The Big Picture in Travel: Six Things to Look out for in 2015

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- Falling oil prices, fluctuations in currency values, and reductions in duties will see customers travelling further from the home front
- Asia-Pacific (APAC) is still on the move, but local partners are vital
- Mergers and acquisitions will continue to dominate the hyper-competitive search landscape
- Genuine customization remains the Holy Grail: Watch out for the rise of the niche offering
- It is a data-driven mobile world and brands will need to meet the customer, wherever they are
- The science of marketing looks set to come of age.

Oil and Currencies: a Mixed Blessing

With oil prices at their lowest levels in six years, and likely to stay that way through 2015, one might have thought that airfares would fall more steeply. However, in today's hyper-competitive environment, airline ticket prices tend to be market- rather than cost-driven. In other words, if flights are full, prices are unlikely to fall much - unless, for example, there is regulatory intervention. Additionally, many airlines are tied into forward contracts for aviation fuel bought well in advance. For example, Ryanair is tied into a contract to pay a sum equivalent to USD92 per barrel until 2016. This means the industry's upsides are more likely to be used to service debt accumulated during the financial crisis.

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Having said that, the International Air Transport Association (IATA) has predicted that average return airfares, excluding taxes, will fall by 5.1% in 2015 (IATA, 2014). On its own that is not much for consumers to write home about, however, fuel surcharges are being axed on long-haul flights and there are additional reductions in air passenger duty. This is most pronounced in the Asia-Pacific region, where competition is fierce and a spate of recent air disasters has spooked some travellers. Consumers may therefore look to travel further afield, a possibility that is made more likely with wage growth now outstripping inflation in several major economies, such as the UK, US and Germany.

"In short, we predict a happy year for consumers on the price front," says Hugo Burge, chief executive of Momondo, who hopes to see more profitable airlines invest in better services for the future: IATA expects airline profits to rise 20% to USD25 billion in 2015 (IATA, 2014).

Also helping travellers go further is a weak euro, which, following the recent Greek election, fell to a seven-year low against sterling; it has also slumped against the dollar, yen, and renmimbi, making holidays significantly cheaper in the Eurozone and affording tourists more spending money. Given market uncertainty and the European Central Bank's extensive quantitative easing program, the euro is likely to stay at low levels, helping the travel industry outperform overall market conditions in the region. Another bonus for the European travel industry is the more robust growth figures coming out of the UK, US, and Asia. This, together with on-going efforts to streamline Schengen Visa procedures, will further boost inbound tourism to the Eurozone.

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China Versus India – Onwards and Upwards for Asia-Pacific

Headlines have been dominated by China's growth slowing to its lowest point since 1990, leading to debate over how it compares with India. The IMF forecasts that, by 2016, India's growth may outstrip China's (6.5% vs. 6.3% - IMF, 2015). However, these headlines belie a more nuanced and complex picture for travel in Asia-Pacific, but one that definitely has all the hallmarks of a vintage year for the region.

