



# THE FUTURE OF TRAVEL: TOP THREE DRIVERS OF THE INDUSTRY

A report compiled for the World Travel Market 2014



**The New Online Travel Consumer**

## Key findings

<p><b>Internet penetration continues to grow</b></p>	<p>Internet users are recording steady growth worldwide and reached 2.7 billion globally in 2013. Their rise is expected to continue in the next years driven by Asia Pacific where internet users are expected to be 1.7 billion by 2018.</p>
<p><b>Internet access goes mobile</b></p>	<p>Mobile broadband subscriptions outpaced fixed broadband subscriptions over the review period, driven by the popularity of smartphones and tablets, to reach 2.1 billion by 2013.</p>
<p><b>Strong performance for online travel sales</b></p>	<p>Global online travel sales amounted to US\$590 billion in 2013 and are expected to grow faster than total travel sales in the forecast period, to reach US\$950 billion, or 31% of total travel sales by 2018.</p>
<p><b>Asia Pacific drives online travel growth</b></p>	<p>Asia Pacific is expected to drive global growth in online travel in the forecast period, with its online travel sales more than doubling from US\$85 billion in 2013 to US\$190 billion in 2018.</p>
<p><b>Multiscreen consumers</b></p>	<p>Consumers today use multiple internet devices in a sequential or simultaneous manner. Travel companies need to build a flexible technological architecture in order to reach them, including a presence in wearable technologies.</p>
<p><b>Success of the peer-to-peer model</b></p>	<p>Recent years have seen the rise of the peer-to-peer model in the travel industry. Today consumers not only share their reviews and comments online with their peers but also successfully provide them with travel services.</p>
<p><b>Big data to revolutionise online travel marketing</b></p>	<p>Big data analytics will increasingly enable companies to target consumers in a more personalised and effective way. In the next few years, we will witness a gradual move from mass marketing to 1-to-1 marketing in online travel.</p>

# Global online travel sales recording healthy growth

- Global travel and tourism sales amounted to US\$2,200 billion in 2013, and are expected to record a healthy 7% CAGR over the 2013-2018 period, driven by the steady rise of international and domestic trips, and in particular by the rising popularity of tourism among the rising middle and affluent classes of the emerging markets. As a result of this growth, global travel and tourism sales are expected to reach US\$3,000 billion by 2018.
- Global online travel sales amounted to US\$590 billion in 2013, constituting 27% of total travel and tourism sales. They are expected to grow faster than the total industry between 2013 and 2018, recording a 10% CAGR, and reaching US\$950 billion by 2018.

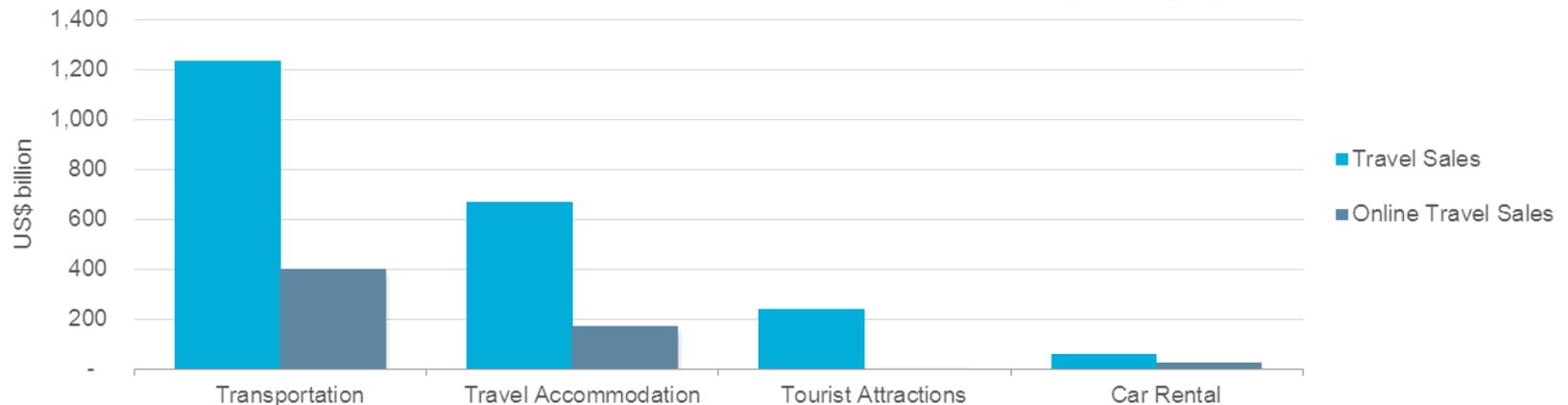


*Note: including both direct sales and sales through intermediaries in the transportation, travel accommodation, car rental and tourist attractions markets*

