

“How to cope with this financial crisis?”

PATA Japan Chapter Annual Seminar - Tokyo

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An overview

The melt down of the global banking infrastructure - The Financial Crisis - has created a Climate of Change; Recession in advanced economies, Interbank fears, restricted lending accelerating collapse in investment, Currency volatility, weaker World GDP growth and more..

All necessitating new thinking, paradigm shifts, new business models and partnerships – challenging the current structure of tourism industry.

The challenge for our industry is a sustainable response to this *Climate of Change* – Social, Environmental & Economic – a climate of change driven by the recent Financial Crisis and rapid evolution and growth of Tourism and other external factors such as political stability and Climate Change.

Tightening of credit and capital access will continue to affect consumer sentiment and confidence. “wait and see” is the order of the day with Japan and the Asian banking sector hopefully better equipped through internal self regulations and national legislations to cope.

We have seen a definite softening of demand, overall growth and profit warnings across the board. However considered opinion is that Asia is better positioned to navigate this crisis...The real economy has momentum... and Diversification will provide flexibility....

Long term the prospects are sound if we manage the required changes in a sustainable way - future is brighter than we always foresee today...

Where is the industry today?

All Industry sectors have been impacted by the recent developments.

National and Regional Tourist entities and publicly funded organisations are encountering difficult market conditions and facing increasing pressure from the stakeholders to account for their performance and effectiveness, to show a measurable outcome for the public and private investment. They are measured by performance indicators that are impacted by factors outside of their control such as Exchange Rate fluctuations, are based on changing perspectives, with old paradigms and measurement tools which could be argued are no longer relevant. Time to redefine growth.

Global Distribution Networks are facing stronger demand by the consumers for “Better” value and quality in all aspects of the product offering and service delivery – making the selection of the “Destination of Choice” much more competitive. In turn this is driving the pressure on suppliers and destinations to improve their competitiveness and provide access to unique offerings and experiences.

The aviation sector faces many challenges – Consumer perception of profiteering & cost of Fuel, GHG Emissions and Carbon trade Offs, current model of airport and airline relationship, demand and capacity, Bilateral Agreements which are archaic and stifle growth and many more...

Aviation Liberalisation a key driver of regional and global growth remains a challenge. “Open Sky” agreements would support growth of Aviation in Asia Pacific – with Low Cost Carriers exploring the potential for new market openings.

In aviation, consolidation and mega alliances will help ease the impact and allow the sector to survive the current turmoil. Aviation is the primary catalyst for Tourism development and its health critical to the recovery and future growth of Tourism.

Hotel sector shows resilience – despite occupancy downturn (Asian Hotels, RevPAR down) and pipeline and profitability impacted – and not unlike Aviation alliances are being consolidated.

According to World Travel & Tourism Council – in Asia Pacific by 2020 / 15 Million additional jobs will be needed – Human Resources and Professional Training already at crisis point.

I believe Human Resources will be the challenge of the future. Investment in Tourism Training and Education is an element of the industry long neglected - a real impediment to growth.

All said the industry is resilient and looking for solutions to counter the current challenges – New Marketing Campaign and message (e.g. Vietnam), Airlines forming new alliances & developing new products (e.g. Air Asia), National Tourism Organisations investing and offering new services (e.g. JNTO/HKTB) and more.

What about the industry in Japan?

Growth of International Visitor Arrivals to Japan for first half 2008 of 4.34 Million (+10%) was followed by a sharp decline during the second half – down to an annual rate of 9.15 Million (-0.1%) an overall decline, first in 5 years. Outbound market also declined to 15.99 Million (-7.6%).

The performances of key regional markets such as Australia, Singapore and Thailand also reflected the trend and the impact of the financial crisis.

On the positive side Japan arrivals, first half of 2008 was generally healthy reflecting the inherent potential.

Korea (+5.6%), Taiwan (+7.5%), China (+12%) and US (-1.1%) were the top source markets. Top 10 only US and UK declined.

Length-of-stay was down nearly 10% to 6.50 days (due to shorter-stay arrivals from China). Long-haul accounted for 24% of visitors and more likely at risk in current conditions with cost competitiveness another factor for the destination.

Recently changes within industry and new practices signalled a new approach to supporting the industry and developing potential opportunities.

As YOKOSO Japan nears its target of 2010, a new and rejuvenated concept is needed to continue the momentum. (Yokoso Japan Weeks, Jan 20 – Feb 28)

Likely Change in visa regulations and opening of access to regional destinations – airport network – could be the catalyst for generating new and additional visitors to Japan. Asia to Asia offers immediate opportunities.

Future Opportunities

The industry faces a new set of challenges, demands and expectations which require new thinking and solutions. But equally there are many opportunities.

The traditional Source Markets will look for greater value hence Competition will get tougher – with more New players offering new products and services.

The markets such as BRIC – Brazil, Russia, India & China – will provide new opportunities but cost of servicing them may be a challenge.

Increased investment in Tourism Representative Organisations (NTOs) will be critical – as is the case in Japan - however short term gains must be secured as financial realities may mean cuts will not be too far away.

We need change to support future growth - Innovation in Product Development, Supply Chain Best Practices, Integrated Destination Offerings, Destination Marketing & Promotion (Cost vs. Value Proposition), Destination Access & Capacity and more - New ways to become more cost effective and competitive.

