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Your technology partner

Shaping the future of travel in Asia Pacific

The big **FOUR** *travel effects*

January 2013

Contents

Foreword

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President,
Amadeus Asia Pacific

We live in what experts call the 'Asian Century'. Asia Pacific is now regaining the leading position on the global stage that it last held before the Industrial Revolution. If the current growth track continues, by 2050, Asia's per capita income could rise 600% in purchasing power parity (PPP) matching Europe and other Western markets. Over the next two decades, perhaps some three billion Asians will enter the ranks of the global middle-class, joining what we term the 'consuming class' with enormous implications for the global economy [1].

But it's more than pure economic growth that will drive Asia forward at breakneck speed. Geopolitical, social and technological changes will also have a fundamental effect on the region in the future.

Geopolitical and social forces are shaping new trade and business practices that differ from the often centrally-planned and protected economies that exist in much of the region. Trends such as the greater empowerment of women, the ageing of populations and the drift towards individualism are having a significant effect on entrenched attitudes and behaviours. Moreover, opportunities created by technology and infrastructure developments are profoundly affecting the way that people travel and how they interact with each other, with positive outcomes for the travel industry.

This report analyses the geopolitical, social, economic and technological trends that will have the greatest impact on the travel industry in Asia Pacific over the next 20 years. Primarily, we have sought to understand the implications of changing traveller behaviour on the travel industry – comprising transportation companies (airlines, rail operators and the like), accommodation and entertainment providers and intermediaries such as travel agents. What we found were **"The Big Four Effects"** that we believe will help to shape the future of the travel industry. The report covers seven key markets, Australia, China, India, Indonesia, Japan, Korea and Singapore.

Of course, these different effects and the various statistics will be of varying relevance to different elements of the industry and even region – and I would encourage any interested party to review and draw their own conclusions.

The point this research and white paper undeniably highlight, however, are the opportunities that Asia Pacific now has to regain the leading position on the global stage that reaches well beyond travel, but which it is inextricably linked to.

Happy reading!

1. Asian Development Bank (ADB):
Asia 2050: Realizing the Asian Century

Executive Summary

Our research has identified four dominant themes that will fundamentally change travel in the Asia Pacific region to 2030. We have described these as "Effects", because each will drive a significant change in the travel ecosystem, with implications for travellers, travel service providers and the industry at large.

The Me Effect

The fragmentation of the travel market into ever-increasing niches.

Travellers across the region will become increasingly distinctive, travelling for a much wider and more specific range of reasons, and with different aspirations and requirements for the travel experience. While travel in Asia Pacific in the past has often been undertaken in large groups through leisure packages sold in bulk, or in large organised business groups, future travellers will be in smaller groups, or alone, and for a much wider range of reasons.

Significant new traveller segments will emerge, such as the female business traveller, the small business traveller and the senior traveller, all of which have different aspirations and requirements from the travel experience. Matching this individualism is an increased willingness by travellers to self-manage their travel, circumventing traditional sources of information and transactional channels in favour of a do-it-yourself approach.

The Red Tape Effect

The breaking down of barriers to travel within the Asia Pacific region.

Greater economic convergence and integration across the region will gather pace and governments will continue to liberalise the regulations that have impeded trade, and associated travel. This will be manifested in areas such as the liberalisation of visa requirements and of air travel agreements. The overall impact will be huge growth, not just in the numbers of people that are able to travel, but also in the numbers that need or want to travel. By 2030, India, China and Indonesia will dominate travel expenditure in the Asia Pacific region, as the impact of the enormous increase in outbound travellers is seen. At the same time there will be shifts in inbound travel markets, especially for business travel whether at the small-to-medium enterprise (SME) or corporate level.

While the main inbound markets such as Singapore, Thailand and Malaysia will remain strong, we expect the highest growth to come from emerging markets, such as China, and from markets that are currently marginal but which will offer huge potential mainly because of their natural resources. In an increasingly resource-constrained world, these will become the new hot-spots for travel. We include Mongolia, Papua New Guinea and Myanmar among these hot-spots.

The Leapfrog Effect

Technology, infrastructure and behaviours in the Asia Pacific region will leapfrog ahead of those elsewhere.

Asia will start to leapfrog existing behaviours in the adoption of newer technologies and infrastructure, giving the traveller new ways to manage the travel experience, creating new behaviours. This will provide new opportunities for travel providers. The use of mobile devices (smartphones, tablets, etc.) and social media are the obvious findings to become an integral part of the travel experience; however we also refer to transport technologies and infrastructure developments as critical. High speed rail (HSR), 4G networks and port upgrade/builds in the region will enable Asia to leapfrog traditional behaviours elsewhere. Widespread use of mobile devices will change the way travellers behave – using a device to research and make travel arrangements, often at very short notice, gives travellers much greater flexibility but also creates less predictability for travel providers. And increasingly travellers will use social media as a key tool in the overall travel experience – using social media sites, forums and online communities in the way that travellers in the past have used a travel agent. While these trends will not destroy the established travel service providers, they will force changes in the way that providers interact with their customers – for example by allowing mobile transactions or transactions through social media sites.

The Barbell Effect

Growth particularly at the upper and lower ends of the travel market.

As economic growth and greater integration occurs, travellers will tend to become more extensive at the upper and lower ends of the economic spectrum. Most travellers from emerging economies will be travelling on a budget – and this will stimulate rapid growth in the budget end of the travel scale, whether in budget airlines or economy hotels. At the same time, there will continue to be enormous growth in the numbers of the very wealthy in the region, particularly in emerging economies such as China, India and Indonesia. For these individuals, travel will be a strong element of their discretionary expenditure – and we expect to see significant stimulus at the luxury end of the travel market.

The Me Effect

The fragmentation of the travel market into ever-increasing niches

"We are seeing the Amazonification of the world: this means that service suppliers are having to customise their offerings more and more to the needs of specific individuals (segments of one). So a hotel needs to tailor its offer to each customer, based on the customer's profile and past behaviour."

Puneet Mahindroo,
Ex-Corporate Director of Revenue Management and Global Distribution, Taj Hotels, Resorts and Palaces

"In order to retain the customers, we need to differentiate ourselves through offering customised services."

Dr. Li Qiang, General Manager of Information Management Department, Air China

It's a common mistake to view travellers from Asia Pacific as a monolithic block – sharing common objectives and requirements from travel, and often travelling in large, organised groups. This view couldn't be further from the truth. Our research shows social and economic trends make this view increasingly inaccurate as the travel market fragments into an ever-increasing number of niches. Travellers will increasingly travel independently and will incorporate a greater degree of flexibility into their travel.

The Visit Friends and Relatives (VFR) traveller

People travel for leisure for many reasons – sight-seeing, relaxation or education – but an increasingly important reason is to visit friends and relatives – the so-called VFR travellers. With families and close social relationships becoming internationalised, we believe that this will become an important reason for travel, especially from countries with large diasporas such as India.

Visiting friends and relatives is the main reason for leisure travel for 20% of travellers across the region, with a particularly high incidence among Indian travellers, 43% of whom state VFR as the main reason for leisure travel. India is now, for example, the largest source of permanent migrants to Australia, and this creates a spurt in demand for VFR travel. The VFR traveller often behaves differently from the standard vacation traveller – often travelling for longer periods, for example, and not using hotels, but lodging with friends or relatives.

"100 million living abroad from India, so visiting family is still critical."

Ankur Bhatia, Director, Amadeus India

The independent traveller

There is no doubt that people love to travel. The growing experience of travel and greater access to and familiarity with the internet will drive an increasing number of travellers to self-manage their travel research and tailor their bookings, rather than rely on the more limited range of options often provided by agents.

Across the seven countries researched, 46% of travellers are now mainly making their own travel arrangements and bookings via the internet, but the proportion who believes that they will do so in the future rises to 52%. The growth in self-managed travel will be particularly strong in China, Korea and Japan. Currently travellers are making travel arrangements on average 12 weeks before travel for leisure travel, and six weeks for business travel – but we expect this average to fall substantially as travellers increasingly self-manage their travel.

Business travellers want flexibility, greater confidence and security in their travel arrangements, which are the main reasons for making their own bookings online. However, leisure travellers prefer self-managed bookings because it is cheaper and they enjoy the process of discovery. The increasing trend towards self-research and booking will drive the industry, notably travel agents, to offer a broader range of services catering for the ''Me"traveller.

