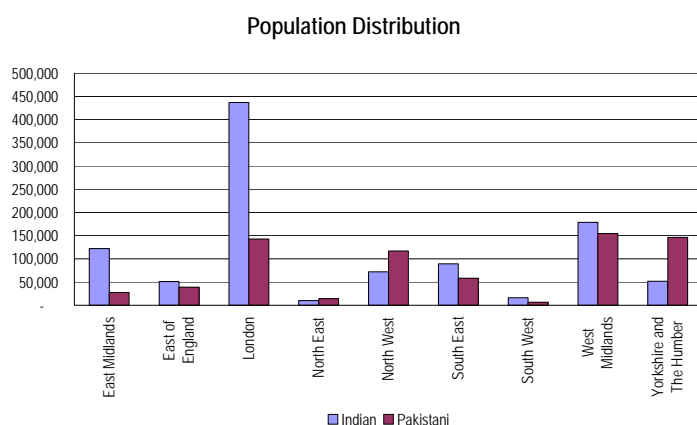


FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month the markets India and Pakistan are examined and we continue to explore the impact of the Internet, this month from the perspective of the tourism business.

### Market Focus – India and Pakistan

Despite a recent wobble caused by India's recent General Election result, the Indian Sub-Continent has been enjoying marked economic growth in the past couple of years, and many geo-political instabilities have been diminishing in magnitude. No longer is Kashmir leading to a major military confrontation between the two nations and Pakistan has become more closely aligned with the West since September 11<sup>th</sup>. Even the weather has provided a boost to the vital agricultural sector with some of the best monsoon rains in years. This rather promising picture could easily change of course - were President Musharraf to be toppled economic prospects could easily unwind amidst civil strife and renewed friction with India.

In 2003 Britain received 200,000 visits from India and 58,000 from Pakistan. These visitors stayed for a total of 5.1 million and 1.8 million nights respectively (an average of 27 nights per visit, three times the overall average of 8 nights). Spending by visitors from India totalled £152m, with visitors from Pakistan spending £52m (equivalent to £792 per visit, significantly above the £476 overall average for an inbound visit). Around seven in every ten visitors from India and Pakistan are male, compared with the overall inbound average of six in every ten.



The chart reveals where, according to the 2001 Census, Indians and Pakistanis live in England. With more than one million Indians and ¾ million Pakistanis living in England it should be no surprise that 33% of visits from India and nearly 50% of visits from Pakistan are to see friends and relatives.

The high concentrations of Indians in the Midlands and Pakistanis in Yorkshire, the North West and East Midlands helps spread tourism spending by Indian and Pakistani visitors across the English regions. However, visitors from both India and Pakistan who stay overnight are more likely to spend time in London during their visit (66% and 69% of all visits respectively involve at least some time staying in London) than is the average inbound visitor (52% of all visits).

## **India**

Recent weeks have demonstrated the impact that political events can have on expectations regarding future economic prospects. In turn, economic performance can feed through to the wealth of the population, thereby determining their ability to undertake travel. Tourism does not take place in a vacuum.

### **New Government - new direction?**

India is the world's largest democracy and its electorate recently delivered the Congress Party to a surprise victory, thereby making it abundantly clear that although a burgeoning middle class may be emerging, the overwhelming majority of the population still live in poverty.

The challenge for the Congress Party now that they have chosen, somewhat reluctantly, Manmohan Singh as the new Prime Minister, is to ensure the flow of inward foreign investment does not evaporate. Many investors doubt the willingness of the new Congress led coalition to push ahead with economic liberalisation and reforms with the same enthusiasm shown by the BJP. The Bombay Stock Exchange Index fell by almost a fifth soon after the election result became clear, but has since regained some of this loss. A key reason for confidence being re-established is that it was Manmohan Singh who started many of the economic reforms, from which India is now benefiting, a decade ago.

Why does any of this matter for the volume and value of tourism to Britain from India? In short, it is because there is a strong positive correlation between the level of inward investment to India from British businesses and the amount of business tourism to Britain from India. One in four visits to Britain from India are business related, and with spend per visit of more than £1,200 this equates to two-fifths of all spending by Indian visitors to Britain.

### **Outsourcing – tourism can benefit**

It seems that barely a month goes by without an announcement by a British company that they are "outsourcing" a back-office function such as IT or customer services to India. Recently Lloyds TSB announced a further 1,000 jobs are to be transferred from a Tyneside call centre to India. McKinsey estimate that by 2008 outsourced back office tasks will account for 7% of India's GDP and employ four million people.

