

The Tourism Crisis Unfolds

AT THE time of writing on October 8, the day after the response to the terrorist attacks of September 11, the future of the travel and tourism industry appears to be more dotted with questions than answers. In analysing future trends, the following ten questions may offer a starting point – certainly they need consideration and debate.

1. The global political and economic situation is lurching from one crisis to another. Just in the last 10 years alone, there have been three major crises and a number of minor crises. How can marketers market in this kind of an environment?
2. Many “solutions” propagated in the past have proven wrong. The bursting of many technological, financial and economic bubbles is a clear sign of this. Why have these bubbles burst? How can we avoid being caught up in these bursting bubbles?
3. Should national tourism organisations become much more sceptical about forecasts, fads and trends?
4. There has been perhaps over-dependence on high-tech solutions. Do these need to be balanced with high-touch solutions in future? If so, what kind of high-touch solutions?
5. What lifestyle changes will emerge in the major tourist-generating countries and globally as a result of the September 11 disasters?
6. Should the entire methodology for measuring the success of tourism be changed? In the past, it has been based on visitor head-count or foreign exchange earnings. Is there a better way?
7. What changes will emerge in the ways other service industries like insurance, telecommunications and finance will market themselves in future? Are there any examples there applicable to tourism marketing?
8. The airline industry has been worst affected. What is likely to happen in that industry and what kind of marketing strategies will it use to regain its health?
9. Yield has been a significant problem in travel and tourism over the last few years. How can it be boosted in an era of endless financial uncertainty and currency fluctuations?
10. What more can be done to better market the advantages and benefits of tourism to local populations in order to help attract a better quality of young people to work in it and help people take better care of its natural, cultural and environmental assets?

The biggest question, of course, is: How long will it take for travel to resume? The short answer is: No-one knows. Some analysts predict a long protracted war. As long as this conflict continues, so will uncertainty. The only certainty is the impact on the industry, and what the industry itself is doing to respond to immediate concerns.

According to the World Travel & Tourism Council (WTTC) Travel Business Roundtable, the United States’ travel and tourism industry has been affected as follows (data released on October 5, 2001):

- Tourism in the U.S. could drop by nearly one-third in the coming months.
- Hundreds of thousands of U.S. airline, hotel and other travel industry workers have already lost their jobs and more losses are expected.
- U.S. airlines are flying with 40 to 50 percent of their seats empty, even after drastically reducing their scheduled flights.
- Across the U.S., 25 percent of conventions and meetings scheduled before the end of 2001 have been cancelled.

- Per-room revenue is projected to decline between 3.5 percent and five percent this year – the largest decrease in room revenue in 33 years.
- Hotels could lose US\$2 billion in room revenue and other associated income. Specifically, cities around the country are already experiencing tremendous losses.
- In New York, the overall occupancy rate is at 45 percent, where it would normally be 75 percent, and 3,000 employees have been laid off – so far
- In Washington, D.C., room occupancy plummeted from 80 percent to less than 20 percent, and experts say more than 50,000 hospitality jobs in the region are at risk.
- In Central Florida, many hotels are at less than 25 percent capacity, where they would normally be more than 50 percent full.
- In Seattle, where downtown hotels are typically 90 percent occupied in September, occupancy is as low as 30 percent.
- In Hawaii, where many hotels normally have 80 to 85 percent occupancy, many are reporting room occupancy rates of 40 percent or lower.
- Travel agencies are losing an estimated US\$51 million per day in sales.
- Corporate travel is projected to fall by 50 percent by January 2002.
- One estimate states the U.S. economy will decrease by 1.8 percent of total GDP, directly resulting in a loss of 1.1 million jobs.

The Impact on Airlines

Aviation has been one of the worst affected sectors. According to the International Air Transport Association (IATA), capacity on international scheduled services will drop by an average of 10-20 percent between October and December 2001. What happens thereafter will depend on demand-side issues such as the state of the U.S. economy, the political/military situation, as well as supply side issues like the costs of fuel, insurance and labour.

