THE WORLD OF TRAVEL IN 2020

AN INSIGHT INTO THE DRIVERS THAT WILL CHANGE END-TRAVELLER BEHAVIOUR AND SHAPE THE FUTURE OF THE TRAVEL INDUSTRY

The Executive Summary of an independent report created by The Future Foundation on behalf of Cendant Travel Distribution Services

Autumn 2005

ABOUT THE STUDY

The explosion in world tourism is one of the most remarkable economic and social phenomena of the last half-century.

Tourism is now one of the world's largest industries and accounts for 12% of international spending and generates 1 in 12 jobs worldwide. Europe's tourism industry alone generates 32% of the world's total economic output and is the major generator of outbound international tourism, accounting for 54% of global travel.

The WTO (World Tourism Organisation) forecasts predict steady growth for the global tourism industry in the next 15 years. In particular rising levels of prosperity across the globe and the emergence of a newly affluent middle class in China, India, Eastern Europe and the Americas would suggest a rosy future for the travel industry. However, behind these economic variables there are a series of underlying social, cultural, political and technological factors at work that are driving change in consumer attitudes and behaviour.

So, what does the future hold and what are the emerging trends that will shape travel in 2020?

As a forward thinking organisation, Cendant Travel Distribution Services (TDS), one of the world's largest aggregators and distributors of travel content, regularly commissions independent research to examine the challenges and opportunities that these ever-changing times represent for the travel industry.

This latest study explores the attitudinal, social, political, economic, cultural and technological drivers that will affect consumers in key travel markets and shape the future of the global travel industry in 2020. Key findings from the report include the following:

- **Consumer prosperity and confidence fuelling a demand for a diverse product offering as the 'experience economy' takes hold (Section 1)**
- **The creation of new dynamic traveller groups as a result of the changing make-up of the traditional nuclear family (Section 2)**
- **The increasing importance of responsible tourism and its anticipated impact on the industry (Section 3)**
- **The ones to watch – the global travel trends that should not be ignored, including safety, emerging markets and aviation congestion (Section 4).**

Research methodology

The research was carried out on behalf of Cendant Travel Distribution Services (TDS) by specialist Think Tank, The Future Foundation.

The methodology involved in putting together the report included:

- Desk research to gain insight and understanding of related and relevant areas. This included:
    - The Future Foundation's own consumer trends information
    - Relevant Cendant research sources
    - Other industry sources including supply-side data, consumer spending data from National Accounts of individual countries, OECD (Organisation for Economic Co-operation and Development), UN World Bank, Eurostat, Eurobarometer, American General Social Survey, World Tourism Organisation, IATA World Air Transport Statistics, US Bureau of Transportation Statistics.

- In-depth interviews with key people within Cendant and other experts as appropriate to extend knowledge and test existing trends.

- Using this knowledge base The Future Foundation then assessed the future impact of trends in terms of their certainty and influence. This involved assessing and prioritising the impact of the trends on the future of both business and leisure travel using a process developed by the Future Foundation called "Futureproofing".

SECTION 1

MASS TOURISM SET TO CHANGE SHAPE AS THE 'EXPERIENCE ECONOMY' TAKES HOLD

The rapid expansion of the global travel industry in the past 50 years has been fuelled by steady economic growth. This expansion is set to continue but an increase in consumer confidence coupled with a desire to satisfy individual tastes will, according to the study, significantly reshape holiday aspirations and frequency.

While there will still be demand for less specialised holidays by families and individuals with lower disposable incomes– and in particular by a new wave of affluent middle class consumers from China, Brazil, Russia and India (see section 4) -, a trend towards diversification and fragmentation, driven by affluent tourists seeking specialist offerings, will emerge.

This will mean that even the traditional "fly and flop" beach holiday will need to incorporate exciting, self-improving, educational or cultural elements to meet the new aspirations of 21st century tourists.

