

Tourism Industry Intelligence

Strategic Information for Decision-Makers

Destination Britain

April 2003

6% increase in arrivals

In 2002, there were **24.2 million overseas visitors to the United Kingdom, a 6% increase over 2001 figures**. The *British Tourist Authority* (BTA) anticipates that inbound visits and spending in 2003 will increase by 3% to 4% on 2002 figures. BTA's forecasts are based on no further significant acts of terrorism or other unpredictable events (such as foot and mouth/SARS).

US\$17.7 billion in receipts

Revenue from overseas tourists in 2002 was US\$17.7 billion (£11.8 billion) a 4% increase on 2001 revenue. Domestic tourism generated US\$31.2 billion (£20.8 billion) in revenue.

USA – the single most important market

Britain receives around 4 million American visitors every year, contributing on average US\$3.5 billion (£2.5 billion) to the UK economy, making them the inbound tourism industry's single most important market. The strong markets for Britain are those that are closest - Western Europe with excellent air connections to the regions of Britain.

Factors affecting travel to UK

While prospects for most long haul markets look increasing positive, two factors affecting travel to Britain from these markets are **security and safety concerns and the economic environment**, both of which are shifting travel patterns in some markets.

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New initiatives

VisitBritain is a new tourism body formed on April 1, 2003 to market England within Britain and Britain to the rest of the world. **It is spearheading a new campaign to be launched in May/early June worth approximately US\$3 million (£2 million) to attract US visitors back to Britain.** Britain will launch a TV marketing campaign for England, a first in ten years.

Future prospects

International events are currently having a negative effect on inbound tourism, however the longer term outlook is much better. **For the Easter period, VisitBritain estimates that UK residents will take 2.6 million trips of one night or more in England resulting in expenditure of US\$600 million** (£400 million). The British Tourist Authority will create eight regional hubs around the world for customer contact by email, internet, telephone and 'walk-ins'.

Source: <http://www.visitbritain.com/uk>, 2003

Market & Consumer Trends

Terrorists cannot find me here

Americans are staying home in droves. Demand for air travel both international and domestic has fallen to levels not seen since the 2001 terror attacks, according to *Air Transportation Association*. In fact, cancellations have sometimes actually exceeded bookings. Many Americans are choosing 'Plan B', for example, one American going to Montana instead of Europe says "terrorists cannot find me here". **From secluded retreats to second-fiddle amusement parks, more travelers this spring are opting for vacations closer to home that are considered safe and off the beaten path.** Popular destinations such as Los Angeles and Orlando have hotel occupancies down 10% over the last year. Instead historic and cultural parks within driving distance of urban areas are doing particularly well.

Great desire for value, family and friends

The majority of American travellers plan to vacation within the US during the next year, taking a combination of short and long trips, according to new independent poll commissioned by *Travelocity*. Americans are shifting to the more traditional vacation – **seeing the country and spending time with family and friends.** Eighty-eight percent plan to travel within the US more than 200 miles from home, up from 82% in December, and 61% plan to take a trip within 200 miles, up significantly from 42% in December. More travellers now plan specifically to spend leisure trips with family and friends, up to 42% from December 2002.

Destination Watch

South Africa is most sought after destination

South Africa is now the world's most sought after tourist destination with over 6 million tourists arriving in the country in 2002. Overseas tourist arrivals have increased by 20.1% (over 1.8 million). The global awareness created from the hosting of the **World Summit on Sustainable Development**, the **ICC Cricket World Cup** and the value-for-money deals will enhance its chances at maintaining this position. The United Kingdom (442,910 arrivals) and Germany (248,990) are the leading European markets for South Africa.

SARS hits Hong Kong hard

Hong Kong has been hard hit by the outbreak of SARS (severe acute respiratory syndrome). **The outbreak has led to mass cancellations of flights, package tours, conventions and business trips.** A worldwide travel advisory by the *World Health Organisation* against traveling to Hong Kong and China's Guangdong province as forced Hong Kong to halt all marketing promotions, and to save its resources for a blitz campaign once things start returning to normal. **Occupancy rates plunged 30% and Hong Kong could lose US\$256 million in tourism revenue in the next two months** according to *Morgan Stanley*. While there is optimism that things will return to normal, the next few months will be tougher than anything they have ever experienced including the events of September 11th 2001, the Asian financial crisis and tougher than any recession.

Dubai has 14th consecutive year of increased arrivals

Dubai has received more than 4.7 million visitor in 2002 registering the highest rate growth rate of 31.1%, according to *World Tourism Organisation*. This is at least the 14th consecutive annual rise with 447,006 of these visitors originating from UK and 7,372 from Ireland. The long term targets for worldwide visitors to Dubai are 15 million visitors by 2010, according to the *Dubai Department of Tourism and Commerce Marketing*.

