AIRSAVINGS

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SOS to the world

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By: Michael Fabey

A mere 3.5% drop in travel and tourism's economic contribution to the planet's gross domestic product this year could result in the loss of 77 million jobs.

That's just one of the spectres of the global recession that will be hanging over the World Travel and Tourism Council as it convenes its ninth summit next week in Florianopolis, capital of the Brazilian state of Santa Catarina.

It is also the reason the WTTC chose "Real Partnerships -- Energizing Economies" as the theme of the meeting, because difficult economic times call for closer cooperation between governments and the private sector, according to Jean-Claude Baumgarten, the WTTC's president and CEO.

"The WTTC has always advocated a partnership between public and private sectors, because the travel and tourism industry is deeply linked with economic growth," Baumgarten said. "In the difficult times we are now going through, we need, more than ever, real partnerships to allow us to weather the difficulties and be ready when economic conditions improve."

Over the years, the conference, which brings together high-level executives from government and industry, has addressed such topics of global concern as the impact of terrorism, SARS and the war in Iraq on worldwide travel and tourism.

This year, the worldwide economic crisis represents "the most serious challenge" to the travel and tourism industries since the WTTC summits began, Baumgarten said.

The seriousness of the downturn was outlined in a March economic impact research report, produced with the council's partner, Oxford Economics. According to the report, travel and tourism industries worldwide employed more than 225 million people and generated 9.6% of global gross domestic product in 2008. But travel and tourism "suffered a marked downturn in activity in the second half of 2008."

Two difficult years are expected, and beyond that, there are many "uncertain variables that could affect the outlook," Baumgarten said.

The WTTC projects that growth of travel and tourism GDP will be only about 0.3% in 2010 and job losses "are also likely to be significant, with employment falling by around 10 million over the next two years, to around 215 million in 2010 before subsequently recovering."

While cautioning that it was difficult to predict a recovery, Baumgarten cautiously forecasted a turnaround next year.

"The change of tide will be in 2010, and at that point will start to grow again," he said. "But it all depends on the success of [various governments'] rescue packages. Everything is very volatile right now."

The WTTC, in bringing together government officials with leaders of the private sector from every continent, continues its commitment to raise awareness of the importance of travel and tourism to the world economy, Baumgarten said. Sessions at the summit were organized to promote discussions of "removing barriers" between the private and public sectors and to promote more understanding and a sense of cooperation.

"We have concerns that some governments don't have the full scope of the importance of our industry," he said. "We aren't asking for a bailout, and our issues are not as acute as financial systems and automobile industries. But we want to remind governments that travel and tourism represents 10% of GDP and 10% of jobs in the world. And we want to make them aware, during a period when there is a temptation to raise taxes, that we don't want travelers to be overcharged during a time that you want travel and tourism to be strong."

According to the WTTC report, corporate travel is expected to be the hardest-hit sector, with large companies scrutinizing travel costs as never before. The report projects a 7% fall in corporate travel this year and 4% in 2010.

Earlier this year, the WTTC placed full-page ads in USA Today to encourage businesses to continue to hold meetings and conventions and to engage in business travel at a time when some financial institutions that accepted U.S. government bailouts came under pressure to stop such travel spending.

"The ad was a one-shot deal, but we wanted to give the public reasons why travel and tourism needs to be taken seriously," Baumgarten said.

The challenge this year is for travel and tourism companies to weather the current economic storm.

"We need to keep employees motivated and be as close as possible to our customers," he said. "Even during a crisis, we need to communicate that we are there for them and at their service. We have to keep ourselves in good shape and ready to serve customers, because eventually the economy will restart itself, and it will restart quickly. This industry has proven itself resilient."

The long-term outlook for travel and tourism is still rosy, according to the research report. The WTTC projects that over the next 10 years, the world's travel and tourism industry will achieve annual growth of 3.6%, creating a 2.4% rise in jobs.

"Emerging economies, in particular, are expected to be engines of growth, boosting both international travel -- with China alone set to provide over 100 million visitors for other destinations -- and also generating an increasingly vibrant domestic travel sector," according to the research report.

Travel and tourism worldwide is forecast to grow by 4% annually between 2009 and 2019, supporting 275 million jobs by 2019 -- 8.4% of all jobs and 9.5% of global GDP. **-- Laura Del Rosso**

A status report by industry sector:

Airlines
By Michael Fabey

The downturn in air travel demand due to the recession will likely keep the world's airlines off-balance through the first three quarters of the year, most aviation experts agree.

