

The Future of Forecasting

A FEW weeks ago, we asked several senior industry executives for their views on the future of forecasting. The question: If business must have stability to plan ahead, how can it do so in a world of currency uncertainty, crashing stock markets, bursting bubbles, political mayhem, gargantuan bankruptcies, religious strife, airline collapses, social disorder, environmental chaos, financial shortages and security lapses, among many other problems?

How can business be done in the face of this uncertainty and instability? How have strategies changed? How can industry executives meet the short-term demand for results, results, results in a world of never-ending twists and turns?

Despite such questions, PATA entered the forecasting arena and released *Pacific Asia Tourism Forecasts 2002-2004*, details of which are on page 4 of this report.

Following, however, are the replies from these senior industry executives on the future of forecasting:

**João Manuel Costa Antunes, Director,
Macao Government Tourist Office**

Forecasting is essential for tourism planners and operators given the multi-faceted nature of tourism and the fact that its volume, shape and directional flows are subject to so many variables.

In order to develop a sufficiently accurate projection of tourism, it is necessary to monitor the environment constantly, thus responding rapidly to the alignment of strategies with new realities. It is also necessary to provide focused leadership with both flexibility and open-mindedness and to put into practice appropriate models of crisis management. In this world of uncertainty, we must also urgently prepare a recovery plan and work together with counterparts in the tourism industry, thus implementing crisis reports and recovery plans.

Moreover, forecasting enables us to be on the look-out for new opportunities and markets, such as India and Indonesia, while we build on current strengths, namely, our current major source markets of China (PRC), Hong Kong SAR and Chinese Taipei.

Forecasting is also very important in helping tourism planners to prepare strategic plans and to make major decisions affecting future developments in the tourism sector.

**Richard Beere, Executive General Manager,
Eastern Hemisphere, Australian Tourist Commission**

Forecasting has always been, and should always be, about trend scenarios. Even in stable times there are no absolutes or definitives. The trend scenarios should be based on a combination of robust data, consumer insights and qualitative analysis of the market place.

In the tourism arena there is still a major issue with raw data availability and commonality. There remains a lack of agreed definition and measurement techniques around the world on basics like arrivals and departures, actual spends in market and in country of visitation, the actual travel pattern undertaken, and origin data of consumers. This affects the quality of input at the base stage.

Although economic data is more robust and more easily available, it remains difficult to directly correlate macro-economic trends to actual travel patterns, except in extreme cases. This means there is a large amount of qualitative analysis and interpretation required even at the most fundamental level.

One of the keys, however, may lie in consumer research data, which identifies trends in consumer preferences, travel patterns, and changing consumer needs. These appear to have a much more direct bearing on travel trends than any other data analysis.

Forecasting is not an exact science, but can, and should be used directionally. It is, in essence, about knowing your customers and your markets.

Jim Brennan, Vice President, Pacific-South, United Airlines

Forecasting travel trends for business and leisure travellers has long been based on statistical analysis of raw data involving country by country entry/exit statistics, GDP growth, population trends and

other significant factors. These statistics were often used in developing and refining short, mid- and long-term strategic plans as well as for adjusting tactical moves.

However, with the rapidly changing environment brought on by the globalisation of world economies, increased political and military issues around the world and an ever-changing distribution process, it has become increasingly important to develop strategic plans which include geo-political and world stability aspects. Therefore, the changes taking place in the social order of globalisation require significant input from experts in the social change and political arenas.

In the airline industry a key requirement for long-range planning is that of identifying aircraft fleet requirements. The number of aircraft, size, range and seating capacity are all key decisions that must tie-in with an airline's long-term strategy. In many cases the acquisition of a fleet or sub-fleet may span ten years. As an example, the decision to move toward a larger aircraft fleet or smaller and faster type of aircraft hinges on what research tells us the customer will desire. Of course cost-forecasting models will always be an important part of long-range planning but it is becoming increasingly important to be better at predicting social and political changes as they relate to our core business. People will continue to desire travel at increasing rates. But where and why they want to travel are great uncertainties.

Perhaps these rapidly changing dynamics are moving forecasting closer to an art form, rather than science.