## Air leading sector for online travel sales, followed by hotels

- Transportation is the largest market within the travel and tourism industry in terms of both total and online sales. Transportation online sales amounted to US\$399 billion in 2013, constituting 32% of total transportation sales. The air sector accounted for the vast majority of online sales, at US\$365 billion – 47% of total air sales – while the online channel accounted only for 7% of other transportation sales.
- Travel accommodation was the second largest online travel market in 2013, amounting to US\$170 billion, with a 25% share of total sales. The online channel accounted for 29% of total sales for hotels and a 16% share for other travel accommodation types.
- Car rental and tourist attraction online sales amounted to US\$23 and US\$10 billion, respectively, in 2013. The share of online sales was especially high for car rental, at 39%, while they accounted for only 4% of total sales in the tourist attractions market.

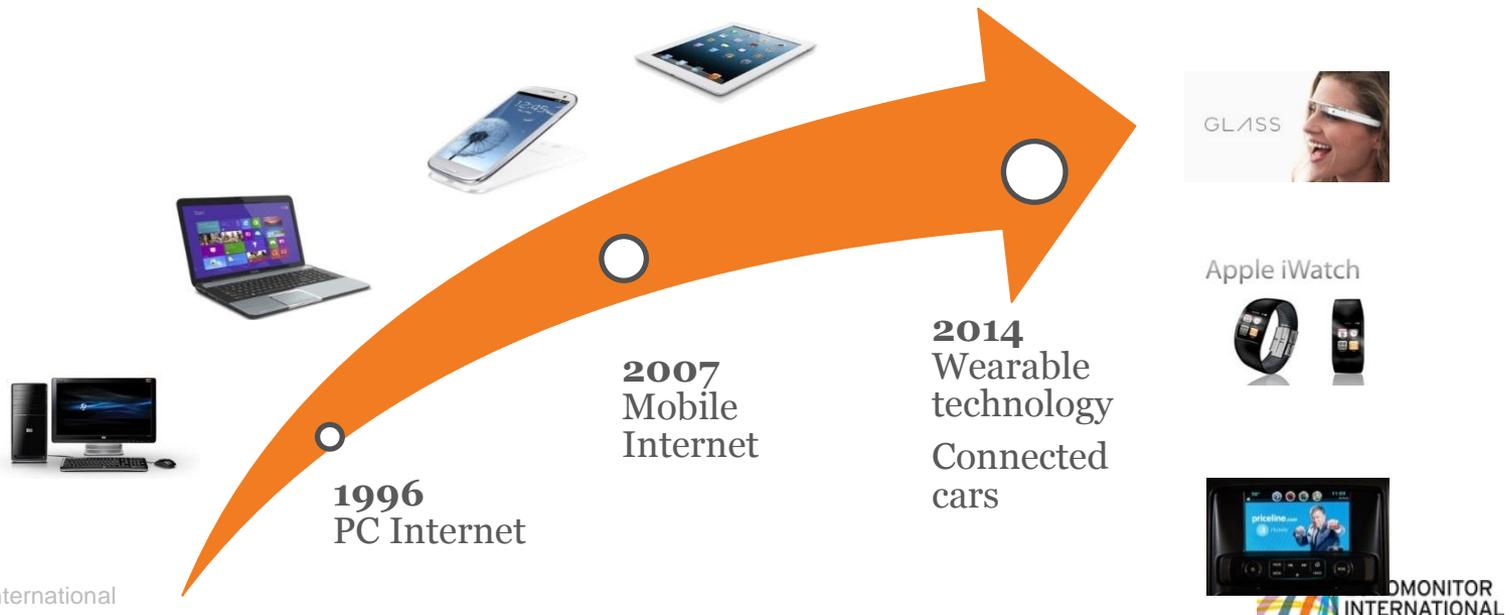
Global Travel and Tourism and Online Travel Sales by Category in 2013



