

Part One

Strategy in general

Travel 2015: scanning the environment—the next big thing in travel and tourism

Marvin J. Cetron¹, Frederick J.
DeMicco² and Owen Davies³

¹President, Forecasting International, Arlington, VA, USA

*²Professor & ARAMARK Chair of Global Strategy & Development,
Hotel, Restaurant & Institutional Management,
Lerner College of Business & Economics,
The University of Delaware and Conti Distinguished Professor at
the Pennsylvania State University's School of Hotel,
Restaurant and Recreation Management, Newark, DE*

*³Research Associate, Forecasting International,
Arlington, VA, USA*

Introduction

Travel and tourism form one of the largest and fastest growing industries, both in the United States and throughout the world. This sector also is changing rapidly. In this chapter (which has been adapted from a forthcoming book of the name: *Travel 2015: The Next Big Thing in Travel and Tourism*), the senior authors—one a prominent and widely respected forecaster, the other ARAMARK Chair of Hotel and Restaurant Management at the University of Delaware—offer a clear-eyed and compelling look into the future of this diverse field. In addition, they provide tools with which readers can begin to make useful forecasts for their own companies and careers.

This is a chapter to examine the future of tourism, travel, transportation, and related services.

Overview

The travel and tourism industry is accustomed to good times. Yet for some years, travel suffered. And because it was unprepared for adversity, it suffered more than it needed to. Today, prosperity has returned, but there are warning signs that we still could see another period of declining travel and pinched revenues. This chapter will tell readers what lies in the future and provide an introduction to forecasting, a critical management tool for turbulent times.

The terrorist attacks of September 11, 2001, more than decimated the travel industry. International tourism to the U.S. plunged by 70%. Even such evergreen attractions as Disney World, Washington, and Las Vegas were forced to cut back, and profits collapsed throughout the industry. In the United States, airlines alone laid off an estimated 100,000 workers. Travel-related firms in Europe and Asia suffered similar declines. More recently, SARS and hostility over Europe's position on the Iraq war have aggravated this already-grim situation.

These problems could not have been avoided, but it might at least have been possible to prepare for them. In 1994, author Marvin Cetron and his colleagues at Forecasting International carried out a study of terrorism for the Pentagon. Their report, *Terror 2000*, specifically predicted events that to many people then seemed unthinkable. These included a massive assault on the World Trade Towers, an attack on the Pentagon using a commandeered airplane, and the delivery of simultaneous blows by Muslim extremists against widely separated targets.

If this study had been undertaken for the hospitality industry, the implications would have been obvious; hotel, resort, and airline executives at least could have managed their resources to weather the coming storm.

Those insights—still vitally important in the post-9/11 world—are only a small part of what this chapter has to offer. This chapter will tell readers what to expect in the travel and tourism industry for the rest of this decade. In this book, we will examine both general issues, such as the state of the economy and the supply of suitable workers, and specific trends that are now changing important industry sectors. We will cover hotels and resorts, airlines, cruise lines, and other aspects of this field. In addition, we will reveal the specific trends that Forecasting International uses to make its forecasts and tell readers how they can be used to predict their own futures.

The pressing need to look ahead is a lesson that many people have learned well in recent years. Economic boom and bust, technological change, international competition, terrorism, and other predictable forces have destroyed some industries, created others, and left none untouched. No one at the level of middle management or above, and no student preparing for a career, can do his job without keeping one eye on the future.

We believe that many executives, teachers, and students in the travel and tourism industry will be eager for an advance look at the years ahead. The next few years will be a challenging time, and these potential readers will need all the help we can offer them.

Part I: common concerns for the hospitality industry

Forecasting, a quick introduction

There is nothing arcane, or even particularly difficult, about anticipating what is to come. However, sound forecasting does require a good sense of what is going on in the world, the ability to look at new information objectively, and some practice at relating general trends to the specific conditions of an industry or company. This chapter will explain the strengths and limitations of forecasting and introduce the methods by which Forecasting International arrives at its insights. This will serve to reassure sceptical readers that the predictions made in this book are worth listening to.