Clara Chong, Chief Executive, Hong Kong Tourism Board

Information-based decision-making is the key to forecasting in an industry that is constantly evolving and becoming more competitive by the day. Research and data analysis is at the heart of the HKTB's strategic objective of maintaining a balanced portfolio mix that caters to long-haul and short-haul visitors. This can effectively reduce the risk of being over-dependent on one single source market, and allows us to assess the potential of each major market on a commercial basis, before we determine the appropriate portfolio mix.

In-depth analysis of market segments also helps us to ensure our products and services are aligned with the requirements and expectations of our visitors and to identify high-yield segments in each market to form the basis of focused promotional strategies.

Close monitoring of the macro environment and overall market situations is also vital because it enables the HKTB to react quickly to worse-case scenarios and uncontrollable uncertainties, such as 9/11 and economic downturns.

After the 9/11 tragedy, the HKTB reviewed the resource allocation for every market. By following our proven policy of

implementing information-based decisions, we were able to quickly adapt to changing market circumstances to achieve short-term wins. The same commitment to utilising research and data analysis has enabled us to tap into emerging markets and adjust to most-likely and best-case scenarios.

Brian Deeson, Senior Vice President, Accor Asia Pacific

In Asia, we have been coping with uncertainty since the "Asian Contagion" started spreading in mid-1997. In some ways that cataclysmic event meant that we had already been through a crash course in crisis management and when things started spiralling downwards in September 2001, it was a little easier for Asia's hotels to know what to do.

Traditionally, hotel forecasts and expense budgets went hand-in-hand. The 1997 downturn meant that we disconnected the two, somewhat, and applied serious "zero based" expense budgets, as we had to be ready for worst-case scenarios. As things slowly recovered in 1999 and 2000, there was some easing of this process but the exercise was revisited much more speedily in the last quarter of 2001 and hotels generally were quicker and more radical in their cost-cutting exercises than the previous time.

In the moderately good times that prevailed in the mid 1990s in Asia, some sales activities had really become order-taking exercises. However, the level of sales professionalism has improved dramatically since then and the higher pressure on results has not been eased.

Budgeting is not the once-a-year exercise that it used to be. We revisit our revenue and expense projections almost daily and are prepared to change and flex as needed.

**Ron Erdmann, International Trade Administration,
Tourism Industries, U.S. Department of Commerce**

The United States involvement in travel and tourism forecasts is limited to international travel to and from the United States. Our office is unlike most national tourism offices as we do not have an official national tourism office for travel marketing. In addition, there is an extremely limited role for the U.S. government in the domestic travel market, with no agency taking the lead in this area. With that said, here are my comments related to the international market and forecasts.

1. How can business be done in the face of this uncertainty and instability?

Now more than ever, sound research data on the past, but more so on the short-term and longer-term future is needed.

The U.S. Department of Commerce has some of the best data in the world on arrivals to the country. To develop a

to the U.S. visits two to three destinations while here. To provide the traveller with the experience they need, and to stay competitive with other destinations around the world, the U.S. needs to learn to cooperate with other places the international traveller will visit within the country. By working together, a unique experience may be developed for the traveller, using research data that already exists. Unfortunately, far too few partners work together to accomplish this goal. Additionally, the industry needs to expand its partnership beyond traditional boundaries and types of partners to ensure a full travel experience is offered. All elements of the vacation experience need to be better coordinated. Education is needed to ensure the partners understand their role. Again, research data can be used to accomplish this. The problem is, it is not currently being used to the degree it should.

**Roy Tan Hardy, Senior Vice President, Marketing & Sales,
Millennium & Copthorne International**

The first thing is to face up to the new realities. The rules of the game are changing, and some have become completely obsolete. In the first episode of the Asian crisis in 1997, we saw what happened to "forecasters" who predicted that the economic downturn would be over within a matter of months. Forecasting suddenly became a very hazardous occupation and people became more reserved with their comments.

In sports, when a team suffers a defeat or experiences a bad spell, the first thing the coach will say is "let's go back to basics". These include a relentless focus on sales and driving revenues, a passion for the fulfilment of a company's promise to its customers, and working even more closely with the company's best supporters. Given the immediacy of attention to results these days, "long-term" often means "three months".

Investments on projects or initiatives need to be better scrutinised. Not just monetary investments, but the investment of time and people which in today's realities are both becoming valued commodities. We have always put a very tight focus on how we spend our marketing dollars. This philosophy of doing business, even during good times, is now carrying us well. We have not abandoned our longer-term goals, but we have augmented the focus on our short-term ones.