Indian call centre vacancies are much sought after, paying up to £40 a week, well above that received by teachers and other professionals in India. Many Indian graduates view work in a call centre as an ideal first step on the career ladder. Those working in call centres responsible for dealing with British customers clearly need excellent English language skills. However, many companies have come to realise that of equal importance is that call centre staff can establish a rapport with the caller by demonstrating knowledge of British culture and society.

This offers a fantastic opportunity for marketing Britain as a tourism destination in India, be it through campaigns targeted at actual or potential call centre employees, or by working with call centre employers to develop cultural visits to Britain that will enhance their workforce's understanding of British life.

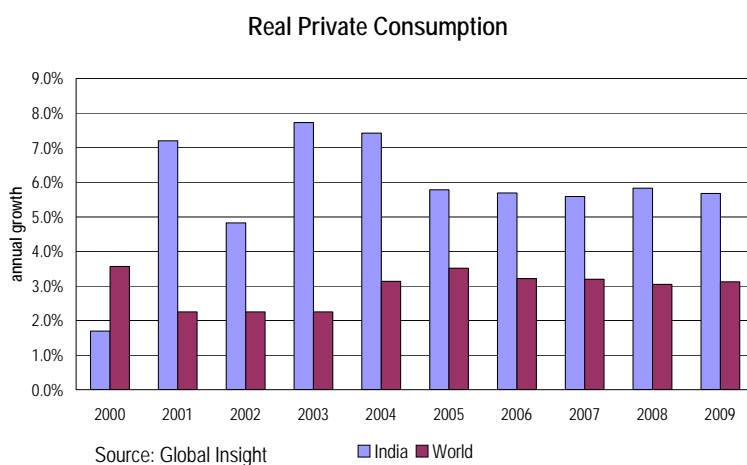
## Aviation in India

The Indian population totals almost 1.1 billion, around a quarter of whom are believed to live in urban areas. A number of major Indian cities enjoy direct airlinks to Britain, and in March Air India commenced a twice weekly service from Ahmedabad to London bringing its total weekly flights to 15. Over the coming years Britain may face tougher competition in attracting visitors from India as the low-cost airline model starts to make an impression on travel behaviour in India and across Asia, enticing outbound tourists to relatively short-haul intra-regional destinations. Indeed, a low cost carrier is due to be launched by Air India in April 2005 serving routes to the Gulf and South East Asia.

## A consumer society

The rapidly expanding middle class in India provides British tourism with a potential rich source of revenue over the coming years as those who have previously not had the financial resources to facilitate overseas travel start to enjoy this luxury for the first time.

A clear example of the increasing power of the Indian consumer can be gleaned from car sales data - the country's largest vehicle manufacturer sold 50% more cars in April compared with a year earlier. Provided the level of real disposable income enjoyed by this new wave of Indian consumers continues to grow the purchase of consumer durables will no doubt be supplemented by increased purchasing of leisure related goods and services, of which tourism is a key component.



The chart shows that since 2001 private consumption in India has been growing faster than the world average, and is projected to continue growing well ahead of the world trend through to 2009 – equivalent to a 40% real terms increase in six years.

It is not just the growth rate in real private consumption that matters for outbound tourism prospects - the size of the population undertaking this consumption and how they spend their income are of equal importance. According to Asia Times Online there are now 300 million middle income earners in India, bringing home between \$2,000 and \$4,000 a year and this is expected to grow to 445 million by 2006.

Looking at how income is spent reveals encouraging signs for the tourism sector - the KSA Technopak Survey indicates that in 1999 10.8% of spending was on vacations and eating out, whereas by 2002 the figure had risen to 15.6%. The survey tells us that the age band in which the maximum share of annual earnings is spent on vacations is 45-58.

## **Pakistan**

Pakistan appears upbeat for the continuation of peace talks with India over Kashmir following the announcement that Manmohan Singh will be the next Indian Prime Minister, diplomats are meeting this month, with the Foreign Ministers of each country due to hold face-to-face discussions in July. A recent Test series between the two countries proved an enormous success and it is hoped to re-establish a growing number of transport links between the two nations over the coming months.