Note: Including both direct sales and sales through intermediaries

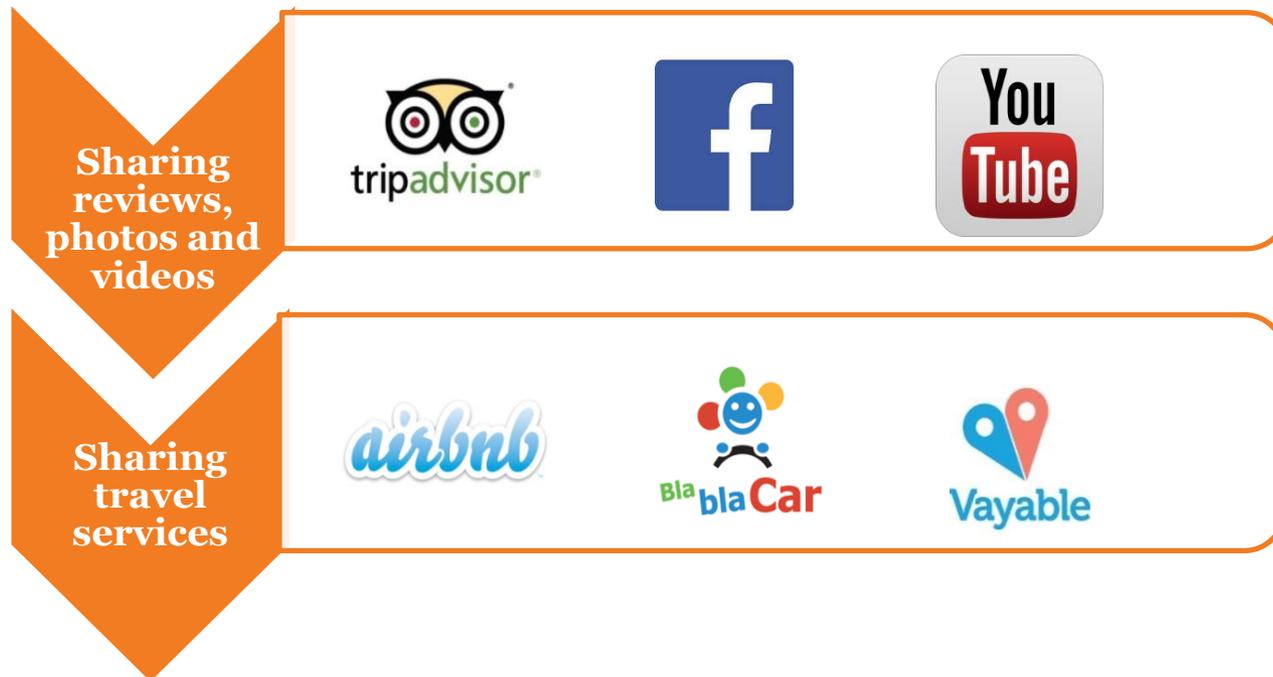
# Impact of wearable technologies and connected cars

- According to Euromonitor International's Consumer Electronics research, wearable electronics technology is expected to go mainstream in 2016, with a forecast 180 million units sold globally, and 250 million units sold in 2018.
- Wearable electronics' potential impact on the travel industry mainly concerns reaching customers through alerts, or showing them information on tourist destinations and travel services as augmented reality or in other forms, and therefore the focus is on customer service rather than bookings. For example, Expedia has started to develop software for Google Glass, even ahead of its release to the general public, focusing on notifications for customers, for example flight delays and gate numbers. Connected cars, on the other hand, allow on-the-go consumers to find information, and book hotels and other services.



