

## FORESIGHT

*Issue 55 May 2008*

*Updated December 2009*



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, a spotlight is focused on a significant tourism issue. In May 2008 we took a detailed look at the business tourism sector, showcasing inbound and domestic figures, and looked ahead to some of the challenges and opportunities facing this sector.

In addition to updating the material included in the earlier edition of FORESIGHT the analysis here includes a discussion on the scale and likely longevity of the decline in business tourism brought about by the global economic downturn.

### The global economic downturn and its impact

Following the collapse of Lehman Brothers in late summer 2008 a rapid downturn in the amount of global business tourism taking place was all but inevitable. It took only a few weeks for an earthquake in the financial and business services sector to send tremors through the 'real' economy with the result that nearly all developed economies have seen their sharpest and deepest slowdown for a generation. Millions have lost their jobs around the world since early 2008 and many businesses both large and small have ceased trading.

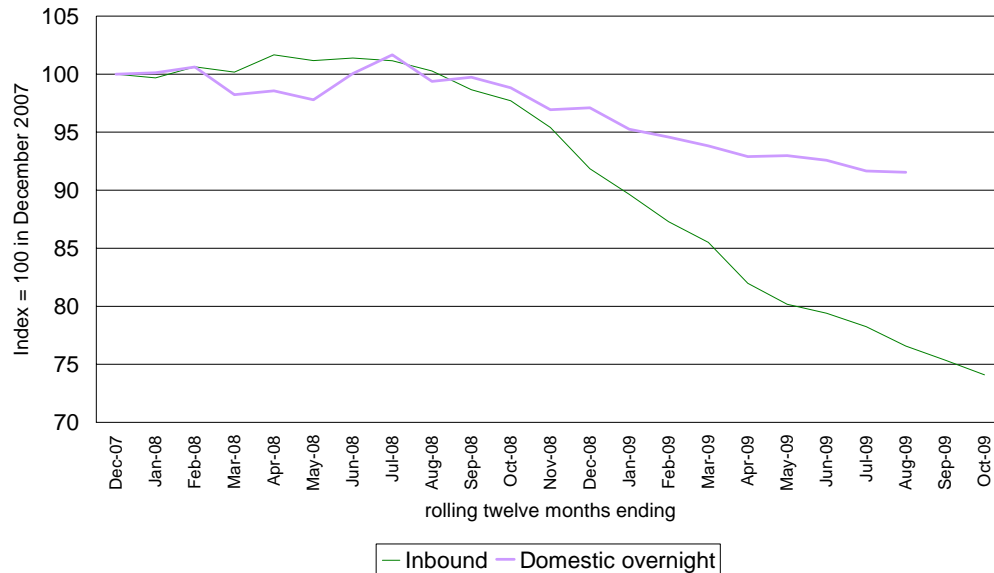
Most countries are now technically out of recession, and some including Australia, India and China never encountered negative growth, but it may be many months before the rate of joblessness starts to fall and entrepreneurs are grasping new business opportunities, and perhaps more importantly, banks are willing to lend sufficient funds such that viable business ventures can be pursued.

The UK looks set to be one of the last nations to emerge from recession, and analysts including Morgan Stanley have warned of a possible debt crisis confronting the UK during 2010 if a plausible plan to reduce national debt is not put in place.

So what has all this meant for business tourism to and within Britain in the past couple of years? The following chart indexes the volume of inbound and domestic overnight business tourism to 100 in the twelve months to December 2007 and plots trends in the rolling twelve month index since that time.

We can see clearly that the downturn in business tourism set in during the final four months of 2008, that the downturn has been far more severe for inbound than domestic business tourism and that it shows little sign of abating. Indeed in the year to October 2009 26% fewer international business visitors came to the UK's shores than in the year to December 2007 – by comparison domestic overnight business tourism was only around 10% lower in the year to August 2009 than in the year to December 2007.

## The economic downturn and business tourism



### Why such a sharp decline?

There are a plethora of reasons for the downturn in business tourism, and most notably inbound business traffic. Firstly world trade declined at its fastest rate for 80 years in the immediate aftermath of the global financial crisis according to the World Bank, and if there is less trade then there is less business to conduct, fewer deals to strike, commodities to buy, sell or deliver and a reduced need for business travel.

The reduction in trade results in those businesses that survive undertaking less travel, but clearly some businesses cease operations altogether. For the 'survivors' there is a short-term imperative to protect the bottom line, and many corporates have sought to do this, rightly or wrongly, by cutting travel budgets. Corporate travel is one element of 'cost' that can be eradicated or significantly curtailed at the sending of an email whereas other cost-cutting measures can take longer to implement and are less easy to follow through on.

Another explanation for the dramatic decline in business travel can perhaps be termed as 'moral pressure' brought about by the 'credit crunch' ethos of needing to cut back on anything that may be perceived (by the media or public at large) as flamboyant in nature. This might encompass businesses requiring corporate travel to be at the back rather than front of the plane, the taking of day trips rather than overnight stays, or the need to use budget hotels rather than a more pricey option.

When analysing outgoings other activities that may come under the spotlight include the hosting of or attendance at conferences which are deemed to be more 'nice to do' than 'must do' in nature, with possible outcomes being smaller scale events, fewer overnight stays before or after events or turning 'Away Days' into 'Stay Days' by utilising on-site facilities rather than hiring venues. The good news in 2008 for inbound business tourism was that trips to trade fairs and exhibitions in fact increased by 15%, while visits to conferences or large meetings declined by 5%. In contrast 'routine' inbound business tourism visits fell 10%.

## **Dead cat bounce**

There is a good chance that year-on-year comparisons for both inbound and overnight domestic business tourism will show a positive trend during the early months of 2010 simply because the situation was so poor in early 2009. The big question is whether or not there will be a sustained recovery in the volume of business tourism.

There are a number of reasons to be cautious in our outlook. While world trade is likely to pick up, thereby generating additional business travel, many corporates are still struggling to make ends meet so travel budgets look set to remain hard-pressed for some while yet. Indeed, according to a recent report published by American Express two-thirds of European corporates have cut their travel budgets during 2009 with the average reduction (among those cutting spend) being 31%.

Although less in the news during the early part of 2009 the Copenhagen Climate Summit has ensured that environmental considerations can only impact more on business travel behaviour in the future than has been the case in the past. There are a number of forces at play here, including pure financial considerations given the likely imposition of carbon taxes to deter unnecessary travel, but also 'corporate citizenship' issues. A focus on corporate travel behaviour by the media is one consideration, but a far more powerful constituency that businesses will want to take note of is public opinion in relation to business travel. Businesses may reduce the carbon footprint of their travel through making fewer trips, but equally by amending travel policies in relation to mode of transportation, class of travel or types of accommodation used.

Advances in technology are another reason to believe that business travel volumes are not likely to enjoy a strong renaissance any time soon. While face-to-face meetings remain crucial in many instances there is little doubt that video-conferencing technology is improving and becoming more affordable, while webcams are increasingly commonplace for less set-piece discussions where visual interaction is desirable.

We discuss the emerging competition when it comes to hubs for international business tourism at the end of this edition of Foresight, but suffice to say this is very definitely a reason to prepare for a sustained period during which the UK may not enjoy the rates of business tourism growth that have been apparent in the past quarter century.

Certainly emerging destinations can point to lower labour costs than is the case in the UK, but a new risk that has become apparent in recent months is the spectre of far tighter controls on the UK Financial and Business Services sector to prevent a repeat of the 2008 financial crisis that are not mirrored in other parts of the world, most notably Asia and the Middle East.

In summary then while over the longer term a return to growth in global trade and economic activity will help restore growth in the volume and value of business tourism to and within the UK, the step change that took place in the final few months of 2008 is likely to take several more years to work itself out of the system.