International travel no longer a 'luxury' but a 'right'

One of the key conclusions of the study is that international travel is no longer seen as a luxury but as a 'right' by today's increasingly affluent society and, that holidays are becoming increasingly accessible to lower income families. Recent research[1] shows that when asked to consider lifestyle factors that are perceived to be 'absolutely necessary to live properly today' 84% stated 'sufficient leisure time and means to enjoy it'. In 1990 when asked the same question, only 40% viewed this factor as important.

This shift is partly due to the fact that material satisfaction, growing prosperity and relative stability in the developed world has given consumers the confidence to develop individual tastes and identities. One of impacts of this growing confidence is that instead of spending money on products that everyone owns such as cars and household goods, consumers now also spend money on products and experiences that give them temporary enjoyment. Holidays and travel fall into this category and WTO forecasts predict that by the year 2020 consumers around the world will be taking up to ***four*** holidays a year.

[1] Source: Eurobarometer/nVision Base: 16,000 aged 15+

For some this holiday increase will result partly from more accessible leisure time. The working year is likely to shorten in the USA and East Asia as more affluent consumers increasingly trade work for leisure time, freeing up days for extra travel and tourism activity. In the UK, work rates are expected to remain constant, but in a number of continental European countries holiday time could be shortened as a consequence of labour deregulation.

'One size fits all' approach will no longer work

The challenge for the travel industry is that the anticipated four holidays a year will need to deliver four very different experiences.

The trend towards 'doing not having' has been termed the 'experience economy' i.e. increasingly people want to be differentiated by what they do, not what they buy, so they are seeking to acquire the social capital that aspirational brands once provided, through experiences that bring emotional benefits.

The profound desire for new experiences will create a growing "checklist mentality" in future travellers, which the study suggests will mean that tomorrow's tourists will be buying a series of one-off experimental holidays, rapidly moving from one adventure to the next. The following pen portrait illustrates what one such family adventure in 2020 might look like and, how factors such as the environment will move up the agenda:

The Abaloff family on the first of several holidays in 2020

The Abaloff family from St Petersburg make their first trip of the year to Australia. They have a three week break to the country and tour the whole of the eastern side. Children Alena and Sacha enjoy the surf and also trekking in the rain forest in Queensland.

The whole family enjoyed the two day trip to the Great Barrier Reef near the Whitsunday Islands. On the organised tour – visits to the reef are highly regulated in 2020 – they witness the diversity of species. Happily it seems that the restrictions are working and that the decline in the biodiversity has been halted.

The family volunteered to do some environmental cleaning as part of their tour. The family did this work to bring up their carbon credits lowered by their flight to Australia.

Over the next 15 years, the changing approach to usage of consumers' recreational time will create a challenge for travel companies and individual countries seeking consumer loyalty. They will need to constantly update their product offering. Essentially it will drive a need for travel suppliers to develop a portfolio of specialist holiday offers, from short breaks to adventure travel and personal development holidays, tailored to the needs of consumers who will require up to four different "experiences" a year.

The pursuit of individualism will challenge traditional holiday content

According to the study, the pursuit of individualism, new experiences and self-development will also challenge traditional holiday content and descriptors as consumers search for new and more frequent methods of purchasing different experiences. For example:

- **Luxury holidays will no longer simply equate to the 'most expensive'**

A trend towards inconspicuous consumption is emerging in the form of a general desire for people to express their identity in more subtle ways than in the past. Visible expressions of status are becoming less important and instead, a more fluid and less elitist concept of luxury is emerging – driven by consumer concerns about authenticity, experience and individualism.

As a result of this trend luxury in the future will no longer necessarily mean the most expensive that money can buy, but instead will be seen as experiencing the things money can't buy such as time to spend with a child or partner, or pursuing a passion. Affluent consumers will increasingly incorporate 'extremes of value' into a holiday. For example, they may choose to spend money on business class flights (pampering), but choose a relatively low-cost activity such as group trekking in the jungle, or camping in the desert in less than luxurious surroundings (personal development/experience). As consumers move towards making purchasing decisions based on emotional not financial value, travel companies will have to redefine their luxury offers to reflect the demand for individualism and experience.