Money matters

The single greatest factor shaping the future of the travel and tourism industry is the condition of the U.S. economy. When Americans are prosperous, the world's hotels, airlines, cruise ships, and destinations flourish as well. When Americans feel poor, the impact is felt around the world. Regionally, the economies of Europe and Japan have similar influence on this consumer-sensitive industry. In the years ahead, the economies of China and India will become nearly as influential as that of the United States.

Forecasting International has long believed that the U.S. economy would be generally strong through at least this decade, with only temporary, relatively mild interruptions. The post-9/11 recession has done nothing to change that view, and current data indicates that a healthy recovery has begun. This augurs well for the travel and tourism industry through at least 2010. Beyond that, the health of the economy depends significantly on federal tax and spending policies in ways that we will make clear.

For other economies, the picture is mixed. We will make concrete forecasts for them late in the production schedule.

Grey power

Throughout the developed world, populations are growing older. The elderly live longer, thanks to healthier living and better medical care, and the vast Baby Boom generation, now nearing retirement, is being followed by much smaller generations. By 2025, the number of people age 15–64 in Germany, Italy, Japan, and Spain—among other countries—will see double-digit declines, while the number of elderly grows rapidly. Japan has the highest average longevity in the world and a birth rate so low that by 2050 its population is expected to decline by 30%, while the senior population grows to nearly 37% of the total. Thus, in 2025 more than 18% of the American population will be age 65 or older, up from 12% today. Throughout the world, the ranks of 60-year-olds and older are growing 1.9% per year, 60% faster than the overall world population. People over 65 made up only 15% of the population in the developed world in 2000, but will grow to 27% of the population in the next half-century.

Add to this the growing concentration of wealth among seniors, thanks to their longer time for earning and investment and the contribution of social security benefits in most of the developed world, and we see a trend that will have a profound impact on hospitality and travel. More and more of the hospitality

industry's guests will be seniors. Many will be healthier than their parents and grandparents were at the same age, and they will demand more active, adventurous vacations than previous generations of seniors could endure, much less enjoy. Yet others will be frail or sickly and will need care and assistance that destinations are accustomed to providing. And all are likely to require special accommodations for their changing needs. Hotels will require arthritis-friendly handles on doors and faucets—levers, rather than knobs—brighter lighting, and signs that are easier to read, with larger lettering and less clutter. Restaurants will need to provide meals with more intense flavours suited to the declining acuity of older palates. And personnel throughout the industry will require training to attend better to the needs of the elderly. These and other changing demands will be a continual challenge to travel and tourism.

Personnel

The supply of entry-level and low-wage workers is shrinking throughout the developed world, while the travel and tourism industry continues to need ever more inexpensive, personable, and well-trained people to care for its guests. In the years ahead, the industry will meet this problem by recruiting from among retirees and other relatively underutilized groups of potential employees. Inevitably, it also will recruit from younger generations of workers, whose values and expectations vary significantly from those of their parents, older siblings, and company superiors. Finally, new educational techniques and certification opportunities will change the process of training new employees and teaching them the corporate culture. Many companies will find themselves teaching many of their new hires English as a second language. All these factors will modify personnel and management practices in important and sometimes unexpected ways.

Impact of new travel technology

In the next few years, airliners will grow larger, faster, and more efficient. Cruise ships will become larger, more efficient, and better equipped with high-tech amenities such as instant Internet access. The United States may finally begin to replace regional air travel with high-speed rail. “Intelligent” highways will speed ground transportation throughout the developed world. Rail, too, is becoming ever more important for middle-distance travel as high-speed rail systems proliferate.

And Internet-based marketing will continue to chip away at the travel agents' remaining foothold in the industry. These and other developments will change the way the travel and tourism do business in the years ahead, as this chapter will explain.