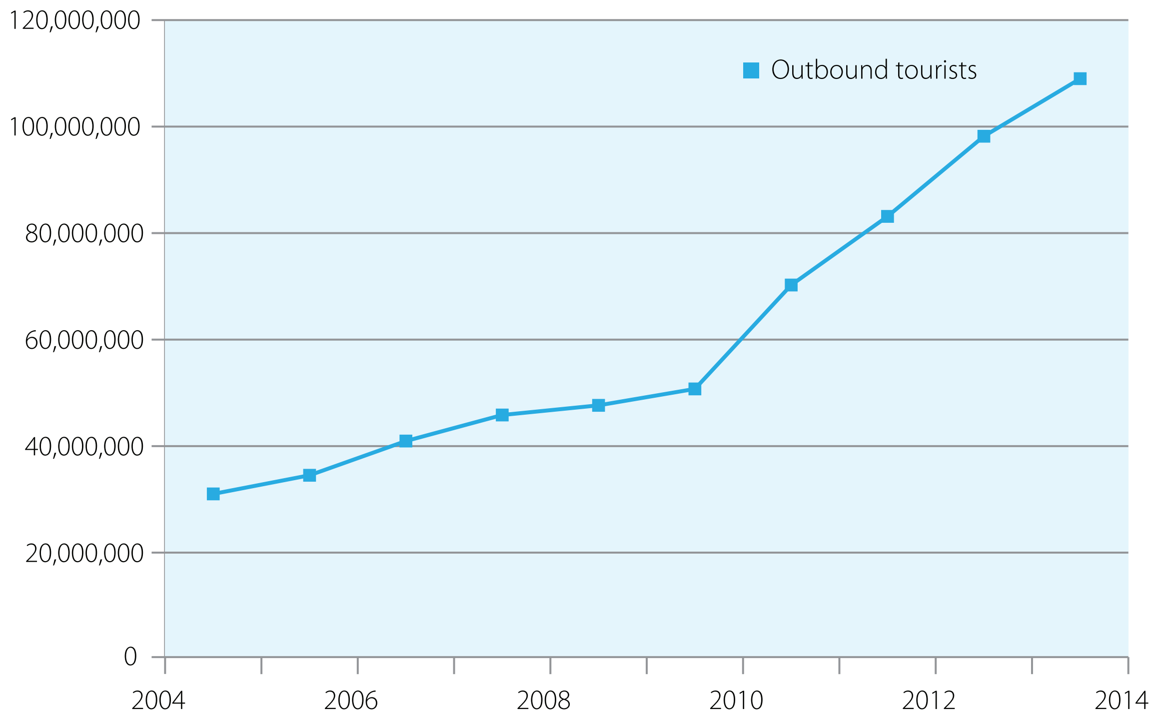
While India's Congress has historically been slow to pass reform measures, the government seems to be moving in the right direction and the economic fundamentals look promising. For one, as a major net importer of energy, India stands to benefit strongly from the low oil price. The demographic picture is also strong, with a very young population where just 5% fall within the definition of the global middle class, and so can be expected to grow at a faster rate than China's. Some 475 million Indians are expected to reach middle-class status by 2030, which bodes well for the travel industry. Already, India's hospitality market is worth USD36 billion but 84% of that is spent at home. This can be expected to rapidly change to much greater travel abroad, particularly if the bureaucracy surrounding India's visa system can be improved.

On the face of it, then, China seems a much worse prospect over 2015. A deflating property boom, high debt levels and falling growth rates are additionally set against the fact that China's working-age population has already peaked. However, dig a little deeper and it is clear that, for the travel industry at least, China's star will continue to rise, while India will take a long time to catch up from its comparatively low base.

Although the factors detailed above will create a degree of caution in the mind of Chinese consumers, their government is heavily focused on increasing domestic consumption to rebalance the Chinese economy, which will support sustained increases in disposable household income, helping to offset potential increases in saving rates. An extant Chinese middle class, which is already much larger than India's, will therefore increase considerably over the next decade, particularly outside of China's most developed areas along its eastern and southern coasts. Additionally, currency controls placed on the renminbi means it will remain stable or even gain slightly in value against most major currencies (notably the euro), aiding Chinese purchasing power.

Recognizing the opportunity of rising Chinese spending power, many countries – including Australia, Japan, the

China Outbound Tourism 2005-2014



China's growth in tourism has accelerated massively in the last half decade. This year will see less explosive, but still strong growth.

Year	Outbound journeys
2005	31,026,000
2006	34,524,000
2007	40,954,000
2008	45,844,000
2009	47,656,000
2010	50,738,600
2011	70,250,000
2012	83,138,000
2013	98,189,000
2014	109,000,000

Source: World Bank, international tourism, number of departures (2005-12) and China National Tourism Authority (CNTA, 2013-14)