Perhaps most critically we need exciting, new and creative means of communication, delivering a “Value” message to our target audiences.

Technology will provide more affordable options for destination marketing – the use of Internet, access to and by consumers, Communications, Sales, Destination promotion and marketing will need to be more carefully planned by the industry in particular the NTOs and other representative entities. These tools must be interactive include access to online communities (blogs), awareness of and responses to consumer driven content (reviews) and trends.

The changing Consumer Habits – Time Poor – looking for One Stop Shop – provides us with opportunities to develop new Strategic Alliance Partnerships – offering more integrated products and services, through sharing resources.

Today there are many new definitions and market segments – e.g. Philanthropic Travel, Religious Travel, ECO Travel and more - driven by consumer demand for NEW products and services. These provide new opportunities.

Notwithstanding the more mature markets, the Emerging Markets such as India and China offer their own opportunities and equally unique challenges. Exploring regional markets - Asia to Asia – will be a good option particularly in light of the challenges of long haul travel.

More than ever we need to have a Collective approach to marketing, securing business for the destination and communicating a clear Brand Identity – in this Japan has a good start on most other destinations and the government support and required investment has been forthcoming.

MICE industry with its unique requirements will provide new opportunities. Emergence of Association Management Companies (AMCs) may require development of new partnerships. Asia's MICE industry and traditional PCOs will be challenged.

ECO Tourism - Tourism Marketing has become a Highly Competitive Environment with Destination Branding going beyond shopping, value for money and outdoor activities category to include GREEN / "ECOTOURISM" and more.

Being GREEN – is a Business fundamental - A prerequisite for future Sustainability and developing UNIQUE Brands. Today a more aware consumer is increasingly reluctant to support industry's and markets which do not live up to their social responsibilities - Japan is perceived as an environmentally sound destination, a clear marketing advantage.

Exploring opportunities to encourage visitor growth requires an integrated strategy by the industry involving a multi stakeholder approach, airline, hotel, operators etc to develop the right solutions and establish Japan as the "Destination of Choice".

Long Haul - offers opportunities for NEW product offerings, to change consumer habits - transit and stay:

- For Business Travel sector – to encourage extended stay, special packages, NEW reasons to stay longer,
- For Europe to Australia / US/Canada to Asia (&Philippines - VFR) – Offering NEW routes, incentives for transit and or stay in Japan as a stopover (with encouragement for extended stay).

For Regional markets - Asia to Asia – I suggest we require new marketing and communication - to create a NEW message and value – to change consumer habits, switching and or diverting travel plans to Japan, the “Destination of Choice”.

Certain target audiences may offer opportunities with specific needs, for example:

- In Korea – Youth, females, Shopping and VFR
- In Taiwan – needs a new message and reason and is price sensitive
- China – Packaged tours are perhaps the best approach, also encourage stop over to & from US as well as incentives for extended stay

Other market segments also offer new opportunities:

- Healthcare / Medical Tourism – a new and progressively high profile segment one which is price and quality sensitive
- Grey / Retired Market – high net worth, time rich and looking for new experiences
- Youth, Sport, Special Interest (Religious / Study) and many more

The business environment will continue to be tough into first half of 2010, with recovery when it comes (within 18-24 months) likely to be uneven across the region. We need new business models – new partnerships, communication systems, operational practices - many that worked in the 70s, 80s & 90s are no longer relevant. The right models can yield strong results, even in difficult times. The challenge for us is to fuse our Traditional strengths with New thinking, creating solutions which reflect today’s market realities and consumer demands.

Business innovation will be crucial – New marketing ideas and communication methods. It is hard but we must focus not on quantity but quality. The current Climate of Change is and will continue to test the traditional structure of the industry. It is time to redefine growth and ROI expectations.

Long Term Vision will be critical to the survival of the industry and its evolution.

We need to focus on enhancing our most important / valuable business assets; Our Clients, Our Partners and Our People. To work collectively to enhance Our Value – to all stakeholders, to continue to offer Unique Experiences reflecting the consumer demands and market expectations.

We need to communicate our value in new and exciting ways, with fresh and innovative offerings – critical in hard times. We must leverage our core competencies and assets, be resilient and resolute, enhancing our partnerships, accepting leadership and focusing on value and not price. Tourism industry is fragmented perhaps this Financial Crisis can bring us together – to create a stronger

unity of purpose. We offer a value to our communities and society well beyond simple travel, we enhance people's lives. Despite all the challenges our industry is resilient and will recover in time. PATA looks forward to working with you to support this recovery.

About PATA – Future and the Members

Mr. Gregory Duffell - New CEO and President, starting Feb 2009

New leadership, New Direction and New ideas – A better future.

- **Support the Membership** – Advocacy and Protection, Information and Market Intelligence, Networking and Events, Promotion and Communication, Education and more
- Participate in the formulation and development of the appropriate measures helping to shape the future of the industry
- Assist members and industry in discovering Opportunities in Tough Times
- Encourage and support sustainability and Best Practice
- Invest in Education / Training
- Support Research / Market Intelligence
- Support a Long Term Vision

Thank you