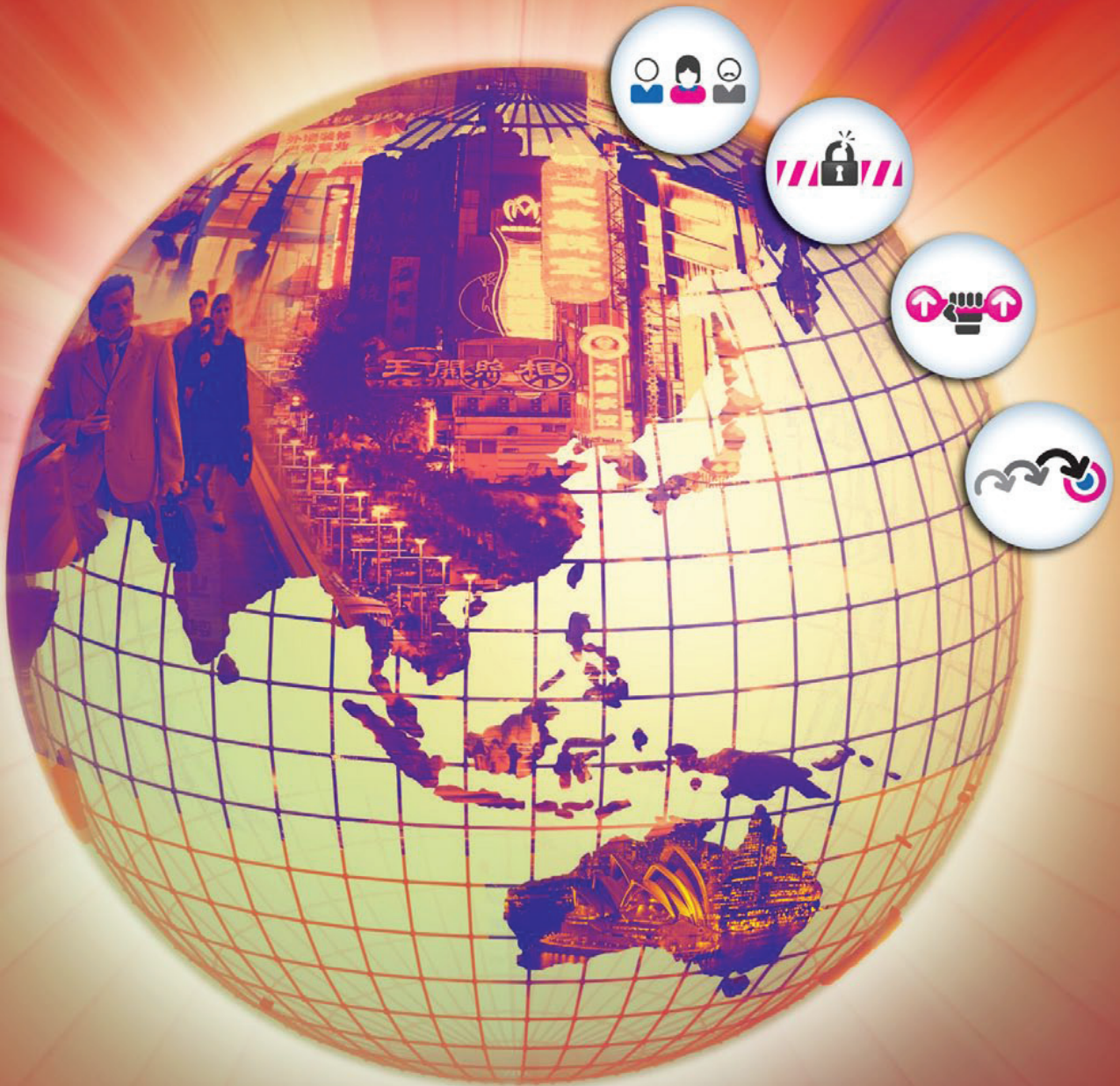




# Shaping the future of travel in Australia

The big FOUR travel effects



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## Foreword



David Brett

President,  
Amadeus Asia Pacific

We live in what has been widely termed as the Asian Century, as Asia Pacific undergoes a historic transformation, regaining the leading position in the global economy that it last held before the Industrial Revolution. If the current growth track is continued, by 2050 Asia's per capita income could rise 600% in purchasing power parity (PPP) terms to reach similar levels to that now enjoyed by Europeans. And by the middle of the century perhaps some three billion Asians will enter the ranks of the global middle-class, joining what we term the "consuming class" with enormous implications for the global economy.<sup>1</sup>

These changes will have a fundamental impact on Australia across many aspects of its economic, cultural and social lives, but among the most fundamental impacts will be on the travel industry – both inbound and outbound.

This report follows on from Amadeus's Asia Pacific-wide report on "**Shaping the future of travel in Asia Pacific: The big FOUR travel effects**" which looked at the trends impacting the travel industry across the region over the next two decades, based on research in seven countries. In this report we focus specifically on the Australian market, identifying which are relevant to Australia and what the implications of these will be for the travel industry in Australia, comprising the ecosystem of providers such as transportation companies (airlines, cruise liners and the like), accommodation and entertainment providers and intermediaries such as travel agents.

Australia faces a number of challenges in exploiting the market opportunity for travel that Asia Pacific represents. Over the past five years Australia's share of international arrivals from Asia Pacific destinations has declined from 1.98% to 1.78%, impacted by Australia's relatively high costs, uncompetitive exchange rate, visa restrictions and lack of capacity.<sup>2</sup> However greater understanding of how the face of the Asia Pacific traveller is changing will enable the travel ecosystem in Australia to be better prepared for the opportunities of the Asian Century.

Of course, these different effects and the various statistics will be of varying relevance to different elements of the industry – and I would encourage any interested party to review and draw their own conclusions.

The points this research and white paper undeniably highlight, however, are the opportunities that Asia Pacific now has to regain the leading position on the global stage that reaches well beyond travel, but which it is inextricably linked to.

Happy reading!