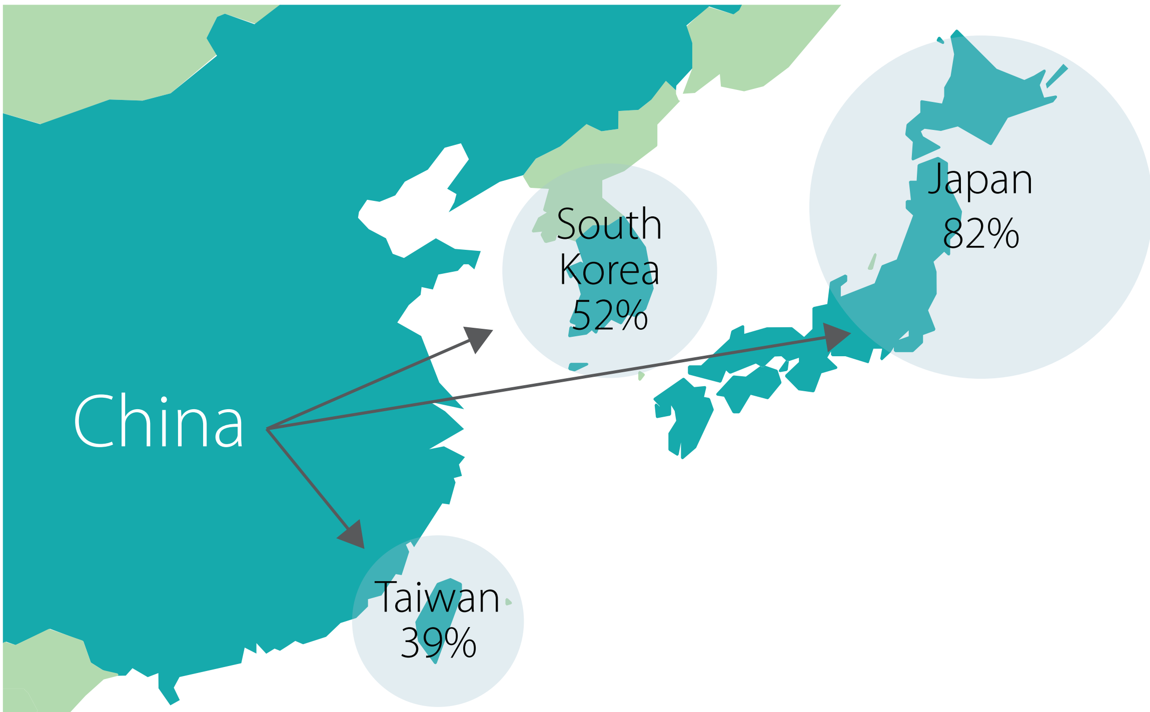
US and the UK – have relaxed visa restrictions to encourage travellers further afield.

On the supply side, already-falling air fares in the Asia-Pacific region may be further depressed as very large aircraft orders are now being put into service from both major airlines and lessors. Both Boeing and Airbus broke records in 2014 for planes constructed and aircraft on order, a large number of which are intended to serve routes to and from China.

As a result, the environment for outbound travel from mainland China remains strong. Between 2000 and 2013, the number of travellers saw a 10-fold increase and China became the world's biggest spender on tourism. This was followed by Chinese outbound tourism breaking through the 100-million journeys per annum in 2014.

This meteoric growth will slow somewhat in 2015, most notably at the top end of the market, as the Chinese government strengthens tax and accounting measures. Consulting firm Bain and Company reported that sales of luxury goods in China have been on a steady decline, falling from 7% growth in 2012, to 2% in 2013 and declining 1% in 2014 (Bain and Company, 2015). This

China's Growth is Heavily Benefitting Northeast Asia



Chinese outbound tourism is creating terrific growth in Japan, South Korea, and Taiwan. These saw visitor numbers grow by 83%, 52%, and 39% in 2014, respectively (JNTO, 2015, KTO, 2015, Tourism Bureau, M.O.T.C. Republic of China, 2015).

demonstrates that this slowdown in top-level spending is already in effect.

On a wider level, Chinese consumer concerns mean that travellers will be looking for value and probably at locations closer to home, making Northeast Asian countries the big winners in 2015.

According to the China National Tourism Administration (CNTA), 89.5% of tourists leaving mainland China went to destinations within Asia: "Seven out of ten destinations that Chinese nationals search for on Skyscanner are still for trips within Asia," confirms Steven Pang, managing director of global metasearch engine Skyscanner, China.

Barring a foreign relations disaster, gains are likely to be made by South Korea, Taiwan and Japan, all of which should be able to build on record years for Chinese visitors in 2014. The spate of airline disasters will continue to linger for many Chinese travellers, so Singapore, Malaysia and Thailand may not see the same levels of performance.

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By 2030, 49% of all global passenger traffic will be within APAC or between that region and the rest of the world. Although India may experience higher percentage growth rates, it is coming from a small base and the lion's share of that growth is still expected to come from China - something no travel company can ignore.

In a highly-fragmented APAC region, the brands that can offer a truly localized experience –particularly within China - stand to gain. "China is a unique market with particular challenges, not just in terms of language and culture but also in terms of infrastructure," says Pang. Having a local partner is essential, hence Skyscanner's acquisition of Youbibi, a local metasearch company focused on the Chinese market, and Priceline and Expedia upping their investments in C-Trip and e-Long, respectively.