- **The desire for authenticity will increase**

The experience economy will also drive a desire for authenticity. Already younger age groups in the UK are significantly more likely than those aged 55+ to be looking for original, beautiful and memorable holidays that are also exciting and allow for self-improvement. Authentic cultural encounters, or anthro-tourism that meets all these needs, is predicted to increase as more consumers look for the opportunity to experience different cultures first hand, and before globalisation dissolves what is left of them.

- **Cultural hunger will fuel more short breaks**

The study also indicates that the short break, predominantly the city break, will fuel a demand for cultural tourism. The WTO believes that visits to World Heritage Sites are to increase as a result, with its appeal in particular to the growing older market.

Around the clock service will become a priority

Whatever the desired holiday experience, the study also concludes that over the next 15 years consumers will increasingly perceive time to be a precious and luxurious commodity. Travel companies will need to consider how to help tourists to maximise their use of it, both in the booking process and while travelling itself.

Internet usage for researching and booking holidays has increased by over 900% since 1997[2], a prime example of how consumers are seeking a convenient way to make travel arrangements and an effective way to assess and manage the multiplicity of holiday and travel choices.

According to the report, over the next 15 years the concept of seamless travel will become more desirable, streamlining the travel process to minimise delays and the associated stress of long-haul journeys. Travel companies that can offer seamless services eg one-stop tailor made bookings, visas and home-to-airport travel services will hold much higher appeal to the time-poor traveller of 2020.

The 2020 consumer will also be more demanding about when and how they travel, for example, they may expect more overnight, late night or very early morning flights and train services to fit leisure travel around busy work schedules.

Time pressures weigh most heavily on senior executives, one of the key segments for business travel and also one of the most affluent consumer groups. The study anticipates that an increasing number of time-pressured business travellers will incorporate leisure elements into their work trips. Travel organisations will need to consider how to position and deliver combined business and leisure offers. Airlines and hotels could, for example, be in a prime position to offer added value services that can be booked in advance or at short notice, such as 24 or 48 hour luxury excursions for executives, including a chauffeur, activities or cultural visits and restaurant bookings.

SECTION 2

[2] Source: '24 Hour Society', The Future Foundation/'Changing Lives', nVision Base: 1,000 adults 16+, UK

CHANGING FAMILY STRUCTURE WILL FUEL DEMAND FROM SOLO AND 3RD AGE TRAVELLERS FOR TAILORED TRAVEL PRODUCTS

The changing face of a family holiday will also have important implications for the travel industry over the next 15 years. The nuclear family, which was once comprised of parents, children, perhaps grandparents and horizontal relatives such as cousins, aunts and uncles, is being replaced by the vertical family, characterised by up to five co-existing generations, stretching from great grandparents to children.

The changing nature of family life has significant implications for how and when people travel. The traditional family holiday – one week or two of rest and relaxation with parents and children – will become less relevant in the future. For example, the rise of the vertical family will see three or more generations holidaying together, which has implications for the type of accommodation that tourist organisations offer and the pricing structure of holidays.

Within the next 15 years we can expect to see a shift from the standard package of two adults and two children, to a more flexible cost structure that can accommodate parents with only one child, or single parents who will be travelling with children and grandparents. In addition, the rise of the single person household is likely to create a backlash against the single supplement or other taxes and tariffs that penalise sole travellers. Tourism companies will need to widen their product offering to accommodate the range in interests and requirements of this group. The following pen portrait identifies the diverse needs that could be expected in 2020:

5 generations of the Garcia family on holiday together in 2020

The Garcia family from Houston welcomes the birth of their newest addition with a family trip to Las Vegas. They travelled there by low cost luxury airline – not the cheapest flight but worth it with the new baby for the better levels of service. The whole Garcia family from Great Grandpa to the new baby gathered in the leased condominium. The Garcia family are part of the worldwide Pepsi Family Hotel Club which means they can book accommodation in any location around the world and be certain that it meets with their high quality demands.