<sup>1</sup>Asian Development Bank (ADB): Asia 2050: Realizing the Asian Century

<sup>2</sup>Source: PATA, Annual Tourism Monitor 2012



## The Challenges and Opportunities for Australia

Travel is one of Australia's most important industries, with tourism generating about \$32 billion annually.<sup>3</sup> However Australia faces a number of challenges in remaining relevant as a travel destination over the next 20 years. Over the past five years, international arrivals to Australia have increased at an average growth rate of only 1% per year, only one-third of the growth rate of the overall Asia Pacific region. Many of Australia's main markets for inbound travel – such as the UK, USA, Japan and Korea - have witnessed declining visitor numbers over the past decade, with the slack yet to be taken up by emerging markets such as India, China and Indonesia. This is a result of factors including weak economic conditions in many of the traditional source markets, high costs in Australia, a strong exchange rate making Australia more expensive as a travel destination, and lack of capacity in terms of facilities such as airports and hotels.

At the same time, the changing face of the Asia Pacific traveller provides opportunities for Australia – with new markets for travellers developing and new segments of travellers emerging – but in many areas action is needed if Australia is to exploit these opportunities. In this report we highlight some of these major trends, and the implications for travel in the Australian context:

### The Me effect

The fragmentation of the travel market into ever-increasing niches



The emergence of new segments of travellers such as the Visit Friends and Relatives traveller, the female business traveller and the small business traveller who will be travelling to Australia in much greater numbers than before.

### The Red Tape effect

The breaking down of barriers to travel within the Asia Pacific Region



The growth of emerging travel markets driven by liberalisation and economic growth across the region.

### The Leapfrog effect

Technology & infrastructure changing travel behaviour



The rapid development of technology – enabling travellers to behave in different ways.

### The Barbell Effect

Growth at the upper and lower ends of the travel market



As growth in the travel market is increasingly concentrated at the top and bottom ends of the travel market, this offers opportunities in both segments but particularly for budget providers such as hotels and airlines.

<sup>3</sup>Australia's Tourism Industry, Reserve Bank of Australia, 2011



## The Me Effect the fragmentation of the travel market into ever-increasing niches





*“We are seeing the Amazonification of the world: this means that service suppliers are having to customise their offerings more and more to the needs of specific individuals (segments of one). So a hotel needs to tailor its offer to each customer, based on the customer’s profile and past behaviour.”*

Puneet Mahindroo,

Ex-Corporate Director of Revenue Management and Global Distribution, Taj Hotels, Resorts and Palaces

Our study observed the increasing individualism of travellers who will require a greater degree of flexibility in their travel in the future.

### The Visit Friends and Relatives (VFR) opportunity for Australia

Significant growth in the numbers of VFR travellers will continue to be an increasingly important reason for travel. For example VFR travellers already account for 17% of Chinese visitors to Australia - the fastest growing segment of the inbound Chinese market.<sup>4</sup> With families and close social relationships becoming increasingly internationalised, we believe that this will become an increasingly important reason for travel, especially from countries with large diasporas such as India. Our research showed visiting friends and relatives is the main reason for leisure travel for 20% of travellers across the region, with a particularly high incidence among Indian travellers, 43% of who state VFR as the main reason for leisure travel.

With relationships across the region becoming increasingly internationalised, Australia is likely to be a significant location for VFR travel, particularly for travellers from India, Indonesia and Singapore, as these are countries where a relatively high number of travellers have close family members living in Australia.

Table 1: Proportion of travellers with close family members in Australia

China	India	Indonesia	Japan	Korea	Singapore
5%	10%	17%	1%	4%	15%

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

India is now, for example, the largest source of permanent migrants to Australia, and this creates a spurt in demand for VFR travel. Already 33% of Indian visitors to Australia are travelling for VFR reasons.<sup>5</sup>

The VFR traveller often behaves differently from the standard vacation traveller – often travelling for longer periods for example and not using hotels but lodging with friends or relatives.

*“100 million living abroad from India, so visiting relatives is still critical.”*

Ankur Bhatia,  
Director, Amadeus India

VFR is also increasingly important for outbound travellers from Australia. Our research indicated that 34% of Australian leisure travellers quote VFR as the main reason for travel - ahead of all other Asia Pacific markets except India. Almost half of Australian travellers have close family members living overseas, with the UK, Continental Europe and the USA the most common locations. A strong majority of these travellers indicate that they are likely to visit these overseas family members in the future - indicating growing demand for VFR travel.

<sup>4</sup>Tourism Research Australia, China Snapshot, 2011

<sup>5</sup>Tourism Australia, India 2020, 2012



## The independent traveller

Our research showed in Australia 41% of business travellers and 60% of leisure travellers are currently making their own travel arrangements, generally via the internet, with the proportion who believes that they will do so in the future rising to 44% and 65% respectively. Travellers in Australia are on average making leisure travel bookings 17 weeks before travel and business travel bookings eight weeks before travel. The average period between booking and travel for Australian travellers is currently the highest in the region but we expect this average to fall substantially as Australian travellers increasingly self-manage their travel.

For Australian travellers, flexibility and lower costs are the main reasons for making their own bookings online. Despite the growth in self-management of travel, there will be a continued role for travel agents for more complex itineraries or for travellers who feel more comfortable receiving advice. Our research showed the main reasons that Australian travellers will continue to use travel agents are the support that agents offer with more complicated itineraries, and the lower fares that agents are sometimes able to access.

*“We see a continued survival and role of retail presence for travel agents. While other channels for distribution of travel will be important, there will be a continuing need for a retail presence given the complexity of the travel product.”*

Jayson Westbury,  
CEO, Australian Federation of Travel Agents

For inbound travel to Australia, independent travel will also become more important. From emerging markets such as China, many first-time or inexperienced travellers generally prefer to travel as part of a structured group that includes local language-speaking guides. However as they become more experienced, travellers will increasingly opt to make their own travel arrangements rather than use a structured itinerary.