Slice and dice marketing

Around the world, more and more travellers are using their vacations to visit places and partake of activities that fewer and fewer of them would be interested in. This is not a paradox; it is the latest thing in market segmentation: niche marketing to ever smaller groups of people who share specific, often unique, interests and values. Poker players, amateur astronomers, fans of mystery fiction, and gays and lesbians all form specialized and lucrative markets that cruise lines and travel destinations have tapped with great success. Serving these niche markets is quickly proving to be one of the most productive trends in travel and tourism.

At least five market segments will be growing fast for the next decade or more: adventure travel, ecotourism, attractions based on tragedy and terrorism, African-American history (in the United States), and so-called medical tourism, which we will examine at much greater length in Chapter 11.

Energy: lifeblood of travel

We see it most clearly in the airlines, which have jammed more seats into the economy sections of their planes, trimmed flight schedules, and added fuel-cost surcharges to their ticket prices. Yet cruise lines, hotels, and other parts of the travel and tourism sector are feeling it as well: with crude oil at nearly \$120 in April 2008, the high price of energy began to hurt. Energy costs are likely to remain relatively high for the next year or two.

And in the long run? There is little hope that oil prices will return to the comfortable levels of \$30 or \$35 per barrel that were standard just a few years ago. In 2015, and for years thereafter, fossil fuels will remain the world's most important energy resources, with oil clearly in the lead.

Yet if energy will never be cheap, neither will it remain as expensive as it has been of late. Contrary to many dire forecasts, there is no evidence that our supply is soon to run out. Proved oil reserves stand just above 1 trillion barrels, enough to keep the plant going for another 20 years or so. They have remained at that level for decades and show no sign of shrinking in the years ahead. More importantly, new refining capacity—the real limiting factor in the world's fuel supply—will at last come

online by 2009 or 2010. When it does, the cost of oil will drop significantly. The International Monetary Fund is predicting that oil will cost \$34 per barrel in 2010. At Forecasting International, we would not be surprised to see it at \$40–\$45 per barrel. Yet even this is a big improvement in prices over 2008. It is a cost that the world’s travel and tourism operators will easily afford.

“Bang, you’re dead!” and they mean it

Wherever extremists aim their guns and bombs, they hit the travel and tourism industry. Sometimes they strike directly, as in Indonesia and Bali, where Jamaah Islamiya bombed a Marriott hotel and a night club full of tourists. Sometimes they strike indirectly, as in the September 11 attacks, which all but destroyed international tourism and air travel even though they were not aimed directly at the industry. This is a problem that will be with us for decades, as the recent plot to blow up airliners travelling from Britain to the United States demonstrates yet again.

In a recent Harris poll, 94% of travellers surveyed understandably said that they now consider security a critical factor when deciding where to stay. Coping with this heightened concern for safety will require important changes in security, personnel, and sourcing practices, not only for airlines, but for hotels, resorts, cruise lines, and other travel facilities. Many organizations have responded slowly or not at all to this grim, still-new reality. Doing so effectively will mean tightening the screening of personnel—not only their own, but those of suppliers—installation of intrusion barriers, and even upgrading standard safety measures such as fire alarms and food storage. This chapter will tell what to expect in the years ahead, and how to cope with the demands increasingly being placed on them.

Part II: sector forecasts

If this is Tuesday, it must be Orlando

Major changes have swept the tourism sector in the recent 2 years. Busy working people are taking smaller vacations and more of them—a long weekend or a 4-day get-away every couple of months, rather than one or two traditional vacations each year. Retirees are travelling in the off-season. Cruise vacations have become the fastest growing sector of the tourism market. And, increasingly, consumers are cutting out the middleman and booking their own vacations online. This has been good news for most of the industry—with the obvious exception of the travel agents—because it has evened out a lot of tourism’s customary seasonality.

However, there has been bad news as well. The September 2001 terrorist attacks, the controversy over the Iraq war, and the slow job growth of recent years (compared to the boom years of the 1990s) all are changing travel habits in unwelcome ways. Elective air travel remains depressed, and international tourism to and from the United States is off sharply. Hotel occupancy has fallen more than 25% in Paris, while foreign visitors remain unaccountably scarce at the Orlando theme parks. In general, Americans are vacationing within driving distance of their homes, making day trips, and visiting the local amusement park, rather than going farther afield.