Focus - Impacts of the Iraq War

British Airways cut 3,000 jobs	One of the major casualties of war is the airline industry. The war-weakened demand has forced British Airways PLC to bring forward 3,000 job cuts. British Airways aims to complete 13,000 job cuts by September 2003 instead of March 2004 and it will also cut flights by 4% until the end of May. British Airways' schedule cuts include a 6% reduction on routes to USA and Canada.
Lufthansa grounds 10% of long-haul fleet	Lufthansa, the Germany-based airline, was forced to ground 10% of its long-haul fleet and it also cut flights to the United States, South America and Japan. Worst for the airline revenue in Europe and the United States is a decline in demand on lucrative North Atlantic routes just as it was during and after the 1991 Gulf War.
Delta incurs more losses in first quarter	Delta Airlines also looks likely to follow United Airlines and US Airways into bankruptcy protection. As the US carriers struggle with falling bookings and widening losses as a result of the war, the 1,000 Delta employees who have applied for voluntary leaves are not enough to save the airline. Delta's loss for the first quarter 2003 is reported to be more than US\$397 million.
Airline losses could be in excess of US\$10 billion	War and the threat of terrorism could deepen the airline industry's losses to US\$10.7 billion in 2003 worse than the US\$7.4 billion lost in 2002 , according to the <i>Air Transport Association</i> . Advance bookings for international flights fell by more than 20% after the code orange alert in the USA in February.
Earnings guidance withdrawn by major hoteliers	Starwood Hotels withdrew its earnings guidance for the first quarter 2003 as they were unable to accurately predict the effect of the war and timing of economic recovery. The owner of Westin and Sheraton hotel chains also indicated that it would suspend guidance.
More job losses at Boeing	War in Iraq, worldwide disease outbreak and airline bankruptcy filings are translating into deep job cuts and few plane deliveries for Boeing Co., the world's largest commercial jet manufacturer. The company already slashed 30,000 jobs by the end of 2002 and plans to cut another 5,000 jobs in 2003 but this could change depending on how severely the war, SARS and the continuing economic recession affects the airlines. The airline slump may linger until 2005 according to the majority of executives at the <i>Annual Airline Finance Conference</i> held in early April, 2003.
Mediterranean cruise season suffers	The Mediterranean cruise season could be another casualty of the war as bookings were 50% down on 2002 bookings. Radisson has cancelled European cruises in April and May and Princess cancelled its Mediterranean season. Vacationers fear being trapped overseas if air travel is disrupted as was the case after September 11 attacks. In addition, they do not like being far away when terrorism in the US is a possibility.
Deep discounting and late bookings prevalent	Deep discounting, flexible refund policies, late bookings and less business travel are some of the other immediate impacts of the war, according to the <i>Hospitality Sales and Marketing Association</i> (HSMIA). While some persons postponed trips others cancelled outright.
Tourism - a resilient industry	International tourism is resilient enough to recuperate relatively quickly and can even show signs of recovery in the second half of 2003 , according to Francesco Fragialli, Secretary-General, <i>World Tourism Organisation</i> .

Source: USA Today, Financial Times, The Economist, Financial Post, eTurboNews, Caribbean Response Centre.

Editorial

Personal safety is everything

The reality of the travel and tourism industry is that **personal** safety is everything. Whether it is the fear of a terrorist attack, war or the risk of contracting a disease, these are real fears that affect the very decision or intention to travel. And as the outbreak of SARS (severe acute respiratory syndrome) has shown, a destination can suffer severely when there is a threat to personal safety. Already in Hong Kong, there has been a 90% decline in travel to Hong Kong and hotel occupancy rates have fallen by 30%.

Trends to Watch

Online travellers continue to grow

From 6 million consumers purchasing travel online in the USA in 1998 to **30 million consumers in 2002**, the internet is now the leading source for web travel research. Half of the 30 million only buy their travel online, according to *PhoCusWright's Consumer Trends: Evolution of the Online Traveler*. **Nearly 15% of all Americans purchased their travel online in 2002** and that is 5 times the penetration rate of 1998. Nearly one-third of online travel buyers say the Internet was responsible for their travel purchases last year. **Travelocity** is the website "most often used" for air purchases while **Expedia** is "most often used" for hotel reservations, according to *PhoCusWright's* survey.

Europe's e-travel market worth EUR 7.3 billion

Europe's e-travel market is worth Euro 7.3 billion in 2002 – a growth of 53% on 2001. E-travel now represents 3.5% of the present total travel market. **Growth of 32% is anticipated between 2002 and 2003**, and by 2006 online travel will be worth EURO 16.4 billion and almost 7% of the industry's total travel value.

Independent travel uninsured

Holidaymakers are being told that putting together packages themselves leaves them at risk of not being covered if suppliers go bust. The advent of no-frills carriers and increased access to the internet has increased the numbers of people who put together their own packages. **When holidaymakers book a package with an operator it is covered by ATOL however an independent package is not insured.**

EasyJet targets business travellers

EasyJet, a low cost carrier, hopes to attract corporate bookings with the introduction of a dedicated website area for managing business travel arrangements. Users register for a free service by clicking a link on the home page. Password protected pages then allow corporate customers to access monthly management information so they can track their travel spend. Passengers who book through the b2b area of the site will be sent an email that includes their confirmation number and itinerary details.