## The Generation ‘S’ (Senior) opportunity

In Australia the number of over 65s will increase by 76% from just under 4 million in 2011 to almost 7 million by 2030, creating a huge growth in the number of senior travellers. Conversely the working age population (20-65) will increase by just 12%, limiting growth in both leisure and business travel among this age group. Travel providers and intermediaries will need to increasingly cater for the needs of the senior traveller, and this provides an opportunity for travel agents as our research showed almost 40% of over 65 travellers state that they will use a travel agent in future for travel arrangements, compared to only 15% of 18-30 year old travellers.

Table 2: Proportion of travellers likely to use a travel agent in future by age group (Australian Leisure Travellers)

18-30	31-49	50-65	Over 65
15%	27%	23%	39%

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

These demographic developments will also generate changes in the composition of inbound travellers to Australia. An example is Japan, which was in the past a key inbound travel market for Australia, accounting for around 10% of international arrivals five years ago. However over the past five years arrivals from Japan have fallen by 42%<sup>6</sup>, despite overall departures from Japan to all Asia Pacific destinations remaining roughly static. With a significant ageing of the Japanese population the structure of outbound travellers is changing – with fewer business travellers and older travellers generally preferring more “Japanese-friendly” destinations such as Korea.

While the seniors market represents a large and growing opportunity for travel providers, the challenge will be in successfully monetising it.



*“The seniors market is already well-established in Japan but the challenge is making money. Seniors impose greater costs on service providers but to date charging extra for these services is problematic. Hence with seniors a greater portion of the customer mix service providers need to find ways to recoup the extra costs imposed.”*

Mr. Okada,  
EVP Alliances & International Affairs, All Nippon Airways

### The small business traveller

While small-to-medium enterprises (SMEs) account for a majority of employment across the region, they currently generate a minority of business travellers – accounting for less than 20% of business travellers while accounting for over 80% of total employment in most markets.<sup>7</sup> Travel by small business employees and the self-employed in Australia is already more widespread than in other countries in the region, reflecting Australia’s relatively dispersed domestic market and the consequent need for small business employees and the self-employed to travel to meet customers and business partners. However, our research showed the majority of small business and self-employed travellers express the desire to travel more often in future and this will therefore continue to be a growth market.

*“Perth will become increasingly more of a business and tourist destination for Asian markets-reaping the rewards of advanced infrastructure investment from the mining industry.”*

Sari Vahakoski,  
Managing Director, Amadeus Australia

We anticipate that small business travellers and the self-employed will account for a greater number of business travellers both inbound and outbound from Australia over the next two decades. Small businesses in Australia are increasingly likely to do business in Asia – both in finding new markets and in seeking suppliers and business partners. And conversely, despite its relatively small domestic market and isolation, trade liberalisation is likely to drive travel to Australia by small business travellers from across the region. This may particularly stimulate centres such as Darwin and Perth which geographically are closer to some major Asian cities than they are to Sydney and Melbourne. With improved flight capacities from budget carriers, small business travellers from these centres will increasingly be able to travel to Asian markets.

### The female business traveller

*“Overall the women’s market is a huge growing one for the travel industry, but the industry remains male-dominated and has yet to understand the psyche of the woman traveller. Solo travel is a growing trend among women, particularly from countries where English is spoken. Younger women are increasingly confident travelling on their own or in small groups.*

*Women make most travel decisions anyway and are more likely to make decisions based on social media – e.g. reviews. So the social media channel will become increasingly important for travel.”*

Siew Hoon,  
Editor and Founder, Web-in-Travel

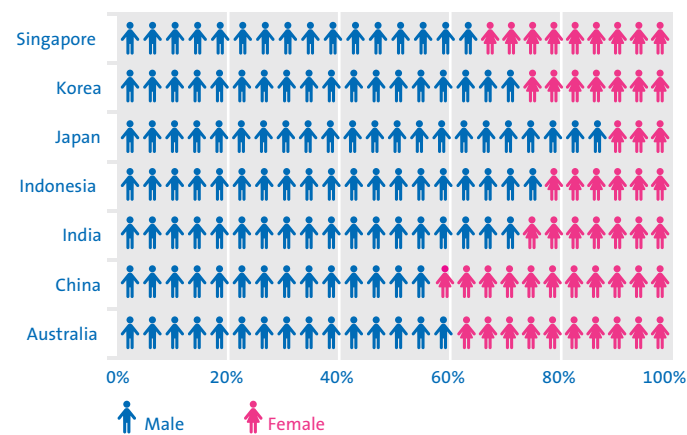
<sup>7</sup>Sources: Survey of 1,531 Asia Pacific travellers and national statistical offices





The growth of the female business traveller is a consistent trend across the region. Although women account for a minority of business travellers in all countries, the numbers will grow as more women enter the mid-senior management ranks where travel is required.

Figure 1: Business travellers by gender



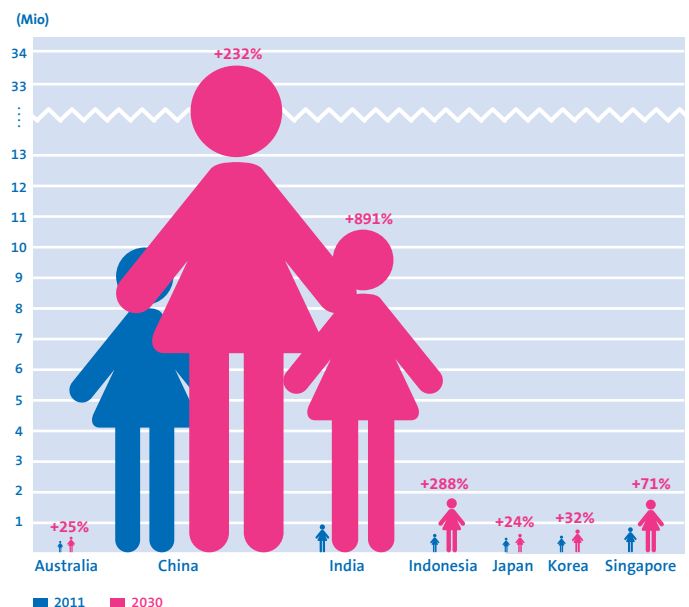
Source: Survey of 1,531 Asia Pacific Travellers, August 2012

Australia already has a higher penetration of female business travellers than other markets (except China) at 40% of all business travellers. With females now representing well over 50% of all graduates in Australia, we anticipate that the proportion of female business travellers in Australia will continue to grow, including continued growth in international business departures by women.