This is especially important, as regulations instituted in 2013 to Chinese travel agencies have raised prices, making independent travel more attractive to the Chinese consumer. Brands would do well to consider the strategies of successful local players like Home Inn and 7 Days Inn.

Looking and Booking: the Battle Continues

Expect another bonanza year of mergers and acquisitions. Before the door had closed on January, Expedia had acquired Travelocity from parent company Sabre for USD280 million. Who will be next? The rumor mill has it that Orbitz is looking for a buyer as a result of profits being squeezed after competition forced it to step up marketing efforts.

Carl Michel, executive chairman of Generator Hostels, believes that the key drivers of this consolidation are the rise of metasearch, the influence of Google, and price parity breaking down.

Metasearch sites have certainly proved to be the big disruptors of the past few years, resulting in a series of high value vertical acquisitions. In simple terms, metasearch makes life easier for travellers faced with far too much information.

"It's not just about accurate low prices and transparency, but also about convenience and other factors," says Burge, who expects to see considerable growth potential in both vertical categories and new geographies.

It's one thing winning the battle for search but it is another to secure that all-important booking – especially on mobile devices. To improve the user experience and increase conversion rates, metasearch firms are working hard to make the booking experience better. Thus, instead of a customer being redirected to a mobile-unfriendly hotel or airline website, Skyscanner, for example, has developed technology that facilitates the booking from within their own app. This continues the blurring of distinctions between metasearch sites and OTAs.

EyeforTravel research shows that metasearch is now a key component of the online travel mix; a fifth of consumers in North America use metasearch sites to research their holidays. However this is not to say that the days of the OTAs are numbered.

"2015 will be a year of growth for the online travel industry driven by online travel agencies [that], because of increased global competition, will have to launch new features for customers such as trains, cars and transfers, as well as a greater proportion of multipack offerings" says Javier Perez-Tennessa, chief executive e-Dreams-Odigeo Group.

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Against this backdrop, hoteliers would do well to stop whining about cost and rather start to understand just how much they can do with OTA partners – and work them harder in the process!

"Once that intelligence kicks in, a whole new world will open for hoteliers," says Michael Levie, chief executive and founder CitizenM Hotels.

Whether they develop the technology in house, or use a third-party supplier or white label solution, hotel brands need a strong brand.com presence, but they also need to be seen on both metasearch and OTA websites. That said, travel brands should beware of overpaying for clicks that are not good conversion prospects; **EyeforTravel consumer research** shows that there is a fall of around 50% between the number of consumers using metasearch to research trips compared with those who made a booking through them in the last year.

For smaller and independent hoteliers, however, the growth figures of third-party distributors means that establishing a brand website that aims to compete with the OTAs may not be the best use of their resources. Instead, as Levie suggests, they should look to work their OTAs harder. The huge marketing budgets and traffic that major distributors can command means that smaller players might be best served with websites that complement OTA sites and otherwise concede the upper hand. This can be done by catering for visitors who are researching their choice in a deeper manner. Consequently, a brand website for a smaller company should focus on cost-effective marketing across social media and look to have high-quality content that reinforces a customer's choice.

In spite of the challenges, Ed Perry, Senior Director, Performance and Revenue Optimization at WorldHotels is confident that with improvements in the general economy, "hoteliers will feel less dependent on any particular channel and will have greater room to align themselves with those specific partners that provide greater distribution value".

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The Rise of Peer-to-Peer and People-Based Travel

In reference to success in the travel industry, the peer-to-peer model given household name status by Airbnb continues to grab headlines. Although there are other 'sharing economy' providers of accommodation, for the moment, Airbnb dominates this market. On New Year's Eve, 550,000 travellers stayed in Airbnb accommodation across 190 countries, compared with 2,000 on the same night five years ago. By any measure that is impressive growth and, although still a private company, reports regarding an employee share offering suggest a valuation north of USD13 billion. Another major P2P disruptor (this time to the taxi industry) has come in the form of ride-sharing mobile app, Uber. Both Airbnb and Uber have faced pressure from legislators and the media, but, given their huge popularity with users, further innovation in this space is likely: New business models will emerge to overcome some of the regulatory and administrative issues.

Burge sees hotels and peer-to-peer moving closer together. "Peer-to-peer firms will offer more value-added services, while hotels will differentiate with more packages, such as theatre, as well as 'stripped down' options, and this should help to stimulate more competition," he says.

