitates better and more direct access to the customer, enabling sales of additional services (through cross-selling and up-selling) where the margins are higher. Hence, travel providers are increasingly interested in interacting with the end customer, i.e. the traveller. An example is the greater concern regarding control over distribution channels (channel management), commercialisation and service.

The three drivers of change explained above, as well as other innovations, benefit leisure and business travellers alike. For the latter, new services in the business sector, such as efficient, cost-effective processes and better financial management, can make their travel experience easier. There is increasing opportunity for specialist business travel agencies to enhance the services they offer their corporate clients. In addition, innovation in the sector reflects and stimulates changes

in employment patterns, with greater flexibility for the business travellers in selecting the options that best meet their needs. This is contributing to a growing phenomenon known as 'bleisure', with business trips enhanced by a leisure add-on.

Finally, environmental issues have become an increasingly important factor to address. In recent years, a heightened awareness of environmental issues has led to a number of key initiatives aimed at improving environmental performance. The historic agreement to combat climate change agreed by 195 nations in Paris at the UN Conference of the Parties in December 2015 is a good example of how environmental concerns are gaining momentum at international negotiations. Indeed, prompt action is required to minimise negative effects, and customers and society in general are demanding a firm strategy from travel industry stakeholders.

In conclusion, the travel and tourism industry has shown consistent growth over many years. While economic and geopolitical uncertainties represent a challenge, the diversity and global nature of the industry give rise to optimism for sustained growth. The pace of technological change facilitates easy and secure travel, creating new experiences and exceeding traveller expectations, while providing new business opportunities and helping to address new challenges.