At the same time, the number of incoming women business travellers to Australia is likely to grow significantly, as women become more represented in senior management ranks in many of Australia’s Asia Pacific trading partners. As with the small business traveller, the female traveller presents opportunities for travel providers in Australia to gain share by adapting their offering to the individual needs of women travellers – not just in terms of the physical aspects of the offer (women-only floors, female friendly restaurants, etc.) but also in the way that they reach and communicate with the female traveller. Women use different processes to men to make travel decisions – for example greater reliance on peer recommendations or advice – so responding to this will be critical for travel providers to win over this growing segment of travellers.



Figure 2: International business departures by women, 2011 – 2030



Source: Frost & Sullivan estimates



# The Red Tape Effect

## the breaking down of barriers to travel within the Asia Pacific Region





*“Travellers want more convenience. Visa processes - get rid of the red tape. This will help boost travel.”*

David Brett,  
President, Amadeus Asia Pacific

### The need for liberalisation in Australia

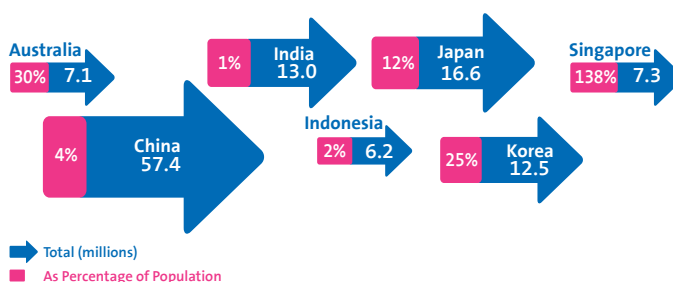
Asia Pacific economic integration and the liberalisation of trade restrictions across the region, such as Free Trade Agreements, have stimulated intra-regional economic activity, with Asia becoming increasingly important to Australia as a trading partner.

However, restrictive visa policies still remain a major impediment for many travellers to Australia, with visitors from countries such as India, China and Indonesia needing to apply for a visa before travel. Our research identified that 12% of Indian and 7% of Chinese business travellers identified difficulties in obtaining a visa as the main impediment to business travel. Visa issues are also a significant issue for many Australian business travellers, with 10% reporting this as the main impediment to more extensive business travel.

### The emerging travel markets

This economic integration will drive a huge increase in traveller numbers, especially from the emerging economies. Put simply, many more people will both have a need to travel, and will be able to travel. In emerging economies the number of outbound international travellers each year as a percentage of the population is tiny when compared to developed countries – for example there were only 13 million outbound international departures from India in 2010. This is only around 1% of the total Indian population, and by way of comparison this is 6 million more international departures than was generated by Australia– which has 1/50th of the population.

Figure 3: Outbound departures by country, 2010



Sources: WTO Compendium of Tourism Statistics, UN Population Division

Note: A single individual can have multiple departures during a year, hence departures in some countries can exceed 100% of the population

As economic growth and the increasing integration of the region breaks down the financial and regulatory barriers to travel, we anticipate significant increases in travel to and from the emerging economies. Given their huge populations, even a relatively small increase in the percentage of the population that travels will create huge increases in actual numbers of travellers. These changes will drive a different composition of travellers to Australia, with travel from traditional markets, such as Japan and Korea, declining and travel from emerging markets, such as India and China, increasing. This trend is already apparent with double-digit growth in visitor arrivals from China, India and Indonesia.

Table 3: CAGR in international arrivals to Australia by Source, 2007 – 2011

China	India	Indonesia	Japan	Korea	Singapore
11%	11.7%	12%	-12.7%	-6%	4.8%

Source: PATA, Annual Tourism Monitor 2012

For Australia, the strong growth in travel from these developing markets represents a huge opportunity for travel providers such as hoteliers, airlines and cruise liners in Australia – but significant barriers remain to exploiting the opportunity. Australia currently accounts for less than 1% of arrivals to Asia Pacific destinations from China – and Australia’s market share of arrivals from China has actually fallen over the past five years.



Although Australia's market share of arrivals from India and Indonesia has grown slightly, the growth has been marginal and Australia still accounts for less than 3% of arrivals to Asia Pacific destinations from these countries. Lack of direct travel options, limited accommodation, high costs and time-consuming and expensive visa processes are major barriers to travellers from these high growth countries.

### Growth in travel to emerging markets

Given its importance to the global economy – increasingly as a source of demand and not just supply – China will become an increasingly important inbound travel market. For Australian business travellers, China (including Hong Kong, Macau and Taiwan) continues to become an increasingly significant destination, accounting for almost 20% of arrivals to Asia Pacific destinations from Australia.

*“In terms of travel patterns the next decade will be dominated by China which will be the key destination for both business and leisure travel growing from what is still a relatively small base. China is making huge investments in infrastructure and with the growing importance of China as a market and a source of supply travel to China (business and pleasure) will grow exponentially. The main challenge is lack of English skills, but the Chinese are developing these and will work this out. Australia is in a box seat to be an important part of the China success story.”*

Jayson Westbury,  
CEO, Australian Federation of Travel Agents

With Australia becoming an increasingly uncompetitive location for resource extraction, we anticipate that Australian companies will increasingly investigate new markets such as include Papua New Guinea, Mongolia, and Myanmar. In all three of these countries inbound arrivals from Australia are growing rapidly from a small base - 9% in Papua New Guinea and 11% in Myanmar.