Some of these changes will prove transient as September 11 and the Iraq war fade further into the background. Others may be with us for years. This chapter will tell what to expect.

Away on business: the MICE market

Business travellers go to meetings and exhibitions for the “three Cs”—contacts, contracts, and certification—and for a “high-touch” antidote to the sterile pressures of an increasingly high-tech world. As a result, gatherings large and small have long been an essential part of many industries, and they used to be one of the easier, more profitable markets for the hotels and resorts that host them. Booking them meant a block of rooms filled, and payment for them was assured.

Today, the MICE market—for meetings, incentives, certification, and exhibitions—has been struggling with difficult challenges. Video conferencing is quickly replacing in-person meetings, and online instruction allows certification whenever and wherever the student finds most convenient. The market for incentive travel is growing quickly, but it generally offers much smaller sales. For the host destinations, this has meant more effort, smaller profits, and a lot less certainty.

This is a taste of things to come. In the years ahead, the global population will continue to grow and change, science and technology will tighten their hold on business and society, and the world will knit itself ever more tightly into a single market. And all this means that competition and cost cutting will grow ever more intense. As a result, both opportunities and trials will abound in the MICE market.

Club medic

The well-to-do have long visited spas for weight loss, exercise, and general pampering; others have gone to specialized

clinics for medical procedures not approved at home. And spas in particular are a fast growing segment of the travel and tourism industry. They are creating new products and penetrating new markets.

However, growing numbers of people are going abroad for more critical forms of care. When they require surgery or dental work, they combine it with a trip to the Taj Mahal, a photo safari on the African veldt, or a stay at a luxury hotel—or at a hospital that feels like one—all at bargain-basement prices. This is medical tourism, and it is one of the hottest niche markets in travel and tourism.

Medical tourists have good cause to seek out care far from home. In some regions, state-of-the-art medical facilities are hard to come by, if they exist at all. For that reason, patients throughout the Middle East are travelling to Jordan or Asia for complicated surgery. In other countries, the public health care system is so overburdened that it can take years to get needed care. In Britain or Canada, the waiting list for a hip replacement can be a year or more long. In Bangkok or Bangalore, you can be in a state-of-the-art operating room the morning after you get off the plane. But for most people, the real attraction is price. The cost of surgery in India, Thailand, or South Africa can be one-tenth of rates in the United States or Western Europe, and sometimes even less.

Under the circumstances, it is no surprise that the medical tourism market is growing rapidly. Ten years ago, it was hardly large enough to be noticed. Today, something over 250,000 patients per year visit Singapore alone; nearly half arrive from the Middle East. Perhaps half a million annually travel to India for medical care; in 2002, it was only 150,000. McKinsey, the consulting firm, estimates that medical tourism could bring India as much as \$2.2 billion per year by 2012. Throughout Asia, Africa, South America, and Eastern Europe, clinics and tour directors alike are rushing to tap this lucrative market. They will make medical tourism one of the fastest growing niche markets in the travel and tourism industry for many years to come.

The theme is amusement

It was a good year for the world's amusement and theme parks in 2005, the most recent year for which figures are available. Some 253 million people visited amusement parks that year, up 2.2% from 2004. The years ahead should be even better.

Amusement parks are one of the few travel and tourism markets that cater to visitors who are short of funds and actually

prosper in lean times. The proliferation of young families in the next decade, particularly outside the United States, will create a ready market of cash-strapped customers looking for inexpensive entertainment close to home. However, the price of success for parks is constant investment in new rides, stage shows, and other attractions. Today's prosperity will enable them to make these costly commitments, ensuring that the good times continue.

Water, water everywhere—but that is not what they drink

Cruising is hot, hot, hot, and not just when the weather turns sultry. More than 80 ocean-going cruise lines with over 250 ships now visit some 2000 destinations, and bookings are expanding by 8% annually, the fastest growth rate in the travel and tourism industry.