Solo travel is expected to grow significantly, as travellers become more confident to travel alone. It is already a significant market in Japan, where over one quarter of leisure travellers report that their future travel is most likely to be solo.

"We will see increasing FIT (free Independent tourism) travellers. Due to the IT technology development, increasing number of travellers like to customise their own travel plans and current conventional travel agencies can't cope with that demand."

Younggeun Lee, Deputy Director, Korea Tourism Organisation

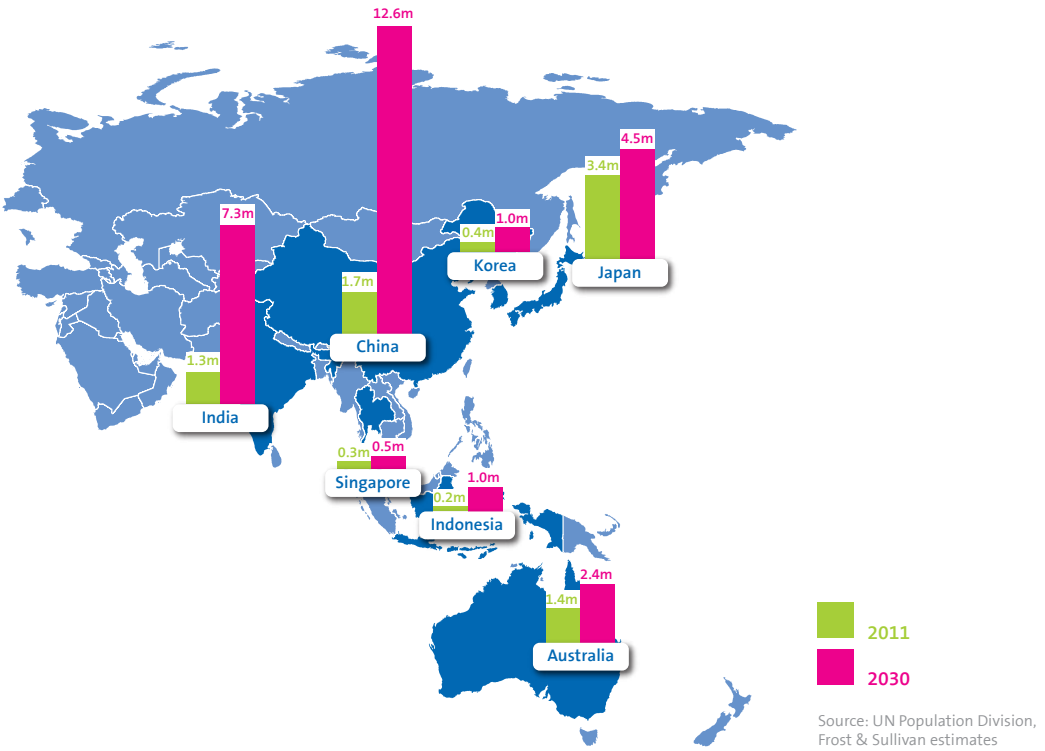
The Generation 'S' (Senior)

Over the next 20 years, all Asia Pacific economies will see a significant increase in older people, or what we term as Gen 'S', with the most dramatic changes in Singapore, China and Korea. The over 50s, and more specifically the over 65s, are accounting for an increasingly significant portion of leisure travellers – especially in Australia and Japan where over 65s now account for over 20% of all leisure travellers.

These demographic developments will create significant changes in the travel market. In Japan, for example, the working age population (20-65) will decline by 12% between 2011 and 2030, which will drive a decrease in the number of business travellers. Conversely the number of over 65s will increase by 34%, creating a significant increase in senior leisure travellers.

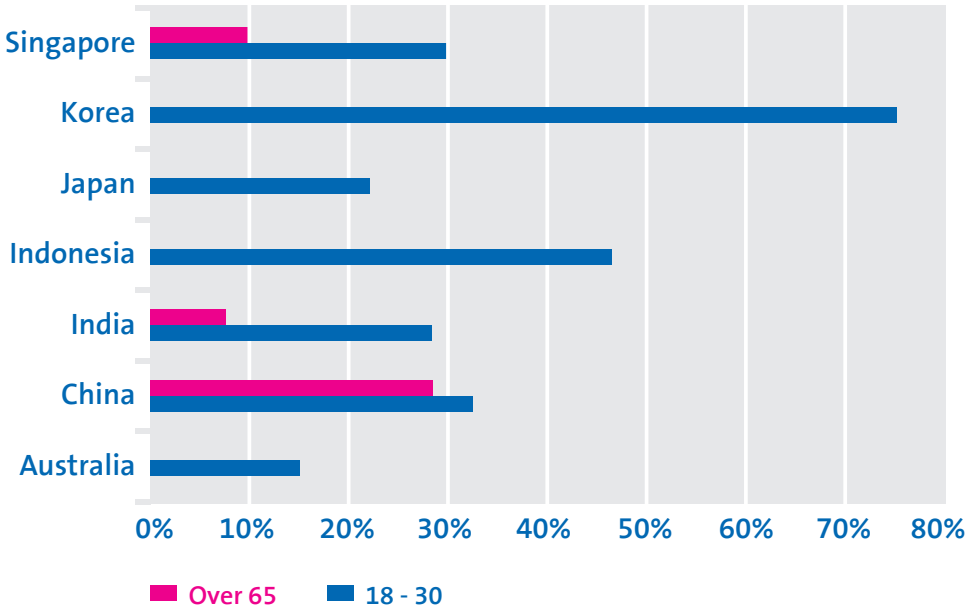
Overall, there will be an increase of 250 million over 65s by 2030 across the seven countries we have researched, with most of the increase coming from China and India. We estimate that this will create a doubling in the number of over 65 leisure travellers to Asia Pacific destinations by 2030.

Figure 1: Outbound leisure travellers over 65 years of age, by origin



Source: UN Population Division, Frost & Sullivan estimates

Figure 2: Proportion of leisure travellers that use smartphones to make bookings – by age group



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

Fewer older travellers are currently using mobile devices, especially smartphones, to make travel arrangements and bookings, which is much more common in younger age groups. Korea is a market where smartphone usage to make travel bookings is already at very high levels – especially in the 18-30 age group. Smartphone penetration in Korea is among the highest in the world at well over 50% of the population, and a very high proportion of travellers are using these devices to make travel bookings.

Conversely, in most countries the over 65 travellers hardly use these devices at all to make bookings, relying instead on more traditional approaches such as use of travel agents.

While the seniors market represents a large and growing opportunity for travel providers, the challenge will be in successfully monetising it.

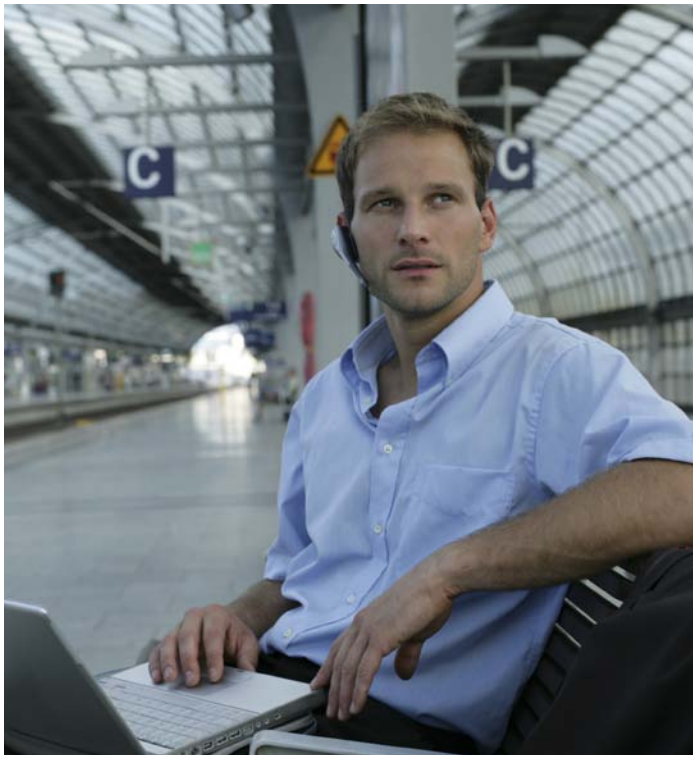
"The seniors market is already well-established in Japan but the challenge is making money. Seniors impose greater costs on service providers but to date charging extra for these services is problematic. Hence with seniors a greater portion of the customer mix, service providers need to find ways to recoup the extra costs imposed."