*“In mature markets like Japan, Australia, Singapore etc. inbound and outbound growth will be marginal. However there will be strong growth in more obscure markets like Papua New Guinea, Mongolia, and Indonesia driven largely by their resources.”*

Mark Dougan,  
Managing Director, Australia & New Zealand, Frost & Sullivan

With increasing travel to these developing markets, Australian companies will need to place a greater focus on their duty of care – their responsibility to ensure the safety and well-being of their employees when travelling to countries or regions that may be less secure than more traditional business travel destinations. Almost half of Australian businesses have no specific code of practice that informs employees what they must do if their health, safety or security is threatened, and only 46% of employees say that their employer provided information and communication specific to contingency plans that would cover unexpected eventualities.<sup>8</sup> Many organisations in Australia, particularly small-to-medium businesses, are not providing employees with details such as travel insurance or emergency points of contact when on business travel.

<sup>8</sup>Concur, Understanding Duty of Care in Relation to Business Travel, 2012



# The Leapfrog Effect technology & infrastructure changing travel behaviour

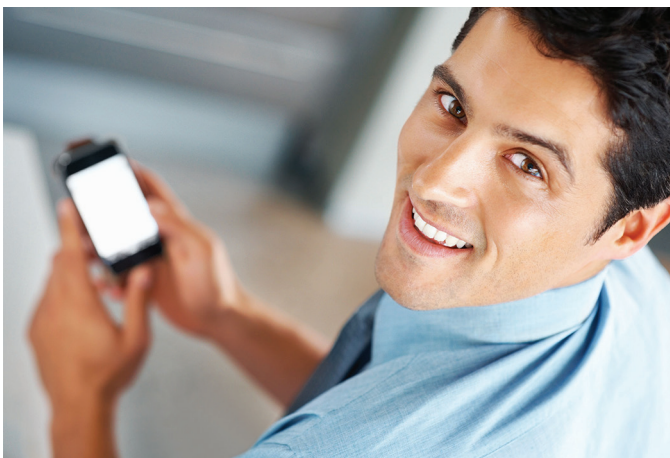




*“Travellers will increasingly wish to interact via a mobile device. In some countries such as Indonesia, Thailand they have skipped the fixed internet phase and moved direct from face to face contact to contact via a mobile device (tablet, smartphone, etc). Agents and travel providers will need to provide mobile solutions or become irrelevant.”*

Mark Dougan,  
Managing Director, Australia & New Zealand, Frost & Sullivan

As outlined in a previous report, “From Chaos to Collaboration”<sup>9</sup>, an emerging set of technology and infrastructure changes will have a transformative effect on travel over the next 20 years. Asia Pacific, often with little to no legacy systems, processes and infrastructure, has the opportunity to leapfrog, and indeed learn from, legacy processes and technologies, for example, in place in North America and Europe, particularly through the growth of ‘intermodal’ travel.



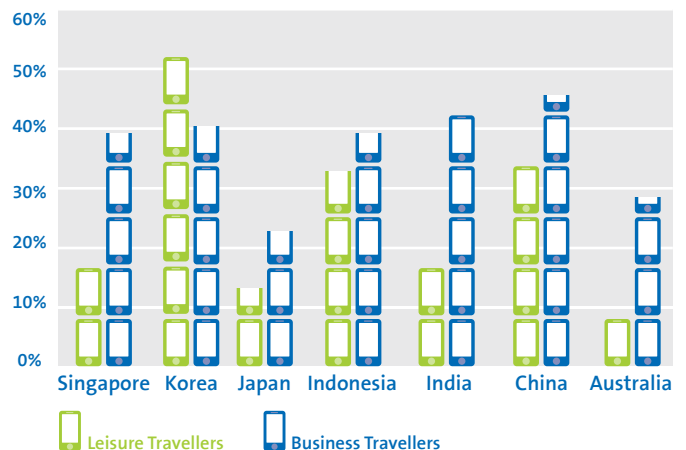
**Increasing use of mobile devices for travel**

*“Mobile will change the future of travel in Asia. 3G / 4G is very closely linked to the use of mobile. As a traveller today, roaming charges are a big factor in the use of mobile apps for travel. As people travel more and more, they will need to be more accessible and doing more with their phones, ever more integrated into daily tasks.”*

David Brett,  
President, Amadeus Asia Pacific

The move from standard mobile phones to smartphones is particularly strong in Australia, where the majority of the population now use these devices. However in Australia, despite relatively high smartphone penetration overall (over 40% of the total population), our research shows use of smartphones to make travel arrangements and bookings is the lowest in the region with only 27% of business travellers and 6% of leisure travellers currently using their device to make travel bookings. Easy access to a computer, small screen size and security concerns are the main reasons that Australian travellers are not currently using smartphones to the same extent as travellers in other Asia Pacific countries.

Figure 4: Proportion of travellers who use smartphones for travel-related arrangements and bookings (2012)



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

<sup>9</sup>“From Chaos to Collaboration: how transformative technologies will herald a new era in travel” published by Amadeus, 2012



Use of tablets to make travel arrangements and bookings is increasing, with 21% of business travellers and 9% of leisure travellers now using these devices during their travel. With 20% of Australian households now having at least one tablet<sup>10</sup>, usage of these devices during travel will increase as travellers become less concerned about network reliability and security. Our research showed that, although still a small base, leisure travellers are starting to use tablets more than smartphones to make travel arrangements at 9% and 6% respectively. This is mainly to research travel products such as airline tickets and hotel rooms.

As the user experience improves and as users gain more confidence in the usage of mobile devices for travel, we anticipate that usage in Australia will increase. Usage when overseas is often hindered by the very high data roaming charges that are incurred when roaming on an overseas operator's network – but increased availability of free WiFi in many overseas destinations is likely to ameliorate this issue, and we anticipate that usage of mobile devices in Australia will continue to grow. The roll-out of the National Broadband Network should also contribute to providing more reliable wireless broadband access across Australia, further stimulating usage of mobile devices.

Only 50% of tourism providers in Australia currently have booking facilities on their web-sites (and 20% of providers have no web-site at all). Without an online presence that involves booking functionality, and without a web presence optimised for mobile devices, Australian travel operators will increasingly lose out to the regional travel growth happening within the mobile world.