In Las Vegas, the extended family enjoyed the christening of baby Raul and then split up to enjoy their individual pursuits – from golf to hiking and enjoying the natural environment; from the casinos to cooking; from retail therapy to an International Blog Festival – the needs of every member of the Garcia family were met.

At night, the family meets up in the condo and enjoy a meal cooked by their hostess for the week and catch up on family news and arguments.

At the end of the week the family disperses to their homes all over the USA happy to have enjoyed a memorable week.

3rd Age Traveller will represent a dynamic opportunity for travel providers

As a result of changing family dynamics, a number of individual categories also represent powerful opportunities for the travel sector over the next 15 years. Of particular interest is the anticipated growth of the 3rd age traveller. On average, men and women in developed countries who retire at 65 can expect to live for 12 years after retirement and remain healthy and active for 7.5 years.

If changing attitudes to individualism and experience are considered alongside improving health and wealth, older people represent a dynamic market of active, adventurous and affluent consumers for whom travel is seen as an integral part of a fulfilling retirement. However, these older consumers respond negatively to being portrayed as an identifiable age group and to being pigeonholed as the 'grey market'. Therefore niche marketing by travel companies concentrating on a targeted, yet a non-branded, product offering will be vital in order to capitalise on this growing market. Holiday preferences for the 3rd age traveller in 2020 could look something like the following pen portrait:

An older couple on holiday in 2020

MARCH - Primal and Charu have married off their youngest daughter and now have the time and the money to treat themselves. Their first aim is to visit relations and so in March they make a three week trip to the UK. They fly direct from Bombay to Leeds Airport in an Airbus 380 – Leeds had its runway lengthened ten years ago to cope with the plane's demands. The plane is full of people, including 3 families that they know, visiting friends and family in the UK. They travel the country by train in their three week visit, visiting family and old friends and making new friends.

JULY – so as to avoid the very hot months of the year, Primal and Charu take a cruise down the east coast of Africa. This is a month long cruise with a difference since it provides the opportunity to combine the relaxation and visits to new destinations with plastic surgery. Charu has decided the time has come to have a half face lift and tummy tuck and Primal is going to have his eye bags removed.

Most of the people on the cruise are having some form of surgical treatment and those that don't enjoy the other well-being facilities on offer such as cranial osteopathy, cognitive therapy and hypnotism. The ship is run by an American company and Primal and Charu are pleased to see that there are also more holistic offers that incorporate Eastern philosophy.

Changing expectations of the age of retirement raises the question of how to finance a long and active 'third age'. Given this, consumers will have to make some adjustments to their current financial situation to ensure they will have an adequate retirement fund. This means either a dramatic increase in the level of personal savings or an acceptance that many people will have to work right up to and beyond the age of 65.

In the UK, equity release products are already available to allow people to use the money held in their homes to spend more on leisure and holidays in their retirement. Although this process has had bad press in the past with people being charged unsustainable rates, 7% of households in the UK released equity from their home in 2003 and the trend looks set to increase over time.[3]

The travel industry will thus need to consider the introduction of financial packages and incentives to ensure that older people continue spending on leisure activities, believed to be their right, up until and well into their retirement.

In addition, travel companies will also need to consider the special requirements of more active older travellers because even in good health they will require more medical support than their younger counterparts. This will impact on the insurance industry as the number of claims for holiday medical care rises together with cancellations due to illness.

Increasing number of solo travellers will fuel demand for 'singles' products

The number of people looking to travel solo, particularly due to an increasing proportion of society that is never marrying, will fuel a demand for 'singles' travel products.