Mr. Okada, EVP Alliances & International Affairs, All Nippon Airways

The small business traveller

While small-to-medium enterprises (SMEs) account for a majority of employment across the Asia Pacific region, they currently generate a minority of business travellers – accounting for less than 20% of business travellers, while accounting for over 80% of total employment in most markets. Take Indonesia for example, over 80% of all employees work for small businesses, yet small business employees represent less than 20% of business travellers from the market. As SMEs look to work internationally, we expect that the number of small business travellers will increase significantly, creating opportunities for service providers, such as budget airlines and budget hotels with appropriate business facilities.

As the regulatory and financial barriers to internationalisation continue to reduce (please refer to 'The Red Tape' Effect page 13), we anticipate that more SMEs will seek to work across borders with customers, suppliers or business partners, driving increased regional travel by both the self-employed and employees of SMEs. With these travellers generally on a budget, we believe that this will provide a further stimulus for the lower end of the business travel market. Unlike current corporate travellers who can usually access a company office and colleagues in the location visited, the small business traveller is generally travelling to destinations with no support infrastructure. This creates a potentially attractive niche for travel providers to cater for the demand – such as low-cost business centres at airports or hotels.



"The ASEAN open skies coupled with the growth in LCCs, may change the way people work. For example people may commute between countries for their jobs. It also stimulates entrepreneurship by enabling SMEs to travel to new markets. The next decade will be the decade of low cost carriers in NE Asia. Over the past decade LCCs revolutionised air travel in SE Asia. The growth in NE Asia will stimulate travel to second and third tier cities, and will make consumers overall more accepting of booking online."

Yeoh Siew Hoon, Editor & Founder, Web-in-Travel

The female business traveller

"Overall the women's market is a huge growing one for the travel industry, but the industry remains male-dominated and has yet to understand the psyche of the woman traveller. Solo travel is a growing trend among women, particularly from countries where English is spoken. Younger women are increasingly confident travelling on their own or in small groups. Women make most travel decisions anyway and are more likely to make decisions based on social media – e.g. reviews. So the social media channel will become increasingly important for travel."

Yeoh Siew Hoon, Editor & Founder, Web-in-Travel

The female business traveller is another rapidly growing opportunity. Currently in Asia Pacific, travel is dominated by men, accounting for almost three-quarters of all business travellers, particularly in Japan, Korea, Indonesia and India. In these countries males currently account for around four-fifths of all business travellers.

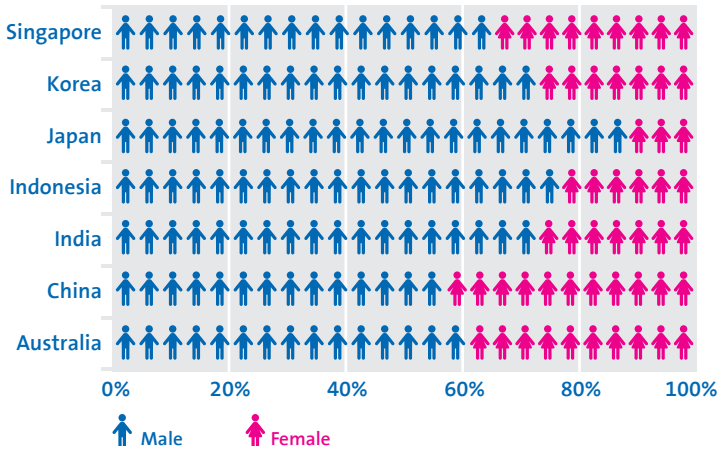
We estimate that in 2011 there were approximately 4.5 million international business trips by women from the seven countries that we have studied – but by 2030 this will have increased by 400%.

It could be argued that traditionally, fewer women reach the middle and senior management posts where travel was required, being under-represented in these management positions across the region. Today, women now account for close to 50% of all graduates across the region, and with greater emphasis on childcare, job sharing, flexi-time, etc., by government and corporations, their representation in the business traveller community will grow substantially.

Singapore is among the leading regional markets for female business travellers, with 15% of women in executive boards and 20% in mid-senior management, the highest in the region [2]. This is reflected in a much higher proportion of female business travellers from Singapore – 32% of all business travellers, a much higher proportion than from countries such as India, Indonesia, Japan and Korea.

2. McKinsey & Co: Women Matter: an Asian Perspective, 2012

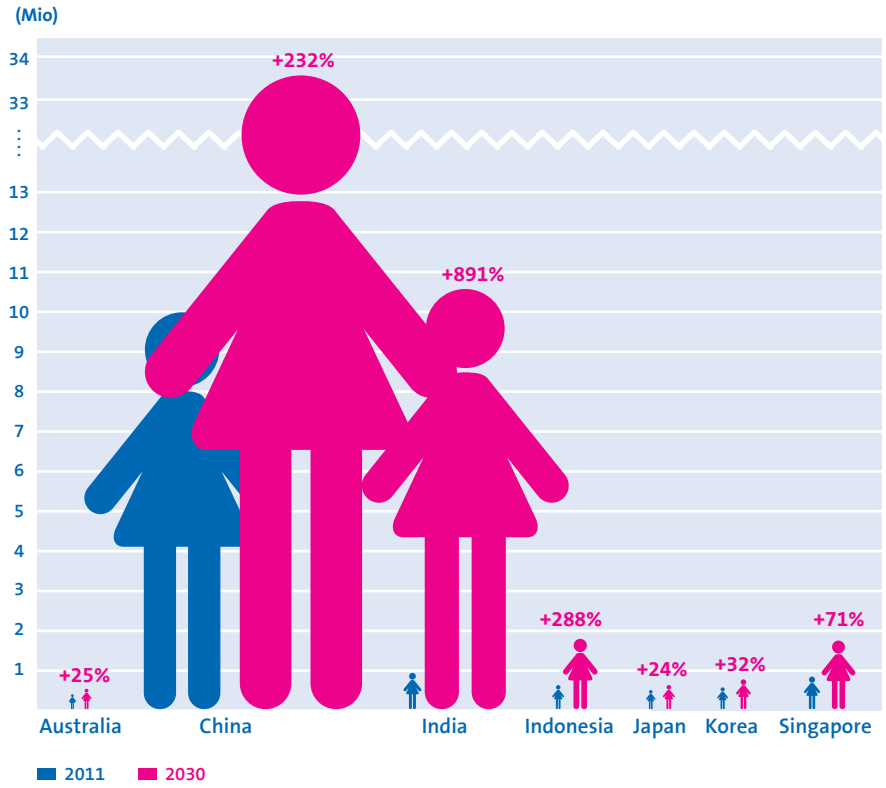
Figure 3: Business travellers by gender



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

As with the small business traveller, the female traveller presents opportunities for travel providers to gain share by adapting their offering to the individual needs of women travellers – not just in terms of the physical aspects of the offer (women-only floors, female friendly restaurants, etc.) but also in the way that they reach and communicate with the female traveller. Woman use different processes to men to make travel decisions, for example greater reliance on peer recommendations or advice, so responding to this will be critical for travel providers to win over the female traveller.

Figure 4: International business departures by women, 2011 – 2030



Source: Frost & Sullivan estimates

The Red Tape Effect

The breaking down of barriers to travel within the Asia Pacific Region

"Travellers want more convenience. Visa processes - get rid of the red tape. This will help boost travel."

David Brett, President, Amadeus Asia Pacific

The liberalisation process

Increased economic integration and convergence is a key objective for Asia Pacific policy makers, with trade and investment liberalisation, and regional economic integration top priorities for APEC leaders [3]. One indicator of liberalisation is free trade agreements (FTAs). From just 53 in 2000, there are 250 FTAs in different stages of development across the region as of September 2012, with 103 now being implemented while the rest are either proposed, under negotiation, or signed [4].

FTAs draw economies together and stimulate trade and consequently travel between countries. The liberalising of trade restrictions across the region has stimulated intra-regional economic activity, indeed, intra-Asian trade accounted for over 55% of total Asian trade in 2011.