Initiatives such as the Australian Tourism Data Warehouse<sup>11</sup> have proved valuable in stimulating an online presence by Australian tourism operators, and giving smaller operators greater exposure to travel wholesalers, retailers and distributors. However the rapid evolution of online travel distribution from the fixed to the mobile environment will require travel operators to further innovate to stay ahead.

### The collaborative traveller

*“The line between online and personal contact from travel agencies for travellers will become more and more blurred – face-to-face and online travel will merge.”*

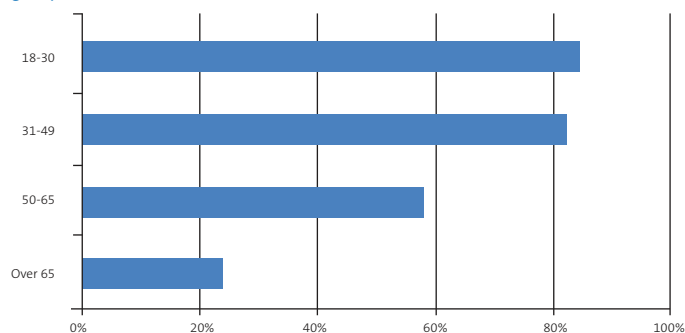
David Brett,  
President, Amadeus Asia Pacific

<sup>10</sup>Australian Multi-Screen Report, 2012

<sup>11</sup>The Australian Tourism Data Warehouse (ATDW) is the national platform for digital tourism information on Australia

Our research showed that social media is changing the way that people gather information about their trips, including the way that they make bookings and transact with travel providers. Use of social media during travel is now extensive with 65% of Australian travellers using social media either occasionally or frequently during travel. Unsurprisingly, it is younger travellers who are the most avid users of social media. Our research indicated that 84% of younger travellers aged 18-30 use social media either occasionally or frequently during travel, compared to 24% of over 65 travellers.

Figure 5: Proportion of travellers who use social media during travel by age group (Australia)



Source: Survey of 1,531 Asia Pacific Travellers, August 2012, Frost & Sullivan forecasts

With social media an increasingly important part of the travel experience, travel providers will need to increasingly adopt social media into the way that they interact with their customers, using the channel both to transact and to interact. Social media offers travel providers new ways to interact with their customers, and to enhance the value and perceptions of their brands.

*“The hotel industry is not really using social media as a transactional channel. However it is important for brand enhancement as it is really about story telling. Social media offers the opportunity to create a wider perception of the brand and enhance the dialogue with the customer.”*

Puneet Mahindroo,  
Ex-Corporate Director of Revenue Management and Global Distribution, Taj Hotels, Resorts and Palaces



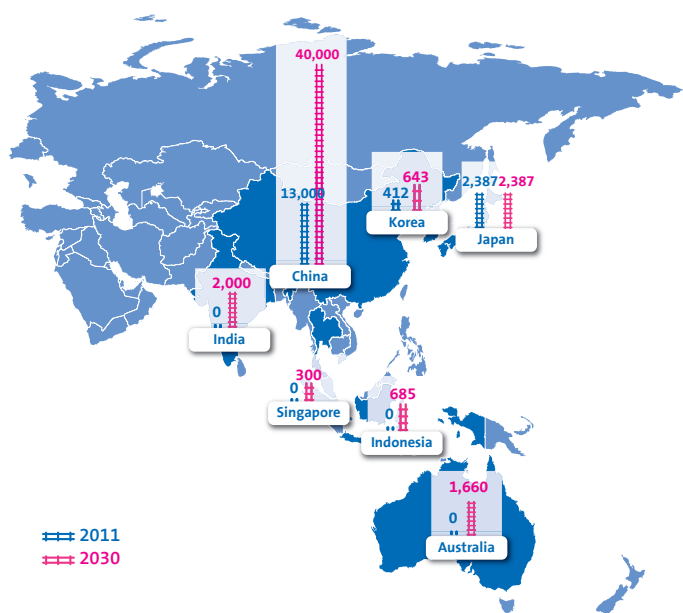
### The potential of rail

*“High speed rail has effectively killed off domestic air travel in Korea and Taiwan, and will have a significant impact in China. If ever built it could also have a big impact on high volume city pairs such as KL-Singapore and (highly unlikely) Sydney-Melbourne.”*

Peter Harbison,  
Executive Chairman, Centre for Aviation (CAPA)

The enormous investment in high speed rail (HSR)<sup>12</sup> infrastructure in Asia Pacific is allowing Asia Pacific to leapfrog Europe, where the 10,000km network has already been exceeded by Asia Pacific. The Asia Pacific region also exceeds North America where a comparable network is yet to be developed. HSR is being seriously discussed in Australia with a potential route between Brisbane and Melbourne via Sydney and Canberra currently under review.

Figure 6: Asia Pacific high speed rail networks (km)



Source: Frost & Sullivan estimates

High speed rail (HSR) is generally highly competitive for journeys up to 800km, with rail gaining a dominant market share over air for journeys up to 500km. If implemented, HSR could therefore have a significant impact on air travel for relatively short but highly travelled routes such as Sydney-Brisbane and Sydney-Melbourne. The resurgence of rail would therefore offer a challenge to existing travel service providers – such as airlines and travel agents – to evolve their business models to compete with or collaborate with rail. It is likely to provide a further stimulus to budget airlines, as the lower costs and faster turnaround times that these airlines offer are increasingly critical in a region with much more extensive high speed rail infrastructure. In Australia for example, locally-based airlines are largely dependent on the domestic air travel market for their profitability – and face a significant risk to their business operations if HSR is rolled out to link the major East Coast cities. Airlines would need to respond to HSR through either collaboration (such as offering inter-modal journeys) or competition (such as lower prices and faster turnarounds), or perhaps even both.