Most sectors of the Pakistan economy have started to perform well, with the recent favourable weather conditions boosting agricultural output, manufacturing output increasing and an expanding service sector. Overall the IMF expect Pakistan's GDP per capita to grow 5.4% in 2004, with a 5.7% increase during 2005.

More good news is that the Commonwealth Ministerial Action Group recently announced that it was ready to see Pakistan re-admitted to the Commonwealth, more than four years after it was suspended following the seizure of power by the military. Warmer relations between the Commonwealth and Pakistan should help build the volume and value of inbound tourism to Britain from Pakistan.

Reflecting the geographical spread of the British Pakistani population, Pakistan's flag carrier, PIA, currently serves London, Manchester and Birmingham. It expects to add Glasgow to its network by December, reflecting the fact that there are 32,000 Pakistanis living in Scotland.

The recent political upheavals in India could pale into insignificance compared with the potential for instability within Pakistan – instability that in turn could destabilise the whole region, including India. There have been three attempts on the life of President Musharraf since 2002, with a number of junior ranking army personnel arrested in connection with the most recent attack. If an assassination attempt were successful it could lead to widespread disorder in Pakistan, a breakdown in co-operation between Pakistan and the US on the War on Terror, and throw peace talks with India over the disputed region of Kashmir into jeopardy. Even today the situation in some parts of Pakistan is tense, with sectarian violence between Sunni and Shia Muslims during May leaving more than 50 people dead in Karachi, and with Islamic parties organising strikes in the city.

## **Conclusions**

The Indian sub-continent has undoubted economic potential and a vast population, a growing proportion of whom are entering the income bracket that provides the chance to enjoy foreign travel. There are strong historical ties between the region and Britain, with around two million Britons having direct family ties with the region.

Measured in terms of GDP India has the world's 9<sup>th</sup> largest economy (the UK has the world's 4<sup>th</sup> largest). Global Insight forecast that by 2040 India will have the world's 3<sup>rd</sup> largest economy, having overtaken the UK, Japan, Germany, France, Italy and Brazil in importance.

Between 1997 and 2002 visits to Britain from India and Pakistan increased by 12%, compared with a 5% fall in the total number of inbound visits. India and Pakistan should continue to offer enormous growth potential for the British tourism industry in the coming years, but is no guaranteed "pot of gold" - political and economic risks abound in this part of the world.

## Issue of the Month – The Internet Part 2: Businesses

As we have seen, almost two in every five adults living in Britain had never used the Internet by early 2004 – representing an enormous market for which web-based advertising or services will be of little or no use. Depending on the make up of its target market, it is a brave business that can rely solely upon the Internet for communicating with its actual or potential customers. On the other hand, it is perhaps an even braver business that dismisses the Internet as a means of generating business. The trick is finding the right balance between web and non-web based material – for which high quality intelligence about the business's market is essential.

### Death of the High Street Travel Agent?

There have been plenty of stories in the press about the financial difficulties being faced by some package holiday companies in recent months, for example MyTravel and Thomas Cook have both reported losses and closed some outlets. Meanwhile web-based companies such as easyGroup have been expanding into the hotel sector on the back of its growing market share in the aviation sector.

A recent study by MORI indicates that budding tourists use a range of websites to research destinations, carriers and accommodation when choosing a holiday, thereby getting themselves informed about which holiday option best suits their needs and budget – relying solely on a travel agent's recommendation is becoming increasingly rare.

This highlights a number of issues that need to be considered by those developing a tourism business website:

- the content of the website must be captivating
- the content must be accurate and always kept up-to-date
- customers have increasing levels of access to the prices being charged by competing businesses (as of course does the business itself if it wishes to benchmark its prices)
- it should be transparent to the customer how they can convert enthusiasm for the product or service being offered into a purchase
- any transaction that the customer makes over the website should be secure

The way in which customers use a website, and their expectation of the services it should deliver have evolved rapidly in the past few years. Initially travel websites were used simply for functions such as booking a seat on a plane. Gradually more and more elements of the overall travel package have been added in; insurance, car-hire, accommodation and so on. This reflects the realisation that travel and tourism businesses must respond to customer needs and desires to "build" their own package within a single website, rather than having to visit many different sites, or make numerous phone-calls once having chosen various aspects of their trip.