In a briefing to chief executives of the Association's 277 member airlines, IATA Director-General Mr. Pierre Jeannot said that in the last half of September, U.S. carriers saw their revenue passenger kilometres drop by about 35 percent on international services and 35 percent on domestic services. Based on a limited sample of other carriers, traffic in the rest of the world declined

by about 20-25 percent in the first week following the attacks but had already recovered to around minus 5 percent by the following week, Mr. Jeannot said.

He said the impact on airlines, their customers and employees has been extremely harsh – sharply reduced demand for services; unprecedented delays at airport security checkpoints; rapidly escalating costs – “all of which have created tremendous additional pressure on an already frail operating environment.”

Because airline bankruptcies and financial problems reverberate throughout the system, and lead to bankruptcies among travel agents, Mr. Jeannot said IATA has reinforced the surveillance of its various financial settlement systems and introduced early-warning systems and procedures.

According to IATA's Chief Economist & Director of Research, Mr. Peter Morris, even by the end of August, global airlines were already estimated to show a net loss on international services of around US\$3 billion. If capacity and traffic falls by another 15 percent from now to year-end, “the latest estimates [would] indicate a loss of around US\$7 billion for 2001 on international services, and well over US\$10 billion for the industry globally.”

However, Mr. Morris added that an IATA survey of corporate business travellers between September 19-22 found that two-thirds of corporate business travellers said they had not changed their travel plans following the attacks. Eighteen percent said they had delayed travel plans while eight percent had actually cancelled travel.

Security Issues to the Fore

The primary step being taken by airlines to restore confidence by the travelling public is to beef up security measures. This has meant:

- Intensified hand and checked baggage processing. Passengers and baggage are being checked more closely under stricter security procedures. This may involve several checks prior to boarding.
- Stringent passport/immigration control and improved passenger screening methods (for example, photo ID required).

- Federal (U.S.) standards, training and testing for security staff.
- Restricted gate access at all airports.
- Restriction of carry-on items (no sharp or knife-like objects, etc.).
- Increased presence of air marshals (security agents) on board U.S. aircraft.
- Positive baggage/passenger reconciliation (passenger luggage will be put on board plane only if its owner has boarded).
- Cockpit security improvements.
- Reinforced background checks of all personnel hired by airports, airlines, ground services, catering, cargo, etc.
- Mandatory baggage screening.

New technologies are likely to be made available to help better identify the people boarding aircraft, as well as the contents of baggage, cargo and mail. These can include baggage scanning machines which can detect trace elements of explosives, weapons made of new materials and suspicious substances. These systems are being tested around the world.

An Historical Perspective by the World Tourism Organization

At the beginning of September 2001, the WTO's initial growth forecasts for international tourism in 2001 stood at between two percent and three percent. It noted that in the northern hemisphere, the star tourist influx months had already passed (by September, 2001) posting results that were on the whole positive, albeit well behind 2000 figures. The present crisis, said the WTO, "directly affects the United States, a key country in terms of tourism and the world economy, and...prompts reactions, which, if and when they happen, are extremely hard to define."

The WTO also said: "Severe decline in world travel demand is not anticipated... Experience shows the inflexibility of tourist demand, its resilience to crises and a great capacity to overcome adverse situations of political and financial instability or natural disasters."

From a historical perspective, the WTO analysis noted that all through the period 1950-2000 international tourism dropped only once, a -0.4 percent drop in 1982, a year with an adverse economic climate globally and travel restrictions in central and

Eastern Europe that arose as a result of events in Poland. Then came two major armed conflicts – the Gulf War in 1991 and the Kosovo conflict in 1999. Although they are only partially comparable with the current situation, they triggered a significant slowdown in tourism growth, but not a fall-off in total arrivals.

In each of the years following those two conflicts, there was growth. In 1991 (Gulf War) international tourism grew by 1.2 percent and in 1992 by 8.3 percent. In 1999 (Kosovo conflict) international tourism rose by 3.8 percent and in 2000 by 7.4 percent. The figures for both years also reveal the following trends:

- Tourists avoided areas involved in the conflicts and those perceived as being close at hand.
- There was a clear drop in inter-regional traffic. For example, in 1999 tourism from the Americas to Europe fell 1.2 percent while total outbound tourism for the region grew by 1.6 percent.
- There was a shift effect to alternative destinations, particularly those within the region itself or within the tourist's own country.