### The cruise opportunity

Australia has the most developed cruise market in the Asia Pacific region, with cruise penetration levels similar to North America and Europe. Our research indicated that 43% of Australian travellers have been on a cruise in the past, and 31% are very likely to go in the future. Given these existing high penetration levels the opportunities for Australian cruise liners is therefore likely to lie more in the growth markets of Asia Pacific - by targeting the emerging cruise markets such as China and India. Our research indicates that significant numbers of travellers from all countries in Asia Pacific express interest in cruise holidays, and their aspiration to take a cruise holiday in future. Indeed, far from being the preserve over the older generation, it is the 18-30s group across the region that expresses the strongest interest in cruise vacations.

Countries in the region are waking up to the opportunity as the emerging middle-class seeks to emulate their counterparts in Europe and North America, and take all-inclusive cruise holidays allowing them to visit multiple locations within the confines of a one or two week vacation. This offers a huge potential opportunity for Australian cruise providers but one that is likely to require investment in infrastructure to exploit. For example Darwin could offer potential as a cruise hub to serve Asia Pacific customers, but significant investment would be required to meet the needs of larger vessels and increased passenger numbers. Darwin currently has significant capacity constraints and lack of facilities such as fuel provision, with a limited number of relatively small vessels currently using the terminal.

<sup>12</sup>The International Union of Railways (UIC) define high-speed rail as systems of rolling stock and infrastructure which regularly operate at or above 250 km/h (155 mph) on new tracks, or 200 km/h (125 mph) on existing tracks





## The Barbell Effect growth at the upper and lower ends of the travel market





*“There is some evidence which suggests that hotels are being developed like a “dumb bell” - heavy in the economy sector and heavy in the high-end sector, relatively lighter in the mid-scale.”*

Markus Keller,  
Regional Director of Sales & Distribution, Accor Asia Pacific



### The rapid growth in emerging markets

A major opportunity for Australia lies in the huge growth of the middle-class in the Asia Pacific region, which will drive growth in travel. This will stimulate an enormous increase in travel especially from countries such as China, India and Indonesia – offering a great opportunity for Australia.

Asia Pacific accounted for only 23% of global middle-class consumption and 28% of the middle-class population in 2009, but by 2030 will account for 59% and 66% respectively.<sup>13</sup> Every year between now and 2030, more than 100 million people will enter the middle-class in Asia Pacific, with enormous consequences for travel in the region.

In every country that we surveyed, 80-90% of leisure travellers would like to travel more often than they do now, mainly held back by lack of financial resources, but with a clear intention to travel more frequently as their disposable incomes rise.

By 2030 China and India will dominate both in terms of traveller numbers in the region and in total expenditure. To catch the potential of these markets, travel providers will need to adapt their offerings for these growing sources of travellers – for example by making hotels “Indian and Chinese-friendly”.

*“The biggest growth in outbound travel is from China. China is now the biggest outbound market to NZ and Indonesia, as well as to Japan and Korea. Hotels will have to gear up to better serve the Chinese market. They can be certified as “Chinese-friendly” but it requires a new strategy across all aspects of hotel operations – for example a Chinese web site and Chinese speaking staff.”*

Markus Keller,  
Regional Director of Sales & Distribution, Accor Asia Pacific

<sup>13</sup>The Emerging Middle Class in Developing Countries, Brookings Institute, 2011



## Australia needs capacity to catch the growth

While India and China (and to a lesser extent Indonesia) represent huge growth opportunities, the lack of infrastructure and travel capacity and other barriers to travel may make the market opportunity hard to develop. For example, there are currently no direct flights between India and Australia - a significant impediment to the vast opportunity that Indian travellers present. Australia has one of the highest room occupancy rates among OECD countries and will need another 40,000 to 70,000 hotel rooms by 2020 to meet projected demand.

*“Outbound travel from China will grow enormously, and of particular promise is the rise of the affluent with very different patterns and tastes from what we think. The world is not ready for the enormous growth in outbound tourism from China. Single destination countries (e.g. Cambodia) will face huge challenges.”*

Yeoh Siew Hoon,  
Editor & Founder, Web-in-Travel

The lack of airline capacity to many key Asian markets may be exacerbated by the switch of hubs for some airlines to centres such as Dubai, away from the traditional hubs of Singapore and Bangkok. While this may provide additional options for travellers from Europe, it will have the effect of reducing options for passengers travelling to Australia from many Asian destinations.

Australia faces a number of barriers to fully exploit the opportunity that these markets offer – in terms of lack of direct flights, limited infrastructure (for example hotels and airport facilities, including direct transport to city centres), high costs and most importantly lengthy and costly visa processes which are a major impediment to travel for many travellers from India, China and Indonesia. Australia does not currently feature among the preferred destinations for leisure travellers from India, Indonesia and China who express a preference for Singapore, Malaysia, Thailand, HK and Korea.

Table 4: Most preferred destinations for leisure travellers, by origin

China	India	Indonesia	Japan	Korea	Singapore
Hong Kong 37%	Singapore 36%	Singapore 76%	Korea 25%	Japan 45%	Malaysia 62%
Korea 31%	Malaysia, Thailand 29%	Malaysia 45%	China 18%	China 33%	Thailand 44%
Japan, Singapore 28%	Australia 10%	Thailand 25%	Australia 16%	Thailand 22%	Indonesia 30%

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

We anticipate that the Australian authorities will continue to liberalise travel regulations and improve access to Australia for Asian travellers – for example through expedited or waived visa requirements and faster airport processing through biometric technology, such as the Smartgate system.<sup>14</sup>

*“Australia faces a major challenge in terms of being relevant to travellers from China and India. They tend to prefer man-made rather than natural attractions and this will mean Australian Governments need to work swiftly with companies wishing to fast track world class man-made facilities and attractions if Australia is to succeed competing against our local Asian neighbours such as Macau and Singapore.”*

Jayson Westbury,  
CEO, Australian Federation of Travel Agents

<sup>14</sup>SmartGate gives eligible travellers the option to self-process through passport control