Asia Pacific is becoming more important to businesses in the region both as a market and as a source of supply. This will act as a significant stimulus to drive intra-Asian travel as more business people travel within the region to meet customers, visit suppliers or business partners.

Governments are also seeking to break down the red tape that impedes travel – for example restrictive visa policies or air transport regulations. Our research shows that currently 6% of travellers quote visa restrictions as their main impediment to travel, ahead of other impediments such as lack of funds, lack of time or company travel restrictions. Visa restrictions are quoted as a particular issue by Chinese and Indian travellers who generally require visas for most Asia Pacific destinations, imposing additional time and cost barriers for travel within the region.

APEC's trade facilitation plan seeks "to enhance the mobility of business people who are engaged in the conduct of trade and investment activities in the Asia-Pacific region" through measures including the APEC travel card and visa waiver programmes. We are also seeing governments liberalise their air transport regulations with the ASEAN open-skies agreement due for implementation by 2015 [5], and the increasing number of bilateral open-skies agreements examples of this.

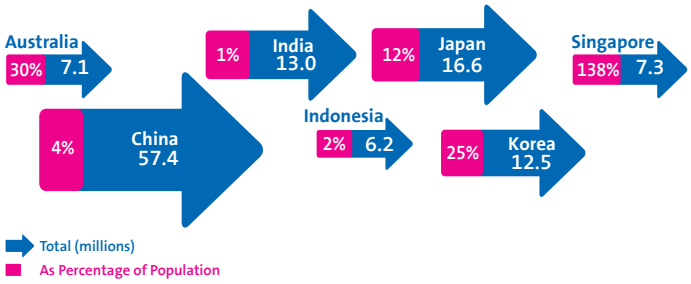
There is clear evidence that liberalisation of air traffic markets provide substantial benefits for air passengers and the wider economy – increasing competition, reducing fares and leading to the opening of new routes, all of which provide a significant stimulus to travel.

This economic integration will drive a huge increase in traveller numbers, especially from the emerging economies. Put simply, many more people will both have a need to travel, and will be able to travel. In emerging economies, outbound international travellers represent a tiny percentage of the population when compared to developed countries. For example, there were only 13 million outbound international departures from India in 2010. This is only around 1% of the population, and by way of comparison only six million more international departures than was generated by Australia – which has 1/50th of the population.

"Asia-to-Asia travel will become much more important and the proportion of international travellers to Asia Pacific destinations from other parts of Asia Pacific will increase significantly."

John Koldowski, Special Advisor to the CEO, Pacific Asia Travel Association (PATA)

Figure 5: Outbound departures by country, 2010



Sources: WTO Compendium of Tourism Statistics, UN Population Division
Note: A single individual can have multiple departures during a year, hence departures in some countries can exceed 100% of the population

3. APEC (Asia Pacific Economic Co-operation) has 21 member economies whose primary goal is to support sustainable economic growth and prosperity in the Asia-Pacific region.

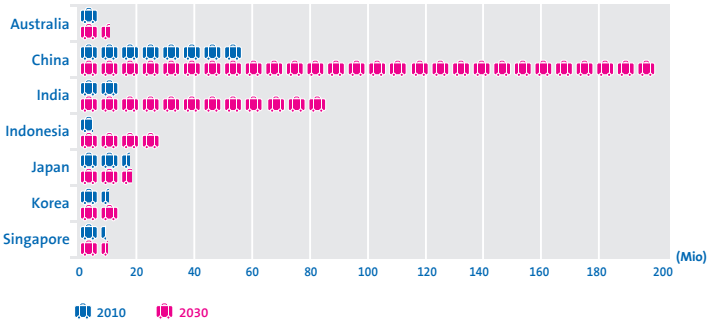
4. Source: www.aric.adb.org. Accessed October 2012

5. The ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services (MAFLPAS) was signed in November 2010, and together with other Multilateral Agreements provides intra-ASEAN Open Skies for ASEAN Member States that have ratified the agreements and represent the aviation sector's contribution to the region's vision of an ASEAN Economic Community by 2015.

As economic growth and the increasing integration of the region breaks down the financial and regulatory barriers to travel, we anticipate significant increases in travel from the emerging economies. Given their huge populations, even a relatively small increase in the percentage of the population that travels will create huge increases in actual numbers of travellers.

Some developed markets, such as Japan, will see outbound traveller numbers decline as its population reduces, resulting in a decrease in traveller numbers. But perhaps the most dramatic effect will be the boost in intra-Asian travel, stimulated by the increasing economic integration across the region. In 2011, for example, India accounted for fewer visitor arrivals to other Asia Pacific destinations than the UK – but our research suggests a huge increase in outbound visitors over the period to 2030, especially from India, China and Indonesia as many more individuals in these countries can both afford to – and want or need – to travel.

Figure 6: Outbound travellers by country, 2010 – 2030



Source: WTO Compendium of Tourism Statistics, Frost & Sullivan Forecasts

Growth in travel to established and emerging markets

Given its importance to the global economy – as a source of demand and not just supply – China will become an important inbound travel market. We expect to see strong growth in travel to China from markets, such as North America and Europe, as businesses in these regions see China as an increasingly important market, given slow growth in their domestic economies.

"In mature markets like Japan, Australia, Singapore etc. inbound and outbound growth will be marginal. However there will be strong growth in more obscure markets like Papua New Guinea, Mongolia, and Indonesia driven largely by their resources."

Mark Dougan, Managing Director, Australia & New Zealand, Frost & Sullivan

We have identified strong growth in business travel to markets that currently appear marginal, however have strong potential due to their natural resource base. As pressure on global resources such as coal and oil & gas becomes more acute, markets with large untapped resources will become more important as business travel destinations. Markets like Papua New Guinea, Mongolia, and Myanmar among them. In all three of these countries, inbound arrivals are growing rapidly from a small base – 7% annual growth in arrivals in Mongolia and 12% in Papua New Guinea and Myanmar, notably from China as companies increasingly seek new sources of resources, and new markets.

"In terms of travel patterns the next decade will be dominated by China which will be the key destination for both business and leisure travel, growing from what is still a relatively small base. China is making huge investments in infrastructure and with the growing importance of China as a market and a source of supply, travel to China (business and pleasure) will grow exponentially. The main challenge is lack of English skills, but the Chinese are developing these and will work this out. Australia is in a box seat to be an important part of the China success story."

Jayson Westbury, CEO, Australian Federation of Travel Agents

The Leapfrog Effect

Technology & infrastructure in the Asia Pacific region leverage learning from other regions

"Travellers will increasingly wish to interact via a mobile device. In some countries such as Indonesia and Thailand they have skipped the fixed internet phase and moved direct from face-to-face contact to contact via a mobile device (tablet, smartphone, etc.). Agents and travel providers will need to provide mobile solutions or become irrelevant."

Mark Dougan, Managing Director, Australia & New Zealand, Frost & Sullivan

"Mobile will change the future of travel in Asia. 3G / 4G is very closely linked to the use of mobile. As a traveller today, roaming charges are a big factor in the use of mobile apps for travel. As people travel more and more, they will need to be more accessible and doing more with their phones, ever more integrated into daily tasks."

David Brett, President, Amadeus Asia Pacific

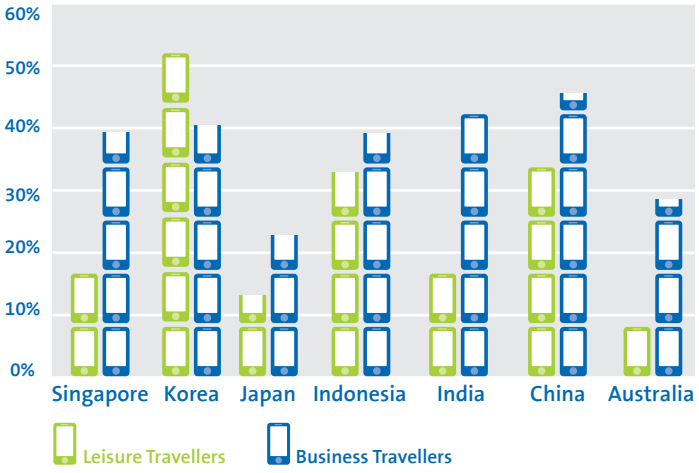
As outlined in the Amadeus report, "From Chaos to Collaboration", [6] an emerging set of technology and infrastructure changes will have a transformative effect on travel over the next 20 years. Asia Pacific, often with little to no legacy systems, processes and infrastructure, has the opportunity to leapfrog, and indeed learn from, legacy processes and technologies elsewhere, particularly through the growth of 'intermodal' travel.