"We won't even see a break-even point for the airlines until the fourth quarter," said Raphael Bejar, CEO of Airsavings, which specializes in fuel and ancillary purchases for airlines.

Until then, airlines are likely to cut even more capacity from their fleets by parking planes, reducing flight frequencies and delaying deliveries of new aircraft.

That's not to say the deliveries are stopping altogether: The carriers are still booking and buying new planes that are more efficient, such as new-generation 737s that replace aging MD-80s.

But even the industry's most celebrated futuristic aircraft -- the Boeing 787 Dreamliner, which is supposed to be the epitome of efficiency -- is taking a hit from the economy. Although it has a solid order book for the new plane, Boeing has reported cancellations, delays and a slowdown in new orders.

In addition to cutting operating costs to cushion themselves against the effects of the recession, airlines are working the revenue side of the street, as well. Carriers are expected to continue to unbundle their fares, breaking out more fees for services such as checked baggage, seat assignments or different booking methods that were previously included in the basic fare.

Airlines say the ancillary revenue adds hundreds of millions of dollars to their bottom lines each quarter.

So far, the only airline to swear off such charges is Southwest, which is determined to thrive or die by its no-hidden-fees campaign. But even that discount carrier is thinking of including some extra charges for Web-based services or certain onboard Internet capabilities.

The airlines started to charge the ancillary fees last year when fuel prices spiked, and analysts say the carriers are likely to continue to expand the fees even after the economy picks up.

Another survival strategy that will certainly outlive the recession is the international carriers' increasing reliance on global alliances and their development of joint ventures, particularly if it turns out that alliance members weather the recession better than unaligned carriers.

Cruise
By Johanna Jainchill

Cruise lines have an advantage over some businesses in that they can move their assets.

But this economy challenges even that ability, because no part of the world has been spared the global economic decline.

Economic strength is relative, however.

Alaska cruise prices have dropped precipitously; as a result, four cruise brands have already decreased their Alaska deployment for 2010.

It became clear early on that this recession would trigger a return to the homeport phenomenon that started after 9/11.

Then, consumers were scared to fly. Now, they don't want to pay for it. In turn, U.S.-based cruise lines are redeploying ships from far-flung parts of the world such as Australia, South America and even Europe to U.S. homeports such as Baltimore.

Monaco-based Silversea Cruises laid up its expedition vessel Prince Albert II for one month this spring, because it couldn't find a market with enough demand for luxury expedition cruising between the ship's Arctic and Antarctica sailing seasons.

Cruise lines are also changing their marketing efforts to adjust to the new, closer-in cruise booking curve.

As Adam Goldstein, CEO of Royal Caribbean International, explained, "You have to wait longer to make decisions, because the consumer is waiting longer to make decisions."

Many lines used to advertise sailings as far as one year out but would put almost no marketing into a cruise in the month before it sailed. That equation has almost flipped, even for luxury lines.

While ships are mobile, they can't be moved on a dime -- but marketing dollars can be. Lines like Royal Caribbean, with heavy global development, can move marketing and sales pressure from around the world, depending on where the demand is.

Cruise lines also have to respond to the skittish consumer with programs such as Holland America Line's Vacation Stimulus Plan, which offers incentives such as 50% reduced deposits, and Norwegian Cruise Line's job-loss insurance, which enables customers to cancel at any time up until their cruise departs if they become unemployed.

Kevin Sheehan, CEO of NCL, said the plan gives people the confidence to make purchases during an uncertain economy.

"We get a lot of letters from our cruisers saying, 'Thanks; I was able to take my trip because of that. It lowered the stress level,' " Sheehan said.

Technology

By Dennis Schaal

Travel-technology companies, including trip-planning websites, online travel agencies, metasearch providers, deal publishers and more, are doing their best to stimulate travel, remain competitive and add clarity and assurances to travelers in what has become a complex online-booking experience.

UpTake.com, TravelMuse.com and Travelocity all enable travelers, many of whom don't have a particular destination in mind during the research phase, to search for trips based on themes.

For example, selecting an "Indulgence" theme using Travelocity's ExperienceFinder produces Bangkok as a top choice. Travelocity recommends the Millennium Hilton Bangkok or the Iebua State Tower hotels and a visit to the Damnoen Saduak Floating Market for fruit and vegetables in Ratchaburi province, where vendors sell their produce from small boats in a canal.

If you select the "Feeling Broke" theme on UpTake.com, you get tips on "South Beach Restaurants: Avoid Getting Ripped Off" and "Ideas for the Frugal Traveler."

TravelMuse introduced a Yaycations Calculator, a retort of sorts to a columnist who opined that 2009 would be "the year of the naycation." It helps travelers find savings, to be applied to their travels, in their household budgets.