Yet it has not all been clear sailing for the cruise sector. In 2001, some 10 million people booked passage on the world's cruise lines. The terrorist attacks of September 11 slashed that demand. Drastic price cuts have brought business back, but decimated profits. Ticket prices remain depressed, and passengers are beginning to complain that service has suffered as a result. And capacity is rising even faster than demand.

All this brings up obvious questions: Can even these livable times last, or do worse problems lie just over the horizon? How long will cruise prices remain depressed? How can cruise operators turn growing demand into solid profits? How can they adapt to the challenges of a fast-changing world?

Travel goes green

One of the fastest niche markets in the travel industry is ecotourism, where the colour green stands for environmental concern, not dollars spent per minute. Hard data on the ecotourism market is difficult to find, in part because it is not easy to pin down exactly which activities really qualify. However, a few figures offer at least a hint of this market's size and potential. In 1993, the World Tourism Organization estimated that "nature tourism" accounted for just 7% of all money spent on international travel. Just 10 years later, it put the figure at 20% in the Asia-Pacific region. In some areas, such as South Africa, the number of visitors to game and nature preserves is doubling every year. Another report from the WTO estimated that ecotourism is the fastest growing segment of the tourism industry, expanding by about 5% per year. It represents 6% of the global GDP and 11.4% of all consumer spending.

This fast growth is powered by some important trends. One is the health of the developed economies, which provide the vast majority of ecotourists. Another is the youth of the most eco-conscious population segment. Too short of cash to indulge in lavish vacations today, these young families soon will mature into their peak earning years and will set about turning their nature-oriented vacation dreams into reality. It helps also that the Baby Boom generation, which largely invented ecotourism, is the largest generation in history and soon will be the wealthiest.

All this points to major growth in ecotourism in general, and in such subcategories as geotourism, nature-based tourism, and pro-poor tourism. This will bring new prosperity, both to a wide variety of new destinations and to tour operators capable of cashing in on this powerful trend.

Troubled airlines begin to soar

The perpetually earthbound airline industry is one sector that needs a little good news. Fortunately, there is more to offer than many observers recognize. It took a few years, but the passenger shortage that followed the September 11 hijackings has finally been fully made up. In 2005 and 2006, the recovering global economy brought unaccustomed profits to many of the world's airlines, including the financially shaky U.S. carriers. This was made possible by a variety of sound business decisions, including cutbacks in unprofitable routes, imposition of fuel surcharges to compensate for high energy prices, and the packing of still more seats into economy sections.

Paradoxically, the best news may have been the plot to blow up airliners in flight between Britain and the United States. Unlike the successful attacks of 9/11, the potential horror revealed in mid-2006 has had little impact on air travel. Flights from Great Britain were nearly grounded, not for lack of passengers, but because stringent security measures enacted after the incident took so long that few would-be travellers could make their planes without longer waits than most could endure. In the U.S., air passengers accepted hours-long lines with scarcely a murmur of protest. This has to be a good omen for the period, soon to come, when security measures return to normal.

Yet the real payoff will come in 2010 and beyond. By then, fuel costs should be declining, travel demand growing, and the new leanness and efficiency of the world's airlines—enhanced by still more fuel-efficient models from Airbus and Boeing—should bring prosperity at last to the world's long-beleaguered airlines.

Food for thought

Restaurants and food service used to be an afterthought for hotels, resorts, and travel destinations. Given a choice, travelers were likely to stop at a nearby restaurant instead of eating in. Today, that is changing, and restaurants are becoming a significant profit centre for many travel and tourism businesses. This exposes them to the same trends that are affecting free-standing restaurants.

Diners are becoming more health conscious, more quality conscious, and much more interested in convenience and economy. These trends are changing the food from restaurants to the local supermarket. They are most advanced here in the United States, but are beginning to appear in Europe as well.

At home, Americans are looking for meals that are easy to serve, but many are “cuisine literate yet culinary illiterate” due to increased global travel.