Specifically referring to acts of terrorism, the WTO analysis noted that in 1997, Egypt was affected by the attacks in Luxor. It received 3.2 million tourists in 1998 but as a whole, the Middle East did not see a drop in the total number of arrivals. The following year, in 1999, international tourism to Egypt rose 40 percent to 4.5 million, as a result of an active tourist policy, targeted at the most important generating markets.

The Asian financial and economic crisis of 1997 and 1998 saw Asia's tourism fall from 90.3 million arrivals in 1996 to 89.1 million in 1997 and further to 88.0 million arrivals in 1998. One year later, in 1999, the region received 97.6 million arrivals, a rise of 10.8 percent over 1998. That was followed in 2000 by another 14.7 percent rise to 111.9 million arrivals. This recovery took place far faster than anticipated, the WTO analysis noted.

Looking at the future, the WTO said (written before October 8): "The current conflict will undoubtedly spark political, military and economic reactions on the part of the United States and its allies. The consequences of those reactions for tourism will depend partly on the nature, the timing and the geographical areas involved. If the measures adopted do not prevent widespread travel, it is foreseeable that the example described

above will be repeated. So, in the medium term, a likely scenario is that growth will be delayed for a matter of months. If reasonable security conditions for travel are maintained, the outlook is that while some destinations may be more severely affected, tourist flows will turn towards other destinations of the same kind."

However, the WTO report also warned: "In situations such as this, there is also the risk that part of the general public will make generalisations and indiscriminate condemnations of social groups that have nothing to do with the causes of a crisis. This mistaken attitude is dangerous and the authorities and other social agents have the moral responsibility to try to remedy it. For destinations which, with any justification, become involved for any reason, whether sociological, ethnic or religious, it is important that prompt, decisive action should be taken."

The WTO analysis stressed that "despite the logical limitations of this analysis, the fact is that a strategic perspective of the situation could prompt some countries to embark on a series of early response actions to ensure that their tourist destinations are perceived by the generating markets clearly, making a distinction, and this would undoubtedly help strengthen their position."

The WTO concluded: "The exceptional nature of the current situation underlines the need to make improvements to the solutions that were valid in the past. As a result, WTO will ensure that fresh research is conducted in the Programme of Work for 2002-2003 on improving security and safety for tourists and on the position and consolidation of the image of tourist destinations."

Potential Winners

If every cloud has a silver lining, some opportunities will clearly emerge.

SAFE HAVENS: Clearly, safety and security have become the top considerations in choosing destinations, whether for holiday, business or conventions. However, no place on earth can guarantee 100 percent safety, only the lowest possible risk of problems erupting. The industry can expect safety to become The Dominant Factor in future decision-making.

DOMESTIC AND REGIONAL TRAVEL: Birds of a feather flock together. While people coming from afar may steer clear of long-haul destinations because of unfamiliarity and a desire not to get stuck somewhere in the event of conflict, regional and domestic travel should hold together reasonably

well. In the long run, this will have a clear impact on how marketing budgets are adjusted.

VIDEO CONFERENCING: In a globalised world, people have to stay in touch. There is rising evidence that improved technology and lower costs are allowing video-conferencing to step in for business travel and small meetings. Hotels and convention centres will have to rise to the occasion, just as many have already equipped themselves with high-speed Internet connections in their guest-rooms.

INSURANCE: Expect a big rise in demand for insurance policies against both security and health risks. This will clearly add to the cost of travel, but should open up new revenue-generating opportunities for travel agents. Closer links between the travel and insurance industries are likely.

SECURITY COMPANIES: Last, but not least, security companies and consultants will be big winners, financially. Expect them to hit the speech-circuit. Sales of security equipment and high-tech gizmos will boom. Again, costs will rise proportionately, especially for conferences, meetings, exhibitions and incentives.

PRIVACY: All this security will clearly lead to concerns about the impact on privacy. Profiling and ethnic/racial discrimination are other sides of that same coin. All will have far-reaching implications for the way tourism does business.

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