Increasing use of mobile devices for travel

The move from standard mobile phones to smartphones is particularly strong in Singapore, Korea and Australia, where the majority of the population now use these devices. But even in developing markets such as China and Indonesia, smartphone and tablet usage is growing rapidly, which is allowing these countries to bypass the fixed line stage of internet development and leapfrog straight to use of the mobile internet. With 3G networks now rolled out across the region (and in some markets, actual or planned 4G networks) mobile devices are increasingly being used as part of the overall travel experience – with 40% of business travellers and 25% of leisure travellers now routinely using these devices for travel-related arrangements and bookings. In markets such as China, India, Indonesia and Korea, usage of smartphones by business travellers is especially high.

With technology providing greater flexibility for the traveller, there also comes greater expectations from travel service providers by consumers. With many travel providers still not providing any form of mobile solution, they face an increasing challenge in staying relevant to the mobile device savvy traveller.

Figure 7: Proportion of travellers who use smartphones for travel-related arrangements and bookings (2012)



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

6. "From Chaos to Collaboration: how transformative technologies will herald a new era in travel" published by Amadeus, 2012

Figure 8: Proportion of travellers who use mobile devices for travel arrangements and bookings

Source: Survey of 1,531 Asia Pacific Travellers, August 2012, Frost & Sullivan forecasts

"There is a significant move to the distribution of travel through the mobile channel. Around 10% of our traffic is now coming from mobile devices. So far this is still mainly research / searching with actual bookings done from a fixed connection. However as mobile payments security improves, we will see an increase in the number of complete (e2e) transactions on a mobile device."

Rajnish Kapur, Chief Innovation Officer, Makemytrip.com

The collaborative traveller

Our research shows that social media is changing the way people gather information about their travels, including the way that they make bookings and transact with travel providers. Indeed, just under one third of travellers now uses social media during their travel, with Indian and Indonesian travellers being particularly avid users – partly reflecting the generally younger age profile of travellers from these countries. Over half of Indonesian travellers frequently use social media during their trip, uploading photos and keeping their contacts informed, but mainly to seek advice. 61% of Indonesian travellers mention that getting the advice of friends and contacts is the main reason that they use social media during travel.

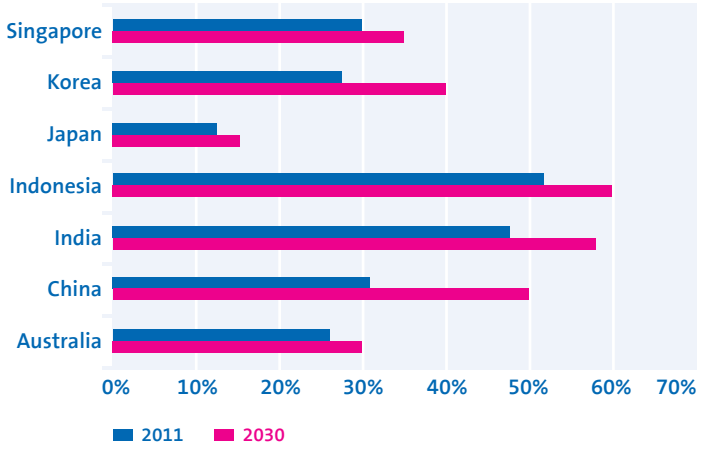
By 2030 we see that social media usage will have become an important aspect of the overall travel experience.

"The line between online and personal contact from travel agencies for travellers will become more and more blurred – face-to-face and online travel will merge."

David Brett, President, Amadeus Asia Pacific

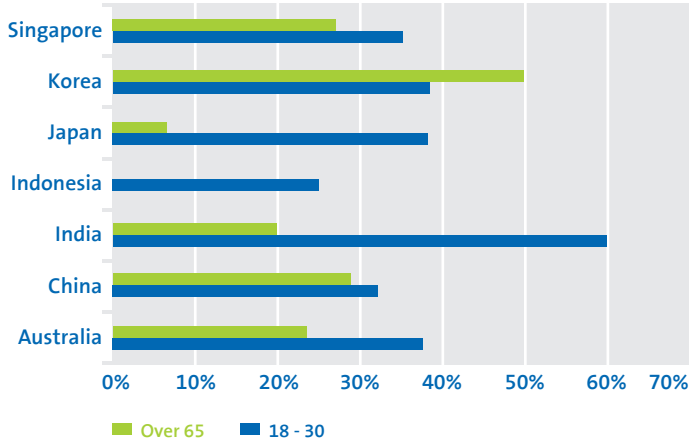
With social media forming an increasingly important part of the travel experience, travel providers will need to adopt social media into the way that they interact with their customers, using the channel both to transact and to interact. Should travel providers choose to embrace social media; they will have new ways to interact with their customers, and to enhance the value and perceptions of their brands.

Figure 9: Proportion of travellers frequently using social media during travel



Source: Survey of 1,531 Asia Pacific Travellers, August 2012, Frost & Sullivan forecasts

Figure 10: Proportion of travellers with aspirations to go on a cruise holiday, by age group



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

"The rapid growth in the cruise industry will continue to be a huge boost for travel agents. Cruise is a form of travel that needs personal advice and does not favour aggregation. Over recent years it is cruise that has allowed many agents to demonstrate their value proposition to the supply chain."

Jayson Westbury, CEO, Australian Federation of Travel Agents

"The hotel industry is not really using social media as a transactional channel. However it is important for brand enhancement as it is really about story telling. Social media offers the opportunity to create a wider perception of the brand and enhance the dialogue with the customer."

Puneet Mahindroo, Ex-Corporate Director of Revenue Management and Global Distribution, Taj Hotels, Resorts and Palaces

Infrastructure – the cruise opportunity

Our research indicates that significant numbers of travellers from all countries in Asia Pacific express interest in cruise holidays, and their aspiration to take a cruise holiday in future. Indeed, far from being the preserve over the older generation, it is the 18-30s group across the region that expresses the strongest interest in cruise vacations.

Countries in the region are waking up to the opportunity as the emerging middle-class seeks to emulate their counterparts in Europe and North America, and take all-inclusive cruise holidays allowing them to visit multiple locations within the confines of a one or two week vacation.

Cruise represents a real market opportunity for travel providers. As travel agents across the region therefore struggle against the trend to self-manage travel, cruise presents a real opportunity to gain share in a rapidly-growing segment. Even reaching annual cruise penetration levels, 10% of those in Europe and North America would realise a huge opportunity in Asia Pacific.

Consequently, Asia Pacific has the opportunity to learn from the cruise travel sector in Europe and North America and leapfrog its growth, but significant improvement in infrastructure is needed. For example, there is an increasing investment in establishing home port cruise terminals, but the region still lacks terminals with capacity to accommodate larger and more modern vessels.

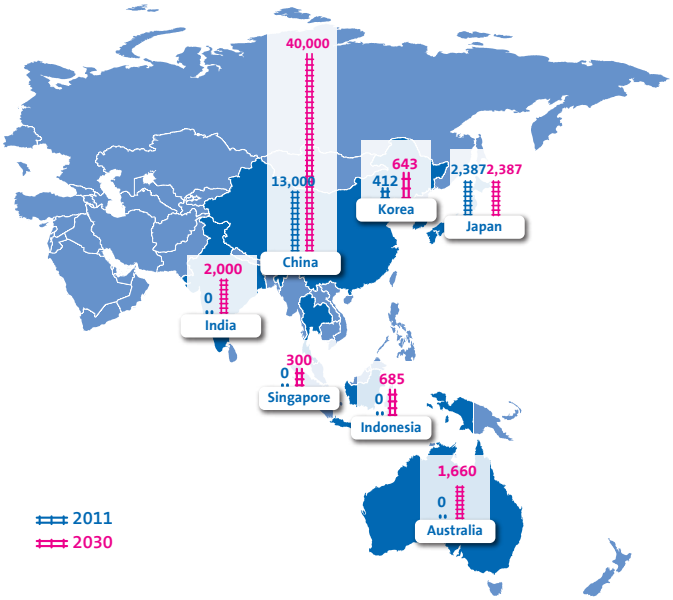
The resurgence of rail

"High speed rail has effectively killed off domestic air travel in Korea and Taiwan, and will have a significant impact in China. If ever built it could also have a big impact on high volume city pairs such as KL-Singapore and (highly unlikely)Sydney-Melbourne."