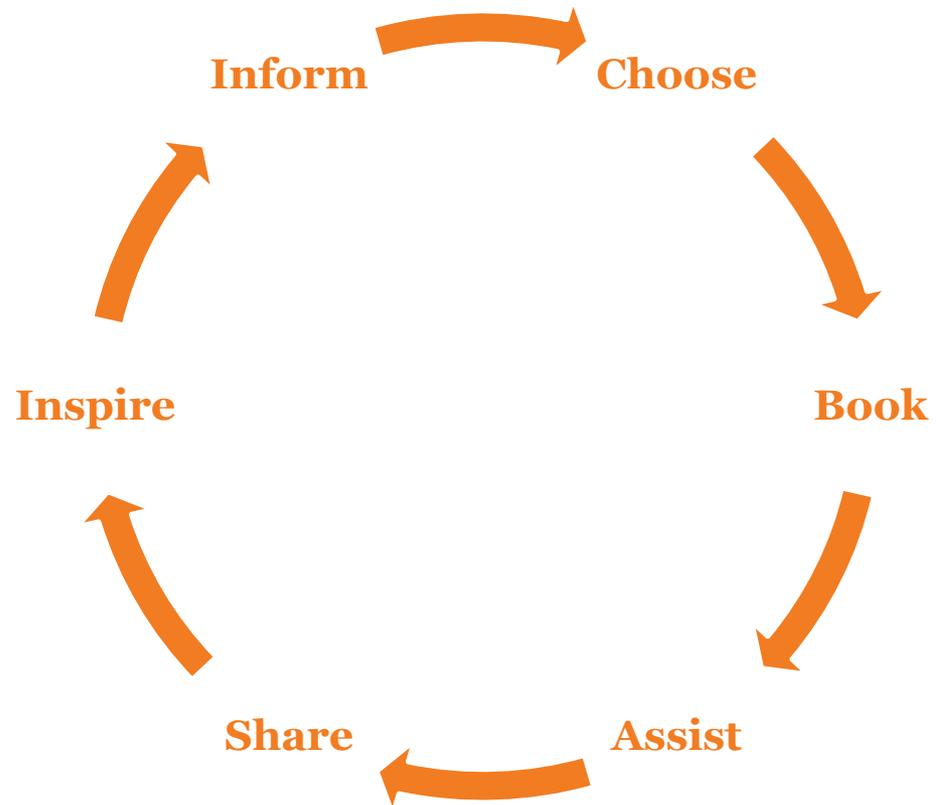
## Peer-to-peer and the sharing economy

- Thanks to social media, travellers have been sharing their reviews and other content for years. Sharing travel services is the second stage in the peer-to-peer and sharing trend. Today, consumers are active in providing holiday apartments, cars, meals and tours. Airbnb is today one of the largest travel accommodation players in terms of available rooms, and the growth of this sector is attracting the interest of the largest OTAs, including Booking.com, which in 2014 launched its specialised holiday rental brand Villas.com, and Expedia, which started a partnership with holiday rental company HomeAway in 2013.



## Holistic approach required

- Consumers increasingly use online resources throughout all the steps of the booking process, to find inspiration in order to decide the destination of their next trip, to find information about travel destinations and services, to shop for and book their travel services, to get customer service in real time, and to share comments and reviews about their holidays with their friends and with other visitors to social media and travel sites.
- Travel companies need to adopt a holistic approach and be present as much as possible in all the stages of the online consumer experience in order to strengthen their relationship with consumers and gain their loyalty. For example, TripAdvisor is currently expanding from being a review site to the booking of travel services, competing with meta search engines and OTAs.





**Low Cost Airlines Driving Growth**

## Key findings

<b>LCCs dominate</b>	<p>Low-cost carriers (LCCs) continue to be the most successful category in air travel. They continue to gain popularity and share, and are pushing traditional airlines hard for business.</p>
<b>Blurring boundaries</b>	<p>The boundaries between schedule operators and LCCs are increasingly blurred. Many schedule airlines are reducing the frequency of flights and closing unprofitable routes, or are veering towards a hybrid model between schedule and low-cost, adopting several practices typical of no-frills carriers.</p>
<b>Asia Pacific to show the biggest growth</b>	<p>Asia Pacific is expected to be the key driver of low-cost growth over the next five years, thanks to its rapidly growing middle classes and an increasing number of LCCs. Point-to-point operators in the region are launching new domestic and international routes, as well as increasing the number of connecting flights among first- and second-tier cities, which is expected to contribute to growth.</p>
<b>Domestic routes on the agenda</b>	<p>LCCs take advantage of the increasingly popularity of budget air transportation by progressively increasing their dominance of domestic international routes, thus overtaking local schedule operators.</p>
<b>GDS distribution</b>	<p>LCCs sell their tickets primarily through direct channels, bypassing GDS booking systems and hence hindering growth for GDS providers. However, these carriers are increasingly looking to GDS to capture a more international audience for inter-Asian and Latin American flights.</p>

# SWOT: LCCs

## STRENGTHS

### Growing segment

- The advance of LCCs, which are opening new routes and boosting migration from other transportation modes, is reducing the market share of the major legacy carriers.