Many tools that tech companies have introduced are designed to help travelers get some clarity amid the torrent of discounting and all the fees that get tacked on to their final bills.

DealBase.com's Deal Analyzer takes a deal with all of its extras and compares it with going rates on Hotels.com.

For example, on a recent search the Deal Analyzer calculated that customers would save $34 per night on W Atlanta-Buckhead's $185-per-night Green Getaway promotion, which includes continental breakfast and cocktails for two and a $10-per-night donation to Trees for the Future.

If DealBase is helping consumers gain insight into promotions, TripAdvisor's new flight-metasearch product is doing something that parallels DealBase when it comes to airlines' optional services.

TripAdvisor's Fees Estimator calculates charges for things like checked bags, alcohol, snacks, meals and headphones during the shopping process so travelers know the total price up front.

As the competition among online travel agencies heats up, Expedia, Travelocity and Orbitz -- through the end of May, at least -- have joined Priceline in eliminating consumer booking fees on flights.

They all also have adopted a variety of price guarantees on flights or vacations that enable consumers to get partial refunds if other consumers book the same itineraries on their websites at a lower price.

Hotels

By Jeri Clausing

With room rates and occupancy levels dropping around the globe, perhaps the biggest challenge facing hotel companies is how to maintain service levels.

One of the things that characterized the global building boom that preceded the current downturn was increasingly stylish hotels offering better service and amenities at all levels.

Now, "even though people may be paying less, they are not expecting less," David Pepper, senior vice president of development for Choice Hotels' upscale brands told a conference recently.

Kathleen Taylor, president of Four Seasons, said customers are also less loyal, so "the products we offer have to live up to our claims."

"It's all about service," she said.

Ritz-Carlton President Simon Cooper said maintaining service in a down economy is "the hardest single challenge, because whether someone's at a hotel that's 100% occupied or they're the only one, they expect everything to [be] operating as normal."

One way luxury resorts are dealing with the challenge is by slightly reducing spa or other service hours or not keeping all their restaurants open all the time.

Hotels have also been working hard to keep base rates from falling too far by offering value-added packages designed to lure guests with extras such as free nights, gift cards or spa treatments.

Such offers seemed to hold rates in check through much of last year, but rates have taken a dive across the globe in 2009 as demand softened even in hot markets such as Dubai.

In the U.S., luxury hotels have been the hardest hit, in part because of a backlash against corporate meetings and incentive travel. The so-called AIG effect was sparked by reports that the company was still planning a luxury retreat after receiving a multibillion-dollar bailout from the federal government.

To battle perceptions of excess, luxury hotels are swapping limos for hybrids and emphasizing things like responsible meetings, which donate money to charities or environmental causes.

Although luxury hotels around the globe are feeling the rate pressure, Neil Jacobs, president of global hotel operations for Starwood Capital, said other markets are not feeling the American pressure to tone down luxury.

"They still want and expect opulence," he said.

Car Rental

By Danny King

Fewer cars, fewer offices and fewer people.

That's the crux of the strategy Enterprise Rent-A-Car, Hertz Global Holdings and other large car rental companies are using to deal with the combination of lower revenue from declining business travel and a credit-constrained used-car market that has cut the residual value of cars the companies earmark for resale.

Enterprise, Hertz and smaller competitors Avis Budget Group and Dollar Thrifty Automotive Group say they'll reduce annual expenses by hundreds of millions of dollars by cutting thousands of jobs and shuttering dozens of underperforming locations. Hertz cut 7,000 jobs, or about a fifth of its workforce, last year, while Enterprise and Avis Budget each recently cut more than 2,000 workers.

The largest area of cost savings, however, will be fleet purchases. Companies are reducing their inventories of cars to match the 5% to 15% drop in sales expected this year while keeping the vehicles for an extra month or two to stave off the effects of a used-car market where values fell almost 12% during the fourth quarter before rebounding slightly this year. With that in mind, companies like Hertz and Avis Budget are planning to cut their 2009 new-vehicle spending by about 30% from a year ago, resulting in hundreds of thousands of fewer automobile purchases.

"We are in a negative time period that we haven't seen for a long time, but credit is starting to loosen up," said Enterprise spokesman Pat Farrell. "It's going to take some time to work its way through the boa constrictor."