At times like these, it is even more important that we all strive to lead a more balanced life. The demands of work are greater than ever before. Fewer people are doing the same amount of work – or more. A mentally worn-out executive cannot function effectively. I was once asked what the biggest challenge in marketing today was. My answer: "What do we leave out?" We cannot mistake activity for success. Finally, one should never assume that what worked last year, will yield the same results today.

**Paul Kirwin, President and Managing Director,
Carlson Hotels Asia Pacific**

Amidst the uncertainty of global travel and tourism trends, it is increasingly important to be attuned to the market, adaptive, and aligned with all stakeholders.

With 2002 travel and tourism results rebounding slower than anticipated, all of us now recognise the current slump is likely to carry on for some time. Business travel, especially from the U.S. and Europe will not recover this year, and given the recent actions by U.S. airlines, one must conclude they have determined it could be several years before activity reaches 2000 levels.

Although we are benefiting from increased intra-regional travel, especially leisure, the loss of high-rated international corporate demand is a significant drain on yields. As no-one can accurately predict when these markets will improve, and at what pace, we must be more diligent with our analysis of demand trends, revenue management, and consumer research. In essence, we must listen carefully to the market – every day, and in some cases, every hour – to be on the alert for new opportunities and shifts in direction.

In addition, we must be fast, flexible and adaptive. As trends shift, and new opportunities arise, we must move quickly to take advantage. In some cases, this means using our new technology tools and systems to capture demand through new sources such as the Internet and related wholesalers. In other cases, it means carefully scheduling our resources to ensure we are "just in time" and efficient.

In times of uncertainty, we must increase our communications with key stakeholders, owners and investors, employees, suppliers, and even our community partners, all of whom depend on our business activity. We need to understand the nature of our current challenge, its impact on them, and more importantly, their role in dealing with it to ensure success for them and the organisation. This can only be accomplished by consistent, open, and honest communication.

While the travel and tourism industry has been severely impacted by the current economic slowdown and the war on terrorism, we will endure this challenge and come out stronger.

**Scott M. Meis, Executive Director Research,
Canadian Tourism Commission**

How can business be done in the face of this uncertainty and instability?

The positive ways for business to continue in the face of this uncertainty and instability involves a combination of tactical responses:

- Focus for the moment on shorter-term tactical marketing

Pacific Asia Tourism Forecasts 2002-2004 Now Available

PATA's Strategic Information Centre has released *Pacific Asia Tourism Forecasts 2002-2004*. Written by professors Lindsay W. Turner and Stephen F. Witt, the 260-page hardback study predicts tourism arrivals in 36 PATA-region countries and analyses market trends, seasonal change, and for some countries, tourism receipts and accommodation requirements. The book is available to PATA members at US\$350 and to PATA chapters and non-members at US\$499.

To order, please contact Ms. Patcharin Hongprapat.
Tel: (66-2) 658-2000 ext. 121. Or fax: (66-2) 658-2010.
E-mail: publications@pata.th.com.

Travel and Tourism Barometer. This tool is an Internet-based research programme that obtains information from the travel trade on what they expect travel to the United States will be in the next three to six months. The information is collected quarterly, based upon an Internet-based questionnaire and results are provided to the industry participants directly, as well as through the office's Web site. This tool provides a shorter-term outlook for travel to the country for selected markets. The U.S. hopes to add other markets in the future and expand upon the programme by working more closely with the industry to add questions for subscribers and customise results for clients.

Another piece of market intelligence needed is obtained through survey research of international visitors. While the number of travellers who have visited the country and the estimated number of travellers who may visit the country are key pieces of information, a destination will not be successful in the international travel market until it understands the visitor by market and uses this data to develop strategies to entice additional visitors to the countries and the destinations within the U.S.

With 45 million visitors in 2001, it is impossible to sell the U.S. as a single product. Each destination is unique and, therefore, data must be available beyond just how many travellers visit the country. We must be able to subset these visitors by the destinations visited. The survey research programme we have does this for the states and cities within the U.S.. While additional surveys are needed, along with improved cooperation from the airlines, this adds up to a powerful tool that helps define travel segments to the country and the destination. By comparing the results of the survey for the country to a specific destination, one may be able to determine:

- what is unique about this destination
- how the market needs to be approached differently
- who their partners could be
- how many partners they should try to obtain to provide the traveller with the experience they want
- and how they want it.