## OPPORTUNITIES

### New territories

- As many LCCs reach maturity, diversification of geographical reach to Asia Pacific and the Middle East and Africa offers opportunities for growth.

### Low rates

- The business model of LCCs is based upon low fares and recurrent promotions, which act as magnet for travellers. Modern fleets and low operating costs help maintain their advantage.

### More perks for business travel

- Business sections on board aircraft can appeal to higher yield passengers and boost profitability. Adopting innovative practices will be crucial to remaining competitive.

## WEAKNESSES

### Overcapacity

- Overcapacity driven by the strong growth of the LCCs and aggressive aircraft orders, along with increasingly congested airports, are factors that weaken this segment.

## THREATS

### High speed rail

- The convenience and efficiency of high speed rail is posing a threat to LCCs. Cutting waiting times and avoiding commutes from secondary airports offers advantages for travellers.

### Competition

- Competition from schedule operators venturing into the sector through price cuts are placing pressure on LCCs, as it will reduce passenger bookings and thus profitability.

### Fuel prices

- Any fuel price spikes and a tough economic and business environment will put pressure on the segment and the overall financial performance of LCCs.

# Convergence of two models

- Low-cost flights are clearly winning in terms of value growth against schedule airlines globally. In all main European markets, LCCs are forecast to see healthy growth in low-cost flights over the next five years. Meanwhile, the differences between schedule operators and LCCs are progressively disappearing.
- In order to remain profitable, many schedule airlines have resorted to using smaller aircraft, reducing the frequency of many flights and cancelling some unprofitable routes. Moreover, many of them are opting towards a hybrid model between schedule and LCC, adopting several practices typical of no-frills carriers.
- LCCs on the other hand are entering the territory of schedule carriers by intensively courting business travellers and offering different perks on board.
- For example, the Canadian Westjet has launched a new internet booking systems through which it offers a three tier ticketing system – economy, mid-tier and premium. The latter includes increased leg room and baggage allowance, priority boarding, free ticket changes, meals and drinks.



Schedule	LCC
Launching low-cost arms	Courting business travellers
Increasing ancillary revenues	Offering different tier tickets
Flying to and from secondary airports	Flying to and from major airports
Wi-Fi on board	Increased baggage allowance
Improving online booking platforms	Using GDSs as a distributors
Decreasing ticket prices	Increasing ancillary profits
Lowering staff costs	Improving service
New fleet orders	Single fleet type

## US\$10 transatlantic travel: can it really take off?

- Long haul low-cost travel is a topic which airlines have been toying with for years with many failed attempts. Airlines such as AirAsia, Oasis Hong Kong Airlines, Jetstar and Zoom Airlines have tried but failed to develop this new segment, although players continue to explore possibilities.
- However, in 2013, the concept became a reality in Europe, with Norwegian Air Shuttle AS (NAS) offering travel from Europe to US and Thailand, with attractive ticket prices. According to company sources, the LCC is currently flying from Scandinavia to Bangkok five times a week and New York six times a week.
- As of 2014, the airline is planning to operate flights from Gatwick Airport in the UK to a number of destinations in the US, such as New York, Los Angeles and Fort Lauderdale, with the price of a one way ticket ranging from US\$240 to US\$320. In addition, the airline is aiming to operate flights from Scandinavia to Los Angeles, San Francisco-Oakland and Orlando in the same year. For these transatlantic flights, NAS is using the new addition to its fleet – the fuel efficient Dreamliner – and is focusing on leisure travellers in Asia Pacific.
- The long haul low-cost niche is an appealing one for many operators seeking to diversify. Ryanair is another player which has expressed interest in operating transatlantic flights, although with a desire to offer a speculative price offer of just US\$10, and operating under a completely different brand.
- The long haul LCC model is raising some major concerns regarding how high efficiency in aircraft utilisation can be achieved. In addition, it is not clear if the LCC model can be as cost effective as it is when applied to short haul destinations. Another impediment is the fact while Europe is a highly de-regulated region for air travel, this is not the case in other regions, such as Asia Pacific.
- Opportunities remain in exploring this market niche, especially as the majority of LCCs are equipped with modern aircraft which will provide a starting base for transatlantic flight operations.