Peter Harbison, Executive Chairman, Centre for Aviation (CAPA)

The enormous investment in high speed rail (HSR)[7] infrastructure in Asia Pacific is means Asia Pacific leapfrogs Europe, where the 10,000km network has already been exceeded by Asia Pacific. The Asia Pacific region also exceeds North America where a comparable network is yet to be developed. While Japan, China and Korea have led the way in Asia Pacific, similar networks are now being planned or seriously considered in India, Australia, Indonesia and Singapore (to link with Kuala Lumpur) with almost 50,000 km of network feasible by 2030.

Figure 11: Asia Pacific high speed rail networks (km)



Source: Frost & Sullivan estimates

High speed rail (HSR) is generally highly competitive for journeys up to 800km, with rail gaining a dominant market share over air for journeys up to 500km. If implemented, HSR could therefore have a significant impact on air travel for relatively short but highly travelled routes such as Singapore-Kuala Lumpur and Sydney-Melbourne. The resurgence of rail therefore offers a challenge to existing travel service providers – such as airlines and travel agents – to evolve their business models to compete with or collaborate with rail. It is likely to provide a further stimulus to budget airlines, as the lower costs and faster turnaround times that these airlines offer are increasingly critical in a region with much more extensive high speed rail infrastructure. In Australia for example, locally-based airlines are largely dependent on the domestic air travel market for their profitability – and face a significant risk to their business operations if HSR is rolled out to link the major East Coast cities. Airlines would need to respond to HSR through either collaboration (such as offering inter-modal journeys) or competition (such as lower prices and faster turnarounds), or perhaps even both.

7. The International Union of Railways (UIC) define high-speed rail as systems of rolling stock and infrastructure which regularly operate at or above 250 km/h (155 mph) on new tracks, or 200 km/h (125 mph) on existing tracks

The Barbell Effect

Growth at the upper and lower ends of the travel market

"There is some evidence which suggests that hotels are being developed like a "dumb bell" - heavy in the economy sector and heavy in the high-end sector, relatively lighter in the mid-scale."

Markus Keller, Regional Director of Sales & Distribution, Accor Asia Pacific

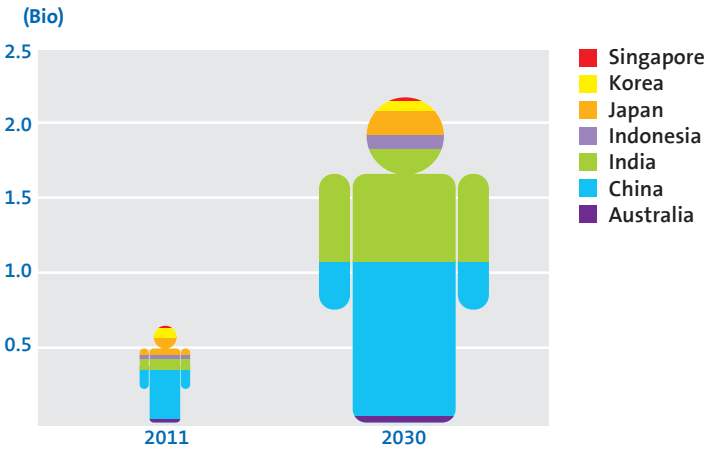
The growth of the consuming classes

In 2011, Asia Pacific's middle class consisted of around 700 million people. This will increase to 2.1 billion by 2030 with most of the increase coming from India, China and Indonesia [8]. This will cause a sea change in the distribution of middle-class expenditure globally, stimulating a rapid rise in what we term 'the consuming classes', as large numbers of people cross the $5,000 a year household income threshold, therefore creating a significant increase in discretionary spending.

Currently, Asia Pacific accounts for only 23% of global middle-class consumption and 28% of the middle-class population in 2009, but by 2030 will account for 59% and 66% respectively [9].

Every year between now and 2030, over 100 million people will enter the middle-class in Asia Pacific, with enormous consequences for travel.

Figure 12: Asia Pacific middle class, 2011 – 2030



Source: ADB, The Rise of Asia's Middle Class, 2010, Frost & Sullivan estimates

8. Within the seven key countries covered in this report

9. The Emerging Middle Class in Developing Countries, Brookings Institute, 2011

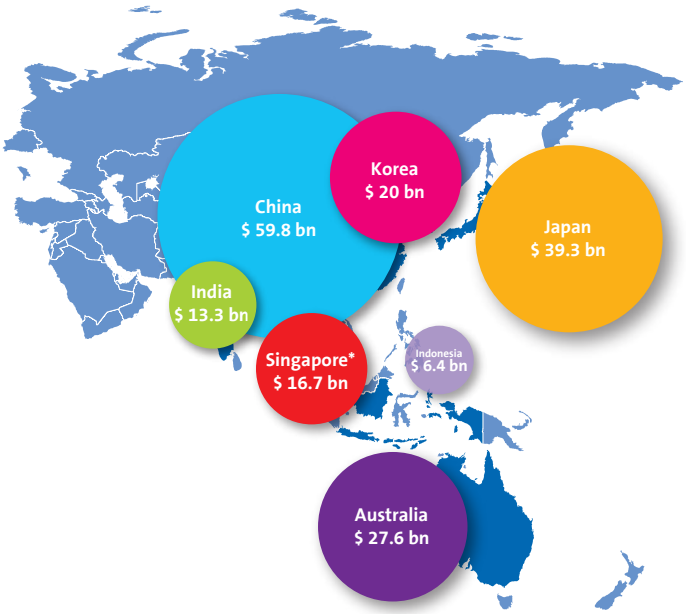
In every country that we surveyed, 80-90% of leisure travellers would like to travel more often than they do now, mainly held back by lack of financial resources, but with a clear intention to travel more frequently as their disposable incomes rise.

Despite its enormous population, fewer travellers from India visited Asia Pacific destinations in 2011 than travelled from either Australia or Singapore (even if we exclude Singaporean visitors to Malaysia). But by 2030, the enormous increase in the middle-class in China, India and Indonesia will generate an additional 100 million additional visitors to Asia Pacific destinations – with 70 million of the increase coming from India and China.

By 2030, China and India will dominate both in terms of traveller numbers in the region and in total expenditure – even though average expenditure per traveller will remain lower than from developed markets, this will be compensated by the sheer number of travellers. In 2011, for example, travel expenditure in the Asia Pacific region was dominated by Australian and Japanese travellers, who not only travelled to the region in greater numbers than their counterparts in the emerging economies, but spent on average 2-4 times more per trip [10].

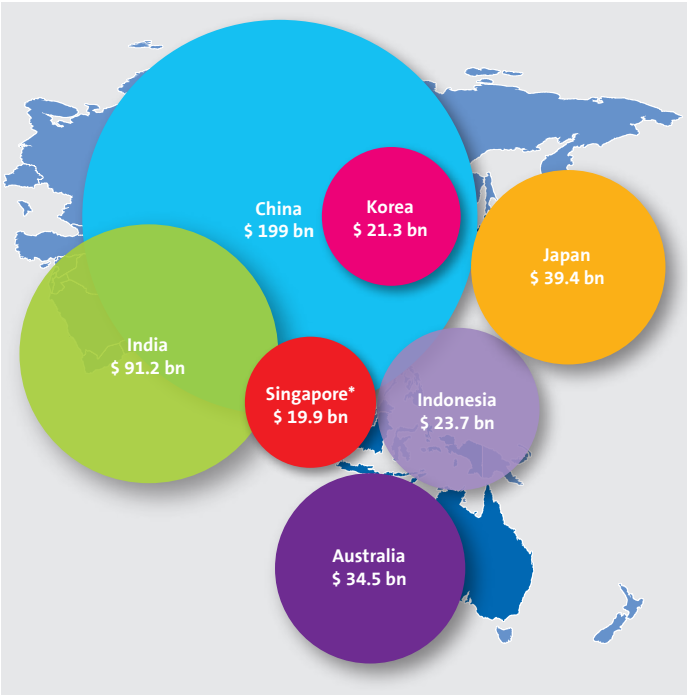
A starkly different picture will have emerged by 2030. China's middle class will have increased from 20% of the population to almost 70% and India's from 5% to 50%. Even assuming no increase in the average expenditure per trip (in constant 2011 US dollars), this will drive a vast change in the sources of travel expenditure in the region [11].