Among older adults the divorce rate is expected to rise marginally, but among the population as a whole the divorce rate is not expected to climb further by 2020, the biggest shift is the fall in the number of people getting married in the first place. This is likely to encourage a shift from the standard holiday package towards the requirement of a more flexible cost structure tailored to the individual.

Younger singletons will also become more adventurous in their pursuit of new and different experiences as travel becomes more accessible. The following pen portrait illustrates the type of solo package that might be required in 2020:

[3] (source: BHPS/FutureFoundation)

A young singleton on holiday in 2020
During her year out between finishing University and starting work, Yanming's father- a property developer in Shanghai - is paying for her to travel around the globe visiting famous locations in women's football. A keen player, Yanming has booked on a football training course when she arrives in San Diego – where China won the women's world football cup in 2019 - one of her goals in life is to be a football coach. She will stay in the hotel in which the Chinese training camp was situated during the tournament and will enjoy all of the benefits (eg. top spa facilities and 6am fitness training) enjoyed by the team.

The trip will also involve visiting the cities which hosted the 2011 and 2015 tournaments. Yanming not only hoping to improve her football skills – she also hopes to improve her English on her journey. Overall, the trip will last for three months.

SECTION 3

RESPONSIBLE TOURISM CANNOT BE IGNORED

Hand in hand with the shift towards inconspicuous consumption is a greater awareness of issues such as sustainable development, eco-tourism and ethical consumption.

Ethical purchasing set to increase

Across Europe, 25% of consumers claim to have made an ethical purchase in the last year. Whilst there are still considerable variations between EU countries, ethical consumption is an important phenomenon and will increasingly have a considerable impact on the structure of the global travel industry as consumers demand more responsible and sustainable behaviour from tour operators, accommodation and airlines.

The 'Asian tsunami effect' has seen a surge in 'relief holidays' and while volunteer and fundraising holidays are already popular for gap students this trend is already growing across all age brackets. Global initiatives, made more prominent by government pledges to reduce poverty, debt relief and so forth, will draw the conscientious traveller who is looking to 'give something back' and appeal to their thirst for new and lateral experiences.

The study anticipates that responsible tourism will therefore move from being a niche product to become an essential guarantee, with ethical initiatives entering the mainstream tourism offering via airlines, operators, regional and national tourism bodies alike.

Meanwhile, following this shift in attitude towards responsible tourism, there will also be a shift in the balance of power between international tourism operators and local suppliers, with local communities and companies taking greater control of how tourism is managed and resources distributed in destination countries. The following pen portrait emphasises how certain areas of the world could become increasingly restricted:

Young parents on holiday in 2020

Antonio and Carmen leave their baby Raul with Carmen's mother and they make a trip to Peru to visit Cusco and Machu Picchu. They had booked this trip 3 years previously before Carmen was pregnant with Raul – the waiting list was this long for a place to enable them to trek the Inca trail. At one point Carmen wanted to cancel since she thought she would miss Raul but Antonio persuaded her that this might be the last time a trip like this is possible to non-academic or environmental specialists. The introduction of sustainable tourism policies have had a huge impact on the numbers allowed to visit sights of historical and environmental importance such as Machu Picchu. Antonio was also loathed to lose the booking since, as a result of the environmental taxes, it was very expensive.

The trip involved staying for 2 nights in an authentic Inca village so that they could understand the hardship faced by the Indians and appreciate the skills developed to live in such a difficult environment.

The solution could be a "polluters pay" policy, otherwise known as an aviation fuel tax, implemented by governments who will come under considerable pressure by various pressure groups to introduce such levies. Alternatively, a wider "carbon neutrality" or "global sustainability" tax could be levied on consumers, targeting long-haul travellers.

Given consumer interest in ethical consumption and environmental issues, the study also suggests that there may also be the introduction of more voluntary levies such as Climate Care or Future Forest, which calculate a payment or donation depending on the distance travelled.