## Low-cost goes upmarket

- Luxury brands are important, and high-end experiences offering comfort and personalised entertainment are favoured among Middle Eastern consumers. A less expected outcome of the luxury orientation of Middle Eastern travellers is the introduction of luxury services aboard LCCs.
- Jazeera Airways was the first to introduce a business class in 2009, straying away from the low-cost model altogether, but keeping low prices and achieving good profitability. In 2013, flydubai followed suit with its new business class services.
- While the Jazeera shift towards a traditional model was the result of low profitability, the 2013 flydubai business class tells another story, one of a LCC adding a luxury edge. “Affordable luxury” aboard planes appears to be an attractive segment, as business class tickets introduced by these LCCs would be cheaper than traditional airlines’ business class. This way, LCCs would lure economy customers away from traditional airlines, attracting who can afford a slightly more expensive ticket for a higher end experience.

### **Possible contagion?**

Contagion can go two ways with this trend:

- Other categories may adopt affordable luxury, eg budget hotels offering some higher end rooms. LCCs from other regions could adopt the “hybrid model”, blending low-cost and luxury, the most likely being Asia, where luxury is favoured. However, some are sceptical regarding the hybrid model, as it is seen as having a negative impact on airlines’ profitability because of the higher costs incurred.



**Future opportunities in  
travel accommodation**

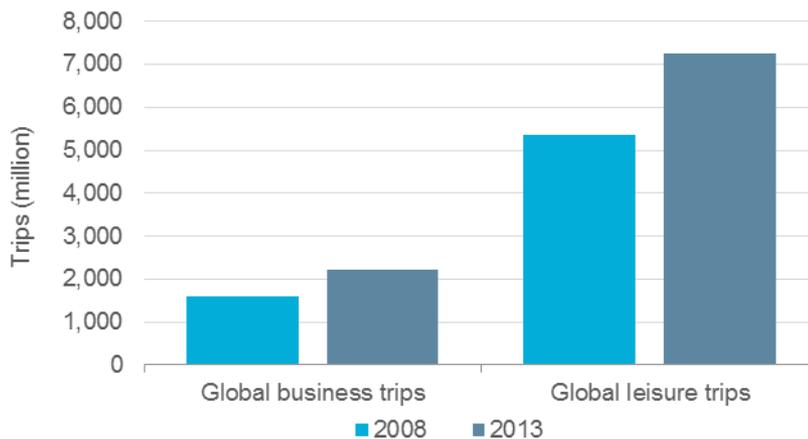
## Key findings

<b>Recovery persists</b>	In 2013, the global hotel industry achieved its fourth year of consecutive growth with sales of US\$480.8 billion.
<b>Industry dynamism</b>	The global hotel industry saw great dynamism in 2013, marked by Hilton's IPO, Marriott's brand launch of Moxy and the acquisition of Protea, Hyatt's move into the all-inclusive space and everyone's pursuit of millennials.
<b>Peer-to-peer a menace?</b>	As peer-to-peer lodging grows in awareness, companies such as Airbnb repeatedly made headlines, especially with its valuation of US\$10 billion, sparking conversations about its impact on hotels.
<b>Luxury troubled in China</b>	Despite their focus on China, luxury hotels are facing challenges with the government's crackdown on corruption and a slowing economy.
<b>Business travel on the rise</b>	Business travel is expected to continue to grow faster than leisure between 2013 and 2018, which will help hotels increase sales.
<b>Western Europe struggling</b>	A slow economy and oversupply are undermining Western Europe's leading position in the global hotel industry.
<b>Innovation</b>	Global hotels are reaching out to a new generation of travellers by embracing mobile technology, incorporating social media and updating the design and style of their brands.
<b>Non-stop growth</b>	Hotel sales are expected to grow every year over the period to 2018, prompted by increased tourism flows and higher spending business travellers.