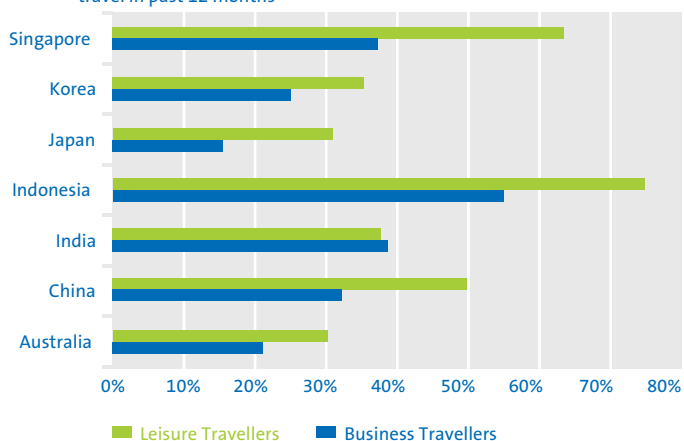
### The need for capacity at the budget end of the market

A theme that we expect to see over the next 20 years is increasing extremes of the travel market, with growth mainly at the upper and lower ends of the market. Most new travellers will be travelling on a budget as average household wealth will be much behind their counterparts in Western markets. At the same time, the numbers of the very wealthy in the Asia Pacific region will also increase at a rapid pace. This will drive growth particularly at the budget and luxury ends of the travel market. With significant increases in capacity needed if Australia is to exploit the opportunities that the Asia Pacific region represents, this capacity will need to be focused on the budget end of the market – for example in budget hotels – rather than at the mid-tier which tends to focus on travellers from developed markets. At the same time, growth at the luxury end of the market, for example in casinos and luxury hotels, will be required if Australia is to compete against regional competitors, such as Singapore.

### The need for greater budget airline infrastructure

An additional requirement in Australia will be growth in airline capacity particularly at the budget end of the market, providing lower cost opportunities for Asia Pacific travellers to visit Australia. Usage of budget airlines is increasingly widespread across the region, as Asia Pacific budget carriers catch up to the market share enjoyed by their counterparts in North America and Europe. In Australia budget airlines continue to grow their share of both the leisure and business markets, with usage for domestic travel, particularly for leisure travellers, among the highest in the region.

Figure 7: Proportion of travellers that have used budget airlines for international travel in past 12 months



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

*“LCCs will boom because of the meeting between declining fares and significant increases in middle classes with income levels sufficient to travel. This will mean an enormous growth in the number of people who can travel.”*

Peter Harbison,  
Executive Chairman, Centre for Aviation (CAPA)

However Australia lacks capacity to fully exploit the budget carrier model as Australian budget carriers are focused generally on domestic routes or on routes for Australian holidaymakers. Our research showed that only 21% of business travellers have used a budget airline to fly internationally over the past 12 months, a lower proportion than in all other markets except Japan. More business travellers (35% in the past 12 months) are using budget carriers to fly domestically, with lower prices being the main reason. Few budget carriers have yet focused on the opportunity that the inbound budget segment represents, with AirAsia and Scoot the first airlines to launch budget flights to Australia from an offshore base. However, airlines such as Scoot are still obliged to fly to major Australian airports such as Sydney, with high handling costs and congestion limiting their ability to offer lower fares and add additional capacity. Without a network of second-tier airports able to handle international flights, the inbound budget airline model will be slower to develop in Australia than in other markets. Hubs such as Darwin and Perth offer the opportunity to cater for budget carriers addressing the Australian market, but further infrastructure investment is required if these airports are to adequately support budget carriers.

## The challenge for Australia : The big FOUR travel effects

Through this report we have focused on the major themes in Asia Pacific travel over the next 20 years, and their implications for Australia. Our overall view is that although there are considerable opportunities for Australia from these trends, there are also major challenges. Australia has lost share of the Asia Pacific travel market over recent years, as declines in traditional inbound markets such as the UK, USA, Japan and Korea have not been fully offset by growth from emerging markets. These emerging markets such as China, India and Indonesia will be the source of most of the growth in travel over the period to 2030, and will dominate traveller numbers by this date, but Australia faces a number of challenges in attracting these travellers against other Asia Pacific destinations.

These challenges include visa restrictions, imposing time and cost barriers on travellers from these countries, high costs partly as a result of a high exchange rate, and lack of capacity or infrastructure in areas such as hotels, airports and high speed rail. While these are issues for national policy-makers, individual travel operators also need to make changes to exploit the opportunity – in areas such as improving their web and mobile presence within these markets, their social media interface and accessing new distribution channels in the emerging markets.

The Asia Pacific travel market represents a huge opportunity for travel providers in Australia. As economic growth and liberalisation gives many individuals in the region the ability to travel for the first time, the increase in traveller numbers will be enormous. Travel providers who recognise the increasing divergence of the Asia Pacific traveller, and who adapt their offer to respond to it, will be best placed to capitalise.



# Appendix

## Our approach

We sought qualitative and quantitative input from three sectors; travel service providers, industry associations and travellers themselves.

Specifically, we undertook 13 in-depth, one-on-one interviews with thought-leaders from the travel industry across the region, including inputs from industry associations, national tourism bodies, airlines, hotels, travel agents and consultants. We also interviewed several of Amadeus' own thought-leaders. Contributors are listed at the back of the report.

We undertook quantitative research with 1,531 business and leisure travellers (defined as individuals who have travelled overseas at least once in the past 12 months) from the seven key markets of Australia, China, India, Indonesia, Japan, Korea and Singapore. The research therefore involved travellers from both developed markets (the OECD members of Australia, Japan and Korea, plus Singapore) and the emerging and highly populous markets of China, India and Indonesia. Research was undertaken by means of an online survey.

We also reviewed existing published sources on the travel industry in the region, from sources such as the World Tourism Organisation (WTO), Centre for Aviation (CAPA) and the Pacific Asia Travel Association (PATA), as well as from broader data sources such as the Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD).

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The opinions and viewpoints expressed in this report do not necessarily wholly reflect those of the contributors.

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