Figure 13: Travel expenditure in Asia Pacific by origin of traveller 2011



Source: PATA Tourism Monitor 2012, WTO Compendium of Tourism Statistics
*Excludes Singaporean visitors to Malaysia

Figure 14: Travel expenditure in Asia Pacific by origin of traveller 2030



Source: Frost & Sullivan estimates. Assumes no change to average expenditure per trip
*Excludes Singaporean visitors to Malaysia

10. The average outbound expenditure per departure is almost $4,000 from Australia, and $1,000 from India and China

11. Our 2030 forecasts are based on assuming that the percentage of travellers to Asia Pacific destinations as a percentage of the total middle class remains constant. Hence the huge increase in traveller numbers from China and India are purely the result of the enormous increases in the middle-class in these countries

"China will grow hugely as a source market as the middle class grows and more people can afford to travel. While group tours will be the starting point for most first time travellers, over time, the Chinese will travel independently. India also has great potential as a source market but we are not really seeing growth yet. It's still well behind Korea and Japan."

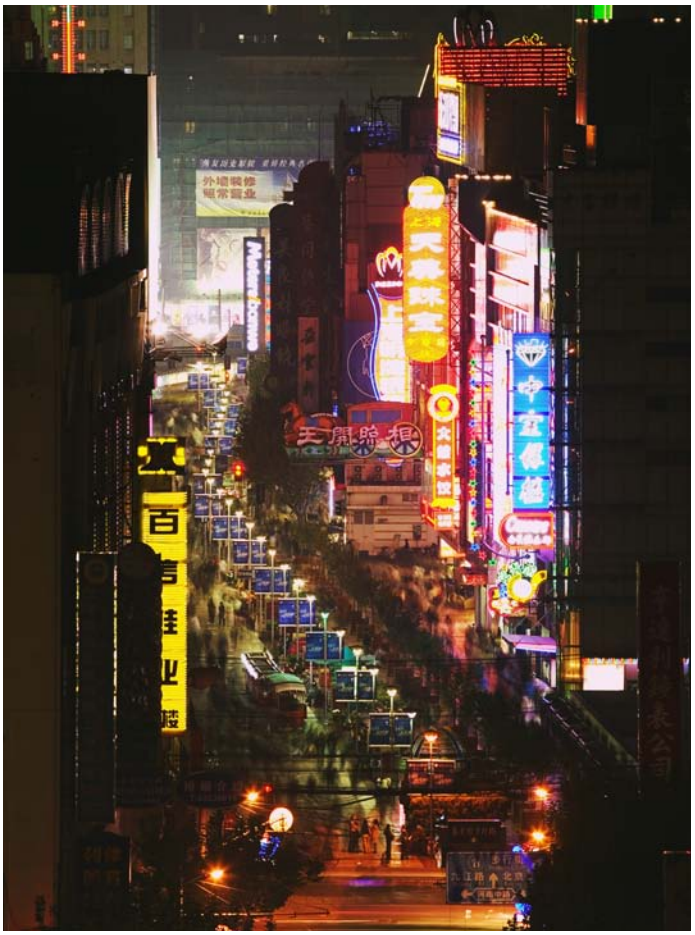
John Koldowski, Special Advisor to the CEO, Pacific Asia Travel Association (PATA)

The huge increase in travellers from India and China offers opportunities for all inbound markets in the region, but some are likely to be particularly favoured.

Our research identified that Korea, Japan and Singapore are the most favoured Asia Pacific destinations for Chinese leisure travellers, and Singapore, Malaysia and Thailand for Indian leisure travellers. But to catch the potential of these markets, travel providers will need to adapt their offerings for these growing sources of travellers – for example by making hotels 'Indian and Chinese-friendly'.

"The biggest growth in outbound travel is from China. China is now the biggest outbound market to New Zealand, as well as to Japan and Korea. Our hotels are gearing up to better serve the Chinese market with specific service standards, but it also requires a new strategy across all aspects of hotel operations – including sales and marketing."

Markus Keller, Regional Director of Sales & Distribution, Accor Asia Pacific



"Outbound travel from China will grow enormously, and of particular promise is the rise of the affluent with very different patterns and tastes from what we think. The world is not ready for the enormous growth in outbound tourism from China. Single destination countries (e.g. Cambodia) will face huge challenges."

Yeoh Siew Hoon, Editor & Founder, Web-in-Travel

Build capacity to catch the growth

While India and China (and to a lesser extent Indonesia) represent huge growth opportunities, their lack of infrastructure and travel capacity may make the market opportunity hard to grow. For example, there are currently no direct flights between India and Australia - a significant impediment to the opportunity that 'VFR' Indian travellers present. Similarly the airport infrastructure in India may groan under the strain that outbound travel places on it. National bodies, such as national tourism organisations, will need to focus specifically on the Indian and Chinese markets to address infrastructure and other barriers to travel (such as visa restrictions, as referenced in The Red Tape Effect).

Growth at the upper and lower ends of the travel market

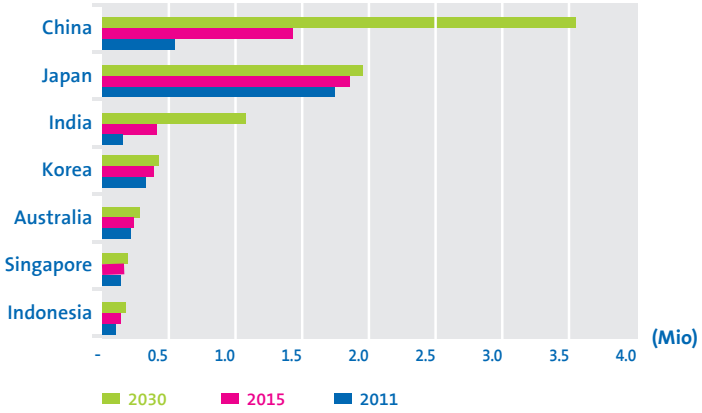
While the numbers of travellers to Asia Pacific destinations will more than double over the period to 2030, we anticipate polarisation at the upper and lower ends of the travel market. Put simply, we expect the main growth to be at both the luxury and economy ends of the spectrum. This is a result of two main themes;

- While the number of travellers from countries such as China, India and Indonesia in particular will increase exponentially, even by 2030 they will, on average, be much less wealthy than their counterparts in developed economies;
  - By 2030 GDP per capita in India, China and Indonesia will only be 20-25% of that in Australia, Japan and Singapore.
- Although there will be many more travellers from the emerging markets, they will generally be travelling on a budget.
- However, the number of wealthy travellers will also increase significantly.
  - By 2030, high net worth individuals (HNWIs) will grow seven-fold in China and six-fold in India.

For the high net worth individuals, travel is often the preferred form of leisure expenditure, hence significant growth in the numbers of HNWIs will stimulate strong growth in the luxury end of the travel market [12].

12. For example, The Hurun Report "The Chinese Luxury Traveller, 2012" identified that travel accounts for 25% of leisure expenditure for HNWIs in China

Figure15: High net worth individuals by country, 2011–2030



Source: Cap Gemini World Wealth Report, Julius Baer, Frost & Sullivan estimates

Need for a multi-brand approach

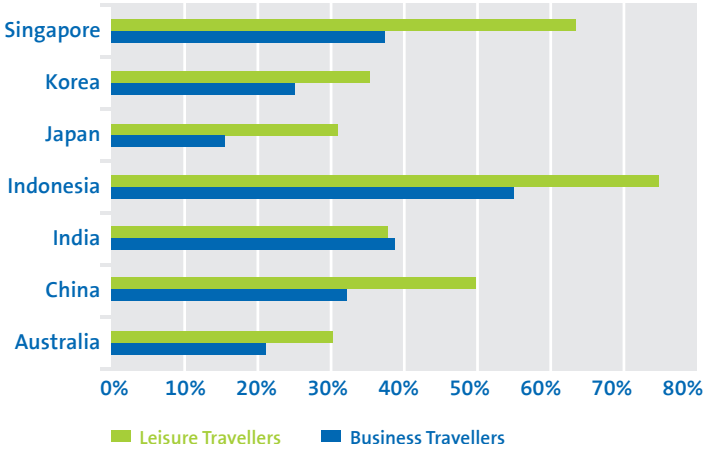
As the bulk of the growth comes at the top and lower ends of the comfort scale, we expect to see travel services providers increasingly focus their investments – and marketing efforts – on these segments. This may often require a multi-brand approach to target budget, midscale, upscale and luxury travellers as a single brand will be challenging to use for these disparate groups.