# Business tourism and hotel sales on the rise

- Global business trips, including arrivals and domestic trips, grew by 39% over 2008-2013, to reach 2.2 billion trips. Global leisure trips experienced 35% growth during the same period, with 7.3 billion trips in 2013.
- Domestic trips grew strongly in Asia Pacific and Latin America as these economies were not as impacted by the global recession in 2009 and more people travelled for the first time. Asia Pacific also led in growth for arrivals over the past five years, while Western Europe experienced the second fastest growth. Although the regional economy suffered, Western Europe is a must-see destination for global travellers.
- The global hotel industry grew by 4% in 2013 to reach room revenues of US\$480.8 billion, this being the industry's fourth year of consecutive growth.

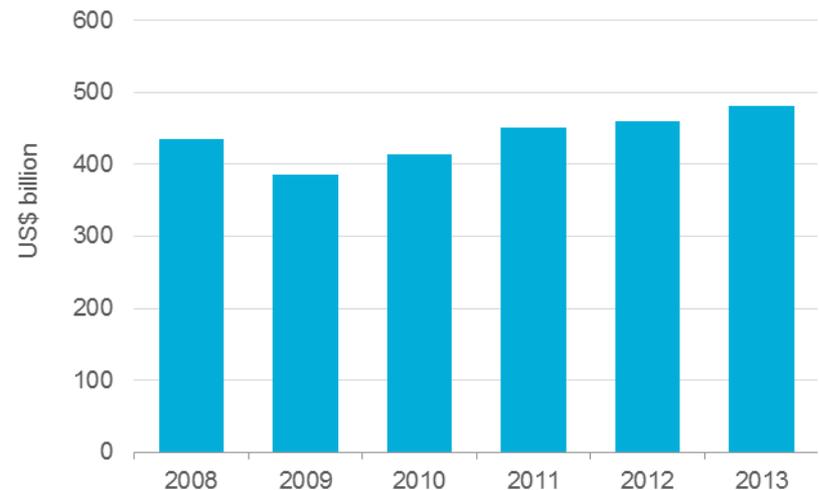
Business and Leisure Trips 2008/2013



Note: Includes arrivals and domestic trips

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Global Hotel Value Sales 2008-2013



## Hotel companies cater to millennials

- The hotel industry is preparing for the next generation of guests - Generation Y (those born between 1981 and 1990).
- With Generation Y consumers entering their peak working years, global hotel companies are reaching out to these travellers by embracing mobile technology, incorporating social media and updating the design and style of their brands. To promote these changes and attract Generation Y to their brands, hotel players are shifting towards more digital marketing and user-generated content.
- Although travel is a high priority for this generation, it also suffers from high unemployment, with many still living at home.

### Hotel Strategies to Attract Millennial Guests in 2013

Authentic social media experiences	The @HiltonSuggests Twitter allows Hilton staff from all departments to monitor and respond to “tweets” within their city, with recommendations even if the person is not staying at a Hilton establishment.
Comfortable and social lobbies	Pod 39 in New York added a Play Room with board games and table tennis tables to its lobby.
Functional rooms	Accor's Novotel launched a new room prototype with a bed that is designed in such a way that guests can sleep, work and read in it.
Smart marketing campaigns	Holiday Inn Express revived its Stay Smart campaign in June 2013 targeting Generation Y by creating the website StaySmart.com for user-generated content. The brand is also working with websites College Humor and BuzzFeed to create humorous content.
Polished brand identity	Marriott took a bold step in June 2013 and unveiled a new and simplified brand identity, represented by a single “M” followed by the tagline “Travel Brilliantly”.

# Sharing grows into travel accommodation

## MAIN DRIVERS FOR PEER-TO-PEER ACCOMMODATION

Peer-to-peer accommodation involves the renting of both properties and rooms across the globe. The process of booking takes place online at virtual marketplaces, which connect people who have a space to share (hosts) with those who are looking for a place to stay (guests).

### Social

The need to make **REAL CONNECTIONS**, the search for **UNIQUE** and more **LOCAL EXPERIENCES** and growing **ENVIRONMENTAL AWARENESS** are driving interest towards peer-to-peer accommodation.