SECTION 4

THE ‘ONES TO WATCH’ FOR THE TRAVEL SECTOR

Underlying trends such as a move towards the experience economy, an increase in holiday frequency, the desire for seamless travel, and a greater appreciation of ethical consumption are just some of the changes that will impact the shape of the travel industry over the next 15 years. The study also highlights three ‘must watch’ areas that attach to these trends and should not be ignored.

4.1 The ‘anxiety society’ – implications for the travel industry

Through the immediacy of the international media consumers experience the horror of tourism disasters as they evolve, provoking ever more concern for personal safety, health and crime. The downturn in travel to the US following 9/11, to areas in Asia following the Tsunami and to countries with the perceived risk of extreme climatic events like hurricanes and floods and terrorism demonstrates this clearly.

Direct knock-on effects have already been witnessed with the notable shift from long haul to intra regional travel, as well as the increasing tendency for late bookings by ever more cautious travellers.

As personal safety will continue to be important to the majority of travellers, consumers will choose their destinations with caution whilst considering the credibility of their mode of transportation and choice of travel company when making any booking.

For the industry and governments alike it will again mean constantly updating product in response to smaller lead in times whilst continuing to reassure the traveller that meaningful measures are in place to ensure them a safe visit.

4.2 Emerging markets to impact on tourism structures

A new wave of affluent middle class consumers will emerge from China, Brazil, Russia and India over the next 10 to 15 years. Average GDP/capita growth in these countries is expected to be well over 6% per annum whereas in the USA it is expected to be under 2% over the whole period.

While average incomes will still be substantially less than in the USA (for example the average income in China in 2020 will only be 10% of the average US income) nevertheless there will be a significant increase in the more affluent middle and upper classes just as a result of the huge populations in each of these countries.

Even today there are 50 million Chinese incomes equivalent to the US middle classes. (Source: Goldman Sachs) These consumers will have disposable incomes and this, along with the introduction of credit industries in their respective countries, will further fuel consumer spending.

However, one of the reasons why the mass tourism market will remain in some shape or form, is that these value conscious and conservative travellers will be looking for holiday bargains, without perhaps yet any ethical considerations. They will be attracted to cheap destinations or Western countries where exchange rates and stringent immigration rules are not prohibitive.

Increasing competition within destinations to appeal widely to this audience could lead to overcrowding. Destinations will therefore need to be able to defuse visitors to avoid this in any one area, i.e. increasing the variety of product offering and distributing it throughout the land to appeal to the different segments within the emerging marketplace.

4.3 The impact of increased air travel demand

Air travel demand is growing steadily and recent reports show that the trend towards increased air travel which was disrupted by 9/11 and SARS is now back on track. The WTO expects average annual growth to be back to the trend norm of circa 5% increase per year from 2005 onwards and the total number of people of people forecast to travel by air is expected to double by 2020. (Source: WTO) As aircrafts increasingly provide a more comfortable and affordable means of transport, they may well in fact fuel the growth of demand yet further.

Aircraft manufacturers are in fact already responding to forecasts of an increase in travellers and their need for improved facilities. Two major manufacturers have taken a different approach to the solution. Boeing follows the school of thought that speed, not amenities, will be key to air travel in the 21 Century, with improved fuel consumption although not so cost effective. Airbus's A380, with the ability to carry upwards of 840 passengers, follows the assumption that the main growth will be between major hubs with consumers looking for extensive in-flight amenities.

Airport congestion, therefore, will most likely increase, especially if Airbus is correct in their assumption that travel between hub airports will constitute the main growth market for aviation services in future.

In response to no-frills airlines, in Europe, Asia and the US, rising incomes and aspirations could prompt the emergence of a new, integrated “low cost luxury” model to appeal to the mass affluent audience. This type of service could combine lower airfares with optional paid-for extras such as chauffeured airport pick-ups, in-flight entertainment and range of meal options to make the travel experience more luxurious and streamlined.

END

For further information about this study or to talk to Cendant TDS about the conclusions detailed in this executive summary please contact: