



Survival Strategies in the Wake of the Terrorist Attacks

The Impact of the Attacks on Travel and Hospitality | By Max Starkov

Though it is too early to assess the extent of the impact of the terrorist attacks on the travel industry and to foresee the ripple effects across various travel markets, there are some indications of what lies ahead. After a four-day trading pause, the markets hammered airline and travel-related stocks. It is impossible to predict what will be the long-term implications, but one thing is for sure: during such trying times the travel industry is especially vulnerable. Travel experts are in agreement that the recent terrorist act will have at least a short-term (4-6 months) negative impact on the travel industry. This short-term impact may be exacerbated by psychological factors (lingering shock effects, fear of flying, uncertainty, etc), how the "war on terrorism" proceeds and how the economy performs over the next several quarters. The travel industry may recover or sink in a long-term down cycle.

Here are some of the effects of the terrorist attacks on travel and hospitality, which travel suppliers and hoteliers should take into consideration when assessing the situation:

Impact on the Economy

The economic slowdown can turn into an outright recession. The global economy was in a "down mode" even before the terrorist attacks. The U.S. economy was showing signs of slowing down well before the incident. Economists believed that the unusually resilient consumer confidence was one of the factors that kept the U.S. economy out of recession. This may be changing fast: consumer confidence most probably will be severely damaged by the recent events.

In hospitality, even before the attacks the picture didn't look good. According to Smith Travel Research, U.S. hotel occupancy was 61.9% year-to-date through June 2001, a drop of 2.7% compared to the same period of 2000. RevPARs declined 0.4 % to \$58.99. Preliminary figures indicate that occupancy rates and RevPARs were down 2%-4% in August of this year, compared to August of 2000 (Smith Travel Research).

Fluctuations in the world oil markets always have negative effect on the economy. Oil prices are already up since the incident, which will make traveling more expensive. The reductions of up to 23% in airline services, announced by most major airlines, will keep supply low and prices up.

War on Terrorism

The war on terrorism, which according to U.S. officials will last "years, not days and weeks", will have long-lasting negative impact on the travel and hospitality. Military conflicts and terrorist attacks have always had devastating effect on travel and tourism worldwide. The terrorist attacks in Europe in the 80s, the Gulf War, the first WTC bombing in 1993 have clearly indicated that travel and terrorism are incompatible. On the other hand, the uncertainty of what happens next and the length and outcome of the war on terrorism will further aggravate the situation.

In general people tend to stay home where they feel most secure. People also tend to stay away from the troubled areas. In this case the U.S. and the countries believed to harbor the alleged perpetrators (the Middle East and certain countries in Asia) are the areas in question.

Security

Security concerns will top the list among the standard travel considerations, such as price, distance, convenience, duration, etc. On similar occasions in the past people have avoided for some time big metropolitan areas, air travel, cruise ships, major sports events and theme parks, perceived as likely terrorist targets.

The fear of flying is another of the most immediate effects of the terrorist act. A number of people may avoid air travel for some time until they overcome the psychological shock of what has happened. Others may avoid flying on American carriers or staying at U.S. brand hotels, perceived as more likely targets of terrorist attacks. We witnessed a similar phenomenon during the Persian Gulf War. The introduction of air marshals and more stringent security measures at airports will alleviate some for the security concerns. Airlines and airports can help further by promoting the new security measures that are in place.

National Psyche

On a positive note, Americans thrive on disasters. This is a nation of positive thinkers and forward-lookers. The unique mentality and "can do" attitude have helped the U.S. overcome the devastating effects of many natural, political and economic disasters. The nation has demonstrated extraordinary resilience and determination in the aftermath of similar tragic incidents in the past, which have had a

mobilizing and unifying effect on the population. No doubt we are witnessing a similar situation now in New York and across the country.

Different travel markets will be affected differently

The recent unfortunate events will have a different degree of impact on the various travel markets. Here are some of the expected repercussions:

- International travel in general will be affected more than domestic travel.
- Travel to and from the U.S. will be affected in a major negative way, especially in the short term.
- Travel to/from the Middle East and parts of Asia associated with the war on terrorism will be heavily affected.
- Long-haul travel destinations will be impacted more than short-haul travel destinations.
- Fly-in destinations will suffer more than drive-in destinations
- Destinations relying on international travelers will suffer more than purely domestic ones.

Different Impact on the Various Segments of the Travel Vertical

The incident is expected have different effect on the various travel segments.

- Business Travel and Meetings Markets: The negative impact on these markets will be immediate, since September and October are one of the strongest months.
- Hospitality: Hotels in fly-in and major business travel areas will be affected to a greater extent compared to hotels that rely on drive-in customers and resorts in vacation areas. Hotels in the affected areas already report "ridiculously high" cancellations.
- International Leisure Travel: It will have immediate negative effect, since September and October are very popular months for international travel, especially among senior citizens who are more prone to security anxiety. Tour operators already report massive cancellations, especially for September and for U.S. incoming travel.
- Domestic leisure travel in the active November - December period (family reunions, shopping) will also be affected, though to a lesser degree. People may choose shorter trips, drive-in instead of fly-in destinations, same-day-return instead of overnight trips, etc.
- Leisure travel to "Winter sun" destinations in the November-February peak season, especially to domestic destinations (e.g. Florida) or neighboring destinations (Mexico, Caribbean) will not see major declines due to the traditional perceptions that such destinations are not a "terrorist priority". With smart promotions and price policies travel suppliers and hoteliers may hope to reach the year 2000 levels.
- The ski destinations, especially the domestic drive-in resorts will not be greatly affected during the November-March ski season. Smart promotions and price sensitivity will define the winners from the losers in this segment.

What Can Travel Suppliers and Hoteliers Do?

There are no ready-to-wear strategies for this type of circumstances. First of all, travel suppliers and hoteliers should prepare to be in this extremely adverse situation for the long term and should plan accordingly. Based on past experiences, travel suppliers should use their common sense and implement the usual belt-tightening measures as in any crisis and economic downturn situation.

There are clear signs that the travel industry is already considering and in many cases introducing such measures. Many airlines already announced massive lay-offs.

But will those measures be enough? If everyone else is cutting costs and slashing prices, what should you do to rise above the competition? What strategy will give you a sustainable competitive advantage in this

adverse situation? Here are two practical considerations for travel suppliers and hoteliers, which I believe will clearly differentiate the winners from the losers in these difficult times:

- Differentiate from the Competition
- Embrace eDistribution

Differentiate from the Competition:

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- In the world of commoditized travel products and prices you have to stand out from the competition. Unique products and unique prices is the new game in town, the only winning strategy today. Here are some suggestions:
- Re-evaluate your distribution channels.
- Focus on non-GDS distribution (e.g. eDistribution).
- Don't just discount your prices. Offer unique products and innovative pricing instead.
- Turn your sales office into a mini-tour operator. Offer hotel packages (e.g. hotel + Broadway performance, hotel+ city tour, etc).
- Focus on your drive-in traffic, on your "neighborhood" markets, on your 100-mile radius "feeder" markets
- Work with travel agents- now more than ever they need to sell non-air products. Offer them an incentive if they book via your website's booking engine.

Embrace eDistribution:

eDistribution saves costs, opens new markets and attracts more affluent customers and now is the right time suppliers and hoteliers to fully embrace it. eDistribution is inventory distribution that utilizes Web applications and the Internet as its main distribution medium. It could be B2C, B2B or C2B (reverse auction models).

Here are just a few eDistribution key points hoteliers and suppliers should consider with utmost urgency:

- Your website -- do you have a real-time booking engine. Numerous studies show that savvy Internet users, which are exactly the affluent customers you want, will not book a hotel that does not offer a real-time booking on its website.
- Booking engine on your website: is it enabled to book in real-time transient, group, corporate rates, preferred rates, special accounts and promotional rates.
- Tour operators--can they book their allotments and special FIT rates on your website
- Corporate clients--can they book their preferred rates on your website
- Hotel Consolidators: do you distribute your inventory through hotel consolidators (HRN, Accommodation Express, etc)
- Hotel Packages: do you offer hotel packages, city packages, etc
- Destination Marketing Organization: is your hotel bookable on the website of your local CVB or DMO.
- Affiliate Program: do you have an affiliate program (links to your property/services offered on affiliate websites, which receive a fee/commission for every booking).
- Online Marketing: do you have in place a robust online marketing campaign, including direct e-mail promotions, newsletter, etc.