While other information would help improve the quality of the experience offered to the traveller, the U.S. does not have the resources to obtain and release this type of information. One such type of study was our pleasure travel market research. Unfortunately, the U.S. no longer funds the psychographics research programme. When it existed, it provided tremendous information for helping us understand the leisure market to the country.

2. How have strategies changed?

For many years, the U.S. just tracked arrivals and traveller characteristics of past visitors and then developed forecasts for the future at the national level. With the dramatic shifts that have been occurring in the international travel market more information is needed.

This is why the U.S. created the barometer programme, which we see expanding to numerous other markets. We have also started to work with the industry to take our national forecast and project it to the destination level.

Likewise, the country hopes to dramatically expand its survey research programme to include additional airlines, look at alternative data collection methodologies, obtain more industry investment in the programme and receive assistance in resolving problems. While it would be useful to have additional federal government involvement in understanding and promoting the U.S., we will not see a national tourism office for many years to come. Given that, the federal government must work more closely with the destinations and travel industry to make it easier for the traveller to understand and purchase the U.S. travel experience.

3. How can industry executives meet the short-term demand for results, results, results in a world of never-ending twists and turns?

We need consistent, comparable performance measures. This industry lags behind most, in so far as national marketing is lacking. Improved cooperation is needed among industry partners. While domestic travel may not lend itself to partnerships, the international travel market demands it. The international traveller

When Five Percent Is Not Really Five Percent

*By PATA Strategic Information Centre Managing Director,
John Koldowski*

FORECASTS always remind me of the conversation between the Cheshire cat and Alice, in *Alice in Wonderland*.

Alice: Would you tell me, please, which way I ought to go from here?

Cheshire cat: That depends a good deal on where you want to get to.

It appears that the travel industry is sometimes the victim of role reversal. Instead of controlling and manipulating markets, it may be passively relying too much on external forces which affect visitor decisions.

There are advantages in working a market that already has awareness, desire and intent to visit a destination. But we appear to be entering a stage in travel where demand needs to be managed, not stimulated. This is where forecasts may be useful. Most quantitative forecasts stem from a belief that what happened in the past will happen again. Once, that was true. In the past, change was slow, sequential and easily measured. Today, it is rapid, random and comes from nowhere. Much of it is not easily measured nor anticipated.

Under those circumstances, quantitative forecasts can be very useful as a measure of deviation from the expected. In other words, the figure given as a forecast should not be taken as gospel but rather as an indication of the direction of change. It can provide a yardstick by which changes in external (and sometimes internal) environments can impact actual results.

If the actual result is higher than the forecast, what factors stimulated that additional demand? How can we make them happen again? If the actual results are lower than expected, why – and how can we minimise or avoid those factors?

Knowing how changing parameters will affect a market allows industry decision-makers to prepare for the worst (or best) scenarios and take appropriate action.

In a world of continuous, rapid change, wouldn't it be nice to have some advance notice or at least an idea of what could reasonably be expected? Do we know what it is we are really forecasting? How well do we really understand our markets, especially in a regional sense?

Without uniformity and harmonisation it is virtually impossible to accurately predict travel flows in the Pacific Asia region. For example, I am an Australian living and working in Thailand. If I travel to one country within the region I am recorded as a Thai. In another, I am recorded as an Australian.

Furthermore, some countries record all arrivals while others sample the arrival records. Both are acceptable processes although the latter can have reasonably large Relative Standard Errors, particularly for origin markets with a small numeric base (often emerging markets).

Was that five percent increase a real growth or was it within the error margins for that source market? It is no good convincing me that there was five percent growth when the error margin may be plus or minus 10 percent.

In the PATA region we should all measure the same thing and in the same manner. If nothing else, it would make my job easier.

strong forecast, quality data is needed on the arrivals to a country. This source must be consistent, follow the World Tourism Organization (WTO) definitions of a traveller for data comparability, and a time line of at least 10 years of consistent arrivals data by market is needed.