### Economic

**CONVENIENCE** and **PRICE** are unquestionably key advantages peer-to-peer accommodation has over hotels.

### Technological

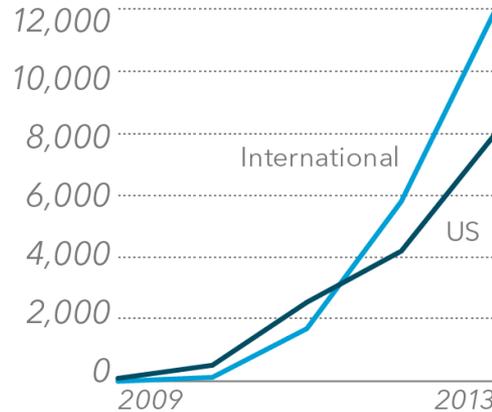
**MOBILE TECHNOLOGY** and **SOCIAL MEDIA** make it possible to match supply and demand among a much wider network, and with a reasonable level of trust. **ONLINE PAYMENT SYSTEMS** also take away opportunities for fraud.

# Airbnb recording skyrocketing growth

- The results achieved by Airbnb explain why the hotel industry is monitoring the company.
- In 2013, the company booked 20 million nights, attracting a total of 6 million guests.
- Through its 600,000 units listed worldwide, Airbnb recorded US\$2 billion in revenues in 2013.
- New York City tops the list of most popular city destinations by number of guests - a total of 400,000 in 2013.
- China and Brazil offer great potential for future growth, given their young populations, growing internet usage, higher disposable incomes and increased desire to travel.

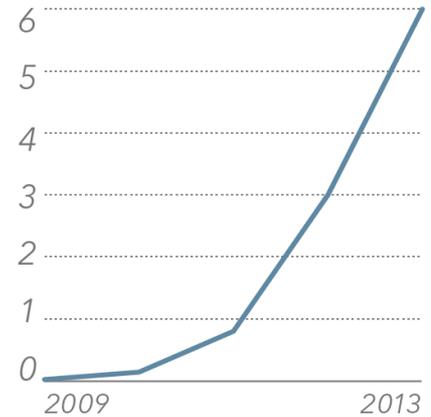
## Nights Booked

'000 nights, 2009-13



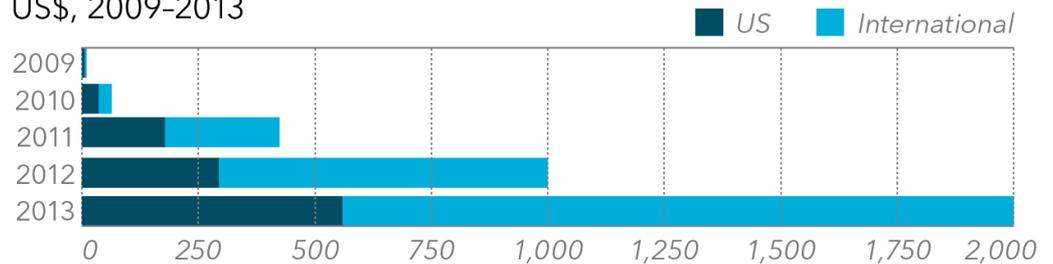
## Guests per Year

millions, 2009-13



## Room Revenue Splits

US\$, 2009-2013



Source: Airbnb (Guests per Year), Euromonitor International

# Mobile technology strategies go beyond sales

- The adoption of mobile technology will be crucial in the coming years as hotels strive to capture the growing portion of bookings happening on mobile.
- In 2013, Marriott led mobile hotel bookings with sales of US\$1.3 billion globally, breaking the US\$1 billion mark for the first time. IHG reported total mobile sales of US\$661 million.
- According to IHG, mobile accounts for over 30% of visits to its website, while nearly 50% of e-mails are opened via a mobile device.
- However, it is not just sales that are important for the mobile channel. Hotels are experimenting with how mobile technology can improve the guest experience through mobile check-ins, concierge services, destination information and so on.



## Meet Euromonitor International at the World Travel Market

For the ninth consecutive year, Euromonitor International will present the Global Trends Report, in partnership with WTM. Launched exclusively at the show, the report identifies the key trends set to shape the travel industry.

Join Euromonitor International on **Tuesday 4<sup>th</sup> November** at **13:00-14:00** in the **Platinum Suite 1** where the report findings will be presented by BBC's Babita Sharma, followed by a Q&A session with Euromonitor International's Travel and Tourism team.



**Caroline Bremner**  
Head of Travel and Tourism  
Research  
Euromonitor International



**Angelo Rossini**  
Travel and Tourism Analyst  
Euromonitor International



**Nadejda Popova**  
Senior Analyst Travel and  
Tourism  
Euromonitor International