Such cost-cutting measures will be necessary. While closely held Enterprise says it will be profitable this year, Hertz, Avis Budget and Dollar Thrifty all are preparing for further net losses this year as the decline in business travel cuts rental reservations while reducing the average daily price their cars are commanding. Hertz's revenue decline has been more pronounced in the U.S. than overseas, while the reverse is true for Avis Budget. Meanwhile, Dollar Thrifty may lose millions more if Chrysler declares bankruptcy because of money the automaker would owe for repurchase agreements.

Add it all up, and customers can expect to get less leeway when they return a car a couple hours late, without a full tank or with a new ding, according to Neil Abrams, principal at Purchase, N.Y.-based Abrams Consulting Group and a former Hertz executive.

"Companies are scrutinizing more when vehicles are being returned," said Abrams. "They've got to fight for every nickel of profit."

Tours

By Michelle Baran

As tour operators compete for market share in a difficult global selling environment, the challenges vary depending on the destination.

What customers heading to far-flung destinations want more than ever is value. But with Europe perceived as expensive, and Africa and Asia perceived as remote, operators have had to get creative about how they present that value.

In Europe, even as the dollar continues to gain strength against the euro, destinations still battle the perception of being pricey. Operators with strong Europe business, such as Globus, Trafalgar and Insight Vacations, have presented customers with cost-cutting options, such as cheap flight deals or more budget-minded vacations.

"With four brands and a variety of travel styles, price points and destinations, we are as diversified as a travel company can be," said Jennifer Halboth, director of marketing for the Globus family of brands. "For instance, right now with value being king, our Cosmos brand is already built to deliver the best possible touring value, always. We don't need to contort that product to fit the market."

Collette Vacations has taken a different approach to helping persuade people to take an international vacation. The Pawtucket, R.I.-based tour operator has said that in the midst of a global economic crisis, it's up to tour operators to give people more reasons to travel.

In an effort to stimulate travel to the South Pacific, Canada and Europe, Collette launched a complimentary door-to-door private sedan airport transfer service for 75 U.S. gateways on air-inclusive tour bookings to those destinations, for travel starting May 1.

"Now, when the market's soft, you've got to do things that cost money," said Dan Sullivan Jr., president and CEO of Collette.

Asia, on the other hand, is still recovering from the damaging effects of the 2008 Beijing Summer Olympics that slowed the growth of China's inbound tourism, coupled with the notion that Asia is simply too far away during a time when people are more apt to stay closer to home.

For operators that specialize in the region, that means adjusting to a new Asia travel reality.

Asian destinations, historically booked months in advance, have become a quick trip destination. "Our clients are booking last-minute, shorter trips and visiting destinations that are very economical, but they're not taking what might be called budget trips," Marilyn Downing Staff, CEO of Asia Transpacific Journeys, said in a recent statement. "They may forgo a five-star accommodation for four stars, but they still want private guides, authentic experiences and comfort with value."

Retail

By Nadine Godwin

The challenge for retail agents in an economic downturn is easily described: fewer customers and/or smaller travel budgets than last year. But that challenge is not so easily met and overcome.

That said, there are some retailers, particularly on the leisure side, for whom the current recession isn't too painful. They may, for example, have a business model that is relatively recession-proof or specialize in a niche that isn't too easily disturbed. Agents have previously identified adventure travel, cruises and honeymoons as sweet spots. Some luxury travel seems impervious, too, but not all.

As for corporate travel, a lot hangs on what kind of business and what part of the world the corporate clients are in. Some agents have found, for example, that having economists as clients is a good thing.

However, most agents -- even those who were well positioned going into the economic crisis -- have donned their best thinking caps to find their groove.

For some on the leisure side, the mantra is: Cut other costs, but never the marketing. That may mean continued advertising in print or other old media. But it may translate into a lot more targeted email marketing or increased visibility on the Internet.

Not everyone sees the value of traditional advertising, but there is general agreement on something else: Stay in touch with customers. Retailers are sending handwritten notes to clients (remember those?) and using their own databases for telemarketing. They make themselves more visible in their communities and more available, perhaps at their own or other travel shows.

On the corporate side, agencies seek more clients, which produces more business for the trade if they reel in previously unmanaged business travel. However, to the extent that agencies simply trade clients, there is little aggregate gain for the sector.

An alternative strategy for client retention is to consult with existing corporate customers -- which may have cut budgets or kept them static -- on ways to fund all the types of travel they require for their businesses with a tighter budget.

Except for the very big travel management companies, leisure conglomerates and big websites, most travel retailers are small businesses, a status that brings its own challenges. But in a soft economy, there is a ray of hope in that governments are sometimes sympathetic to the plight of small businesses. In the U.S., for example, ASTA has said it is encouraged by the Obama administration's support for continued loan guarantees for qualifying small businesses.

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