The United States reports arrivals by their country of residency as requested by the WTO. The report is an actual count of the number of visitors, as all travellers to the United States with the exception of Canada and Mexico must complete a form before they are allowed to visit the country. The Immigration and Naturalisation Service administers the form. As an enforcement agency, they tend to ensure compliance with entry requirements.

All forms are processed, which means we have as close as you will ever get to a count of the number of visitors to the country. The rate of change can be estimated each month by market.

The United States uses the historical arrivals data along with an econometric forecast model developed with the DRI-WEFA Group consultants. The forecast model develops estimates for arrivals to the United States for all world regions and over 30 countries. Additional countries may be added to the programme as needed. The model uses key economic variables forecast by the DRI-WEFA Group and the past arrivals to develop estimates for travel to the United States for the current year, and the next three years. The forecast is updated twice per year for two major conferences. Over time, at the aggregate level, it has proved extremely accurate even in the aftermath of September 11, 2001. The forecast for total arrivals to the U.S. issued in early October 2001 was within 1 percent of the preliminary estimated arrivals to the country.

In addition to tracking arrivals and developing a forecast for arrivals to the country, the U.S. has also developed a new tool to track the short-term outlook for travel to the U.S. We call it the

initiatives and close-at-hand markets. For example, Canada has developed two new tactical "new reality" marketing campaigns: one focussed on the domestic market calling them to stay at home and the other targeted to the U.S. car-owner market in adjacent and second-tier border states.

- Increase market intelligence and forecasting activities. For example the CTC has switched to monthly field intelligence reports from our international sales force, monthly industry intelligence reports, and quarterly three-year forecasts.
- Improve cost management and control.

How have strategies changed?

Strategies have switched to place a greater emphasis on volume rather than yield and greater emphasis on near-at-hand and short-term markets.

How can industry executives meet the short-term demand for results, results, results in a world of never-ending twists and turns?

The only way is to find an optimal mix of both short- and long-term strategies in a mixed market portfolio and monitor and adjust the portfolio mix of tactics and strategies as the marketplace evolves.

**Steve Noakes, Senior Consultant Asia Pacific,
Cooperative Research Centre for Sustainable Tourism**

Focus on those things that you can control. This year and last the global travel and tourism industry was rocked by the September 11 attacks, a war in Afghanistan, a global war on terrorism, increased tensions in the Middle East, major corporate collapses in the U.S., and continuing problems in the Japanese economy.

Here in Australia, we saw the collapse of major corporate players in the insurance, telecommunications and aviation industries. We saw millions of dollars wiped off superannuation funds, threatening the future retirement incomes of the baby-boomer generation. Many share portfolios performed well below their past track record, with many recording negative growth rates for the first time.

In addition, billions of dollars were wiped off Australia's tourism export industry as international arrivals fell.

Despite the gloom and doom, Australia's largest travel retailer, Flight Centre (a listed company) increased its net profit 44.5 percent to AU\$62 million. Revenue increased 19.7 percent to AU\$3.6 billion. Earnings per share increased from 51.8 cents to 71.9 cents.

Who says travel can't pay in times of turbulence? Flight

Centre managed to stay focused on core capabilities when external factors could easily have distracted it from its successful corporate culture.

**Tokaravu Aua, Research & Statistics Officer,
Tourism Promotion Authority, Papua New Guinea**

Tourism forecasting is a dynamic process in the sense that it is influenced by so many factors that a change in any of those factors will affect tourism forecasts. Hence, tourism forecasts need to be reviewed regularly to account for changes in national and international socio-economic conditions. Realising the possibility of such changes, the Tourism Promotion Authority has produced forecasts under three scenarios. In our pessimistic scenario, we have assumed a situation that closely fits one that PATA has described (at the start of this report).

First of all, we need to find out exactly what the uncertainties and instabilities are. This is essential to develop appropriate strategies to minimise the adverse effects of uncertainty and instability on tourism.

One of many such strategies is the diversification of source markets. In other words, we have to divert our focus from uncertain markets to more certain markets. For example, if Americans and Europeans are less likely to travel to Papua New Guinea following 9/11, we need to attract more Australians, New Zealanders and Asians. Tourism strategies must be dynamic.

There is no doubt that industry executives have to work hard and intelligently in order to achieve good results in the short term. Government has to play a big role. It needs to bring all the key players in the tourism industry together to develop short-term result-oriented strategies.

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