What is clear is that many people today are looking for experiential travel. Alan Clarke, chief executive of Homestay, believes that in 2015, people will focus far more on the people with whom they spend and share their travel experiences.

The Road Less Travelled Is the Road to Success

Brands with a clearly defined and targeted product or service that reaches the right person at the right time stand to win big in 2015.

"We're in an era of long-term deflation, and 2015 will accentuate both luxury and budget brands and away from what is the middle of the road or lacking in clear definition," says Carl Michel, from Generator Hostels.

A good example of where this is panning out is India, with its growing numbers of adventurous, price-conscious young travellers. Here, the value and budget segment presents significant opportunities, says Yogendra Vasupal, founder and chief executive Stayzilla, a fast-growing end-to-end managed marketplace in India. In the value and budget segment in India today, 200,000 room nights are booked daily but under 0.5% of these are booked online.

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Recognizing that people in Asia are looking for more low-cost structured accommodation, global chains like IHG, Starwood, Hilton and Marriott, are focusing strongly on smaller but provincially significant cities in Asia. According to Tarandeep Singh, IHG's director of revenue, analytics for Asia Middle East and Africa, Average Daily Rates (ADR) in these markets are not nearly as high in dollar terms, but still contribute around 30% of comparable hotel RevPAR in the first year.

Towards the other end of the value chain, consumers are increasingly open to adding tours and activities into the mix when booking travel, creating opportunities for travel brands to capitalize and increase their relationship with the customer. Priceline's acquisition of OpenTable and TripAdvisor's of Viatour are examples of big players rising to capture more of the customer wallet. Brett Asbury, executive vice president of Gray Line Worldwide, a global provider of tours and activities to the online travel industry, says that online travel sellers that integrate tour and activity offerings at the right time in the booking cycle continue to show tremendous growth.

Worth noting is that this trend has not passed Airbnb by. When you book a room in Barcelona with them, for example, there is an option to search for tours and activities through Trip4Real, an online market place for local tours and activities based in Spain. Airbnb is likely to look for similar partners elsewhere.

Mobile, Data and the Drive to Differentiate

The rapid and continued growth of mobile across all travel verticals is only going to accelerate. From digital check-in to mobile-enabled room keys, consumers will continue to rely on their mobile phones as their 'remote control' to the world and, more specifically, their travel journey, says Dustin Bomar, vice president of digital acquisition for Hilton Worldwide.

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This is particularly likely as World Bank figures show that mobile subscriptions in the developing world now outnumber their counterparts in the developed world by more than five to one, and extremely cheap internet-enabled handsets have been developed specifically for these markets. This is creating a different growth path to developed countries, bypassing landlines and leading to media being consumed on a mobile-first basis. Although internet access amongst subscribers remains limited when compared with the total number of subscriptions in developed countries, this will eventually be reversed, meaning mobile-first behaviors will be the norm.

While a mobile focus is essential, brands need to see it as just one part of the omnichannel experience and to try and work it in to a continued seamless experience for the consumer. **EyeforTravel research** into analytics shows that the clear leader for marketing spend amongst executives surveyed was web optimization, with 65.4% choosing it as a spending priority in 2015. Research from our **series of reports into mobile** also shows that 69.2% of consumers use multiple devices to research and plan their journeys.

"With so many more devices providing data sources, brands will have the opportunity to be ruthlessly data driven and, as a result, be far more likely to deliver a return," says Marco Ryan, chief digital officer, Thomas Cook.

CitizenM's Levie agrees: "As the pendulum keeps switching from channel management to demand, I believe that everybody is starting to understand that data is of utmost of importance - and it's not just data, it's aggregated data."

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When it comes to marketing a product or service, the days when one developed a creative idea, bought some space and delivered it for an agreed time period are well and truly over. Today, everything is about making advertising dynamic, personal, relevant and - most importantly - accurate, something that all brands are working hard to differentiate on.

Skyscanner is one of those, and a recent study of a small user group showed some success: Data-driven dynamic advertising delivered more than double the number of click throughs than those targeted by a non-dynamic ad. "There is a rich prize for those able to bring together social apps, mobile devices and genuine insight in an affordable and relevant way. That's the Holy Grail," says Carl Michel.

What is clear is that any marketing decisions need to be based on customer insight and those companies that embrace, understand and re-engineer themselves around insight-driven marketing will exit the year ahead of the competition.

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