Stimulus for budget airlines

We believe that the multi-brand approach will also be reflected in the growth of budget airlines (also called Low Cost Carriers or LCCs) across the region. While this business model has been established in Europe and the USA for about 20 years, it is only in the past decade that budget airlines have emerged in Australasia and South-East Asia, and they are only now emerging in North Asia.

Our research indicated that budget airlines are now an important part of the travel mix for travellers across the region, especially for leisure travellers – 47% of whom have taken at least one international flight with a budget airline in the past 12 months, with the lower fares offered by budget airlines the main attraction for 80% of leisure travellers. Even for business travellers, budget airlines are a significant part of the travel mix. One-third of business travellers have used them in the past 12 months, although for business travellers their convenience (often being the only direct flight to the destination) and company travel policy are the main drivers.

Figure 16: Proportion of travellers that have used budget airlines in past 12 months



Source: Survey of 1,531 Asia Pacific Travellers, August 2012

Use of budget airlines by business travellers is most developed in Indonesia, where several budget carriers compete on both domestic and international routes, therefore become increasingly common in Singapore and India as the budget carriers continue to expand their networks, and as new budget carriers emerge.

The market share of budget airlines in Asia Pacific currently lags the market share globally, with budget airlines accounting for around 18% of airline seats sold, compared with a global average of almost 25%. However as the budget airline concept continues to gain ground, especially in Japan and China, we anticipate that Asia Pacific will develop to match, if not outpace, the global average.

"In Japan growth of the LCC market will be critical and essential to stimulate the Japanese market, because Japanese air tickets are too expensive compared to other APAC regions."

Mitsunori Nobe, President and CEO, JTB-CWT Business Travel Solutions, Japan

The expected increase in the use of budget carriers throughout the region, especially in North Asia where the concept is only just developing, will have tremendous stimulus effects on regional centres, outside the main international hubs.

The budget carrier business model is partly predicated on serving second tier regional airports with point-to-point flights, and as the number of budget carriers increases along with their share of traffic, we expect to see significant infrastructure development in some of these regional centres.

This will be particularly noticeable in Japan, but also in other countries where most international air traffic is currently routed through a small number of major hubs, which often face significant congestion, such as in Australia.

"LCCs will boom because of the meeting between declining fares and significant increases in middle classes with income levels sufficient to travel. This will mean an enormous growth in the number of people who can travel."

"There are almost 100 airports in Japan but most air traffic goes through Tokyo. Growth in LCCs will stimulate development of these second tier airports and their economic hinterlands."

Peter Harbison, Executive Chairman, Centre for Aviation (CAPA)

Opportunities & Trends

Shaping the future of travel in Asia Pacific

This report focused on the key geopolitical, economic, social and technological macro-trends that will change the nature of travel in the Asia Pacific region through to 2030, and the specific effects that these will have on the travel industry. What resulted were four "Big Effects" that have the potential to greatly influence the travel industry. Our predominant observation is that as economies in the region converge – driven both by a narrowing of the wealth gap between developed and emerging economies, and greater liberalisation of trade and of travel will actually become more divergent. A much greater variety of people will be travelling for a more divergent set of reasons, with a much broader range of aspirations, behaviours and expectations from the travel experience.

This divergence represents a challenge but also an opportunity for travel providers, who will need to address a more individualised market. Broadly the industry will need to;

Determine which customer groups or segments to target, and develop increasingly tailored offers for these groups.
A one-stop approach is no longer valid in the travel market as the 'Me' traveller types seek personalised experiences. The needs of an over 65 traveller from Japan are quite different to a solo female traveller from India. For many providers this may involve a multi-brand strategy, as brands that serve the needs of one segment cannot be stretched to others. Travel providers already collect increasing amounts of data about their customers – but they will need to earn the trust of travellers by using it to make tailored and intelligent offerings;

Improve infrastructure to match the growth.
While the economic growth and integration of the region offers enormous potential for travel, industry participants will need to significantly improve many facets of infrastructure to leverage the opportunities. For example, the potential offered by outbound tourism from China and India will require greatly enhanced airline capacity, improved airport infrastructure and less stringent visa policies. In a world where competition for the Indian, Indonesian and Chinese traveller will become more acute, the travel industry in Asia Pacific will need to ensure that it fully competes for this opportunity;

Respond to the diversity.
The diversity in traveller types offers great opportunities for travel providers, but also challenges. For example, the huge growth we expect in outbound travel from China and India offers opportunities to airlines for new or expanded routes, to cruise companies for new markets, and to hotel chains for large groups of new customers. But to effectively please these new types of travellers, providers will need to recognise the diversity, and adapt their offerings. This could range from Chinese-speaking staff to Indian-friendly catering;

Embrace technology to enhance the customer experience.
Travellers are increasingly using the internet as an integral part of the travel experience, and for more flexibility and short-term

planning. Travel providers need to recognise this trend and adapt to it – for example those that currently do not have a web presence (and there are still many in the region that do not) or transactional capability through the web will need to rapidly get on board, as travellers will lack the patience to move between sites to research and book. This in turn requires flexibility in business operations and planning given that loads and capacities cannot currently be predicted far in advance. Above all, the use of mobile devices, when combined with location knowledge and customer data, will provide huge monetisation opportunities in allowing travel providers to send personalised and tailored offers to travellers; and

Be collaborative.
Travellers will increasingly use social media to share experiences and recommendations, and will increasingly bypass traditional sources of information and even transactional channels. Travel providers need to recognise and respond to this change and not fight it. This can involve, for example, responding quickly and positively to any comments about the provider on social media sites or online forums, or use of social media sites or forums to proactively make offers to traveller groups. As travellers increasingly seek the validation and support of online communities rather than traditional sources of advice, providers need to ensure that they are a support to this journey, and not a blockage.

The "Big Four Effects" will no doubt have a positive impact for travel providers and help to change the norm of travel today. Economic growth and liberalisation will give many individuals the ability to travel for the first time, resulting in an increase in traveller numbers that will be enormous. Travel providers who recognise the increasing divergence of the Asia Pacific traveller, and who adapt their offer to respond to it, will be the ones leading the industry, catering to the new Asia Pacific traveller.

Appendix

Our approach

We sought qualitative and quantitative input from three sectors; travel service providers, industry associations and travellers themselves.

Specifically, we undertook 13 in-depth, one-on-one interviews with thought-leaders from the travel industry across the region, including inputs from industry associations, national tourism bodies, airlines, hotels, travel agents and consultants. We also interviewed several of Amadeus' own thought-leaders. Contributors are listed at the back of the report.

We undertook quantitative research with 1,531 business and leisure travellers (defined as individuals who have travelled overseas at least once in the past 12 months) from the seven key markets of Australia, China, India, Indonesia, Japan, Korea and Singapore. The research therefore involved travellers from both developed markets (the OECD members of Australia, Japan and Korea, plus Singapore) and the emerging and highly populous markets of China, India and Indonesia. Research was undertaken by means of an online survey.

We also reviewed existing published sources on the travel industry in the region, from sources such as the World Tourism Organisation (WTO), Centre for Aviation (CAPA) and the Pacific Asia Travel Association (PATA), as well as from broader data sources such as the Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD).

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Amadeus has central sites in Madrid (corporate headquarters), Nice (development) and Erding (operations – data processing centre) and regional offices in Miami, Buenos Aires, Bangkok and Dubai. At a market level, Amadeus maintains customer operations through 73 local Amadeus Commercial Organisations covering 195 countries.

Amadeus is listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and trades under the symbol "AMS.MC". It is a component of the IBEX 35, STOXX Europe 600 Index, and the Dow Jones Sustainability Index (DJSI).

For the year ended December 31, 2011 the company reported like-for-like revenues of €2,712 million and EBITDA of €1,039 million. The Amadeus group employs around 10,000 people worldwide, with 123 nationalities represented at the central offices.

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