This is where the large web-based intermediaries have entered the fray, offering a spectrum of travel modules to the customer, and enabling them to engage in "dynamic packaging". Many small-scale tourism businesses don't have the resource to offer this form of "bundling" on their own website. A recent survey by TRI Hospitality Consulting confirmed that 58% of small to medium sized hotel companies agreed with the statement that "financial constraints prevent them from being able to fully exploit opportunities presented by the Internet". When it comes to the view held among hoteliers of web-based intermediaries opinion is divided, with 52% saying that they help their business but 39% saying they hinder business.

## The human touch

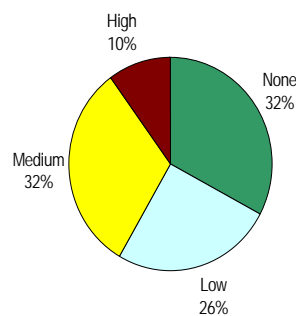
Many travel and tourism businesses do not view the Internet merely as an additional channel with which to communicate with their customers, but as a way of reducing costs as the need to produce printed material, deal with phone enquires and so on can be minimised. Nevertheless, a crucial facet for a business website that wants to be successful is to signpost how a customer can get in touch with a real person should they need to. If the customer needs information that the website is not providing and is left with no idea of how to contact the business, then chances are, they will search out an alternative supplier who can meet their needs.

It is for the more complicated enquiry or travel booking that the traditional High Street travel agent can still claim to come to the fore, being able to construct very detailed itineraries that would be too time consuming or difficult for the customer to build themselves on-line.

## Adoption of e-business by small to medium sized tourism enterprises

VisitBritain has recently updated research that aims to explore the usage and understanding of e-business among tourism SME's. The survey covered both accommodation and attraction businesses across England, involving 2,500 interviews.

Adoption and understanding of e-business



The chart, based on the survey findings, is clear evidence that it is not just a significant proportion of British consumers who have little knowledge of computers and the Internet, but nearly one in three small to medium sized tourism enterprises too. Overall only one in ten businesses has high levels of adoption and understanding of e-business.

The overwhelming majority (95%) of SMEs who use a computer to help run their business use it to access the Internet, but it needs to be remembered that 30% of tourism SMEs do not have a computer in the first place.

The proportion of tourism SMEs with Internet access that has a business presence on a website stands at 86% (this equates to 57% of all tourism SMEs). The proportion of SMEs with a web presence that in some way promote this presence has increased over the past year, but rather surprisingly stands at only 74%.

For many tourism SMEs web presence is just that, simply a presence, with only 36% of businesses with a web presence (or 21% of all tourism SMEs) allowing customers to make a booking directly through their website.

## Building customer loyalty

A good website can help develop an ongoing relationship between business and customer, for example by having a section of the website devoted to the latest news about the business – which can, and indeed should, be regularly updated.

A website can be a relatively low-cost way of gathering intelligence about actual or potential customers through developing on-line customer registration, or surveys. It must be recognised however that customers can become frustrated and abandon the website if they feel they are being asked a lengthy series of questions unrelated to their enquiry. A balance needs to be struck between the opportunity to collate customer data and the customer's preparedness to part with this information.

There is only a point in gathering this information if the business plans on analysing it help improve its decision making. The intelligence can be used to help tailor future communication with customers so that they are more "personal" in nature, thereby boosting the chance of the customer making a future purchase.

A further opportunity is to get an understanding of how satisfied customers, or potential customers, are with the website itself – by finding out whether they feel the information is relevant, useful and comprehensive. Demonstrating that the business is responsive to customer needs is possible through enhancing the website to include information or features requested by visitors to the site, helping to build overall customer satisfaction and loyalty.

A major caveat is that the customer intelligence gathered through a website will only relate to customers enjoying access to the Internet - the business should not fall into the trap of thinking web customers are necessarily representative of all customers.

## Taking Stock

The Department of Trade and Industry, through its "Business Link" service, notes the importance of ensuring a website is user-friendly, and that information is always kept up to date and relevant, if a business wants customers to make repeat visits and to build up a relationship with those customers.

It goes on to make the point that "the provision and ongoing delivery of a website, like all service delivery methods, is as dependent on the quality of its management infrastructure and controls as it is on the quality of information being provided". In short, a tourism business that sets up a website must ensure it continues to reflect customer needs, and that its content is not allowed to stagnate. Furthermore, it should recognise that a proportion of its potential customer base will be unable to access the Internet, with the needs of this group having to be met through alternative channels.

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