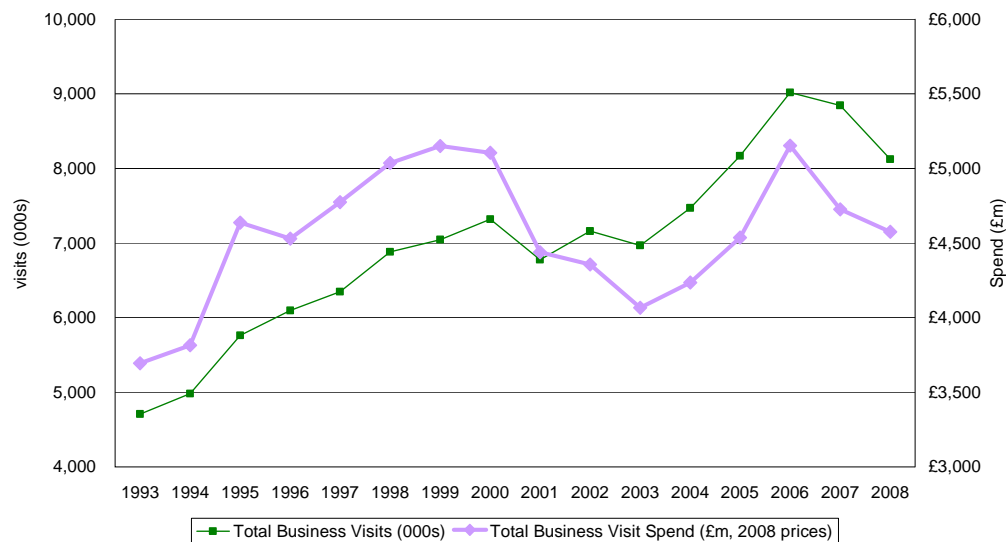
## **The inbound picture**

According to the Office for National Statistics International Passenger Survey<sup>1</sup> 8.1 million inbound business visitors came to the UK in 2008, generating £4.6bn for the UK economy,

equivalent to 25% of all visits and 28% of inbound visitor spending. These figures demonstrate just how vital business travel is to our visitor economy, and the importance of ensuring that it is not only holidaymakers who leave Britain having had an excellent experience – if a business visitor leaves with a positive impression then there is every chance they will return at a later date for a holiday.

The following chart shows how inbound business tourism has performed over the past sixteen years, and we can see that the number of visits witnessed a steady increase in the period to 2006 but with a sharp reversal of this trend in 2007 and 2008. As we saw earlier 2009 brought further steep falls in business tourism volumes. The picture for inbound business visitor spending (adjusted to 2008 prices) is more complicated; spending in 2007 and 2008 fell in real terms, and we need to look back to 1999 for the 'record year' for inbound business visitor spending.

**Inbound business tourism trends**



A key driver of this declining spend in real terms relates to how long each business visitor is staying in the UK, back in 1993 each visit lasted an average of 5.1 nights, whereas in 2008 it was 4.3 nights.

**Top markets**

Britain has always been one of the world's great trading nations so it is little wonder that, according to IPS figures, business visitors arrived on our shores from no fewer than 134 different countries in 2008.

The table shows that Germany accounted for the most business visits with 930,000 trips, or one-in-eight of all business visits, but Britain welcomed more than 100,000 business visitors from a total of seventeen countries, including three long-haul markets; USA, India and Canada.

	Final 2008 figures	
	Business visits	% of all business visits
Germany	939,552	12%
France	810,213	10%
USA	750,802	9%
Irish Republic	613,095	8%
Netherlands	612,380	8%
Poland	505,436	6%
Spain	379,351	5%
Italy	375,034	5%
Belgium	338,673	4%
Switzerland	211,133	3%

## But who can be influenced?

One question that VisitBritain sponsors on the International Passenger Survey enables us to look in a bit more detail at different categories of inbound business

	Final 2008 data				
	Visits (000s)	Nights (000s)	Spend (£m)	Spend per visit, £s	Spend per night, £s
Trade Fair/Exhibition	325	1,243	277	850	223
Conference/Large Meeting	1,111	4,184	814	733	195
Other Business	6,688	29,423	3,485	521	118
All Business Visits	8,124	34,850	4,575	563	131

trips, including those visiting Britain to attend a conference or large meeting, or attend a trade fair/exhibition. It is evident from the table that although representing a minority of the business tourism sector these visitors spend much more per night, and per visit, than those coming to the UK for a run-of-the-mill business visit.

Clearly it is easier to influence those attending a conference, trade fair or exhibition to either extend their stay, or undertake leisure activities during their visit than it is those who are in Britain for other types of business trips.

Looking at the top markets for these types of business visit we discover that Ireland tops the table for visits to attend a trade fair or exhibition, but it is the USA, with almost 140,000 visits, that leads the pack for visits to attend either a conference or large meeting.

Final 2008 data, top markets			
Trade Fair / Exhibition		Conference / Large Meeting	
Irish Republic	34,108	USA	138,225
Germany	31,748	Germany	126,852
France	26,812	France	98,056
USA	26,536	Netherlands	88,766
Italy	26,226	Irish Republic	59,172
Spain	23,190	Belgium	47,624
Sweden	14,257	Spain	45,715
Denmark	14,012	Sweden	45,117
Belgium	12,679	Italy	43,358
Netherlands	11,181	Switzerland	40,019

This is an area where marketing activity can help Britain win the battle to host more such events and VisitBritain's 'MeetBritain' publication is firmly aimed at meeting, incentive and conference organisers, inspiring potential buyers about the range of possibilities and destinations available in the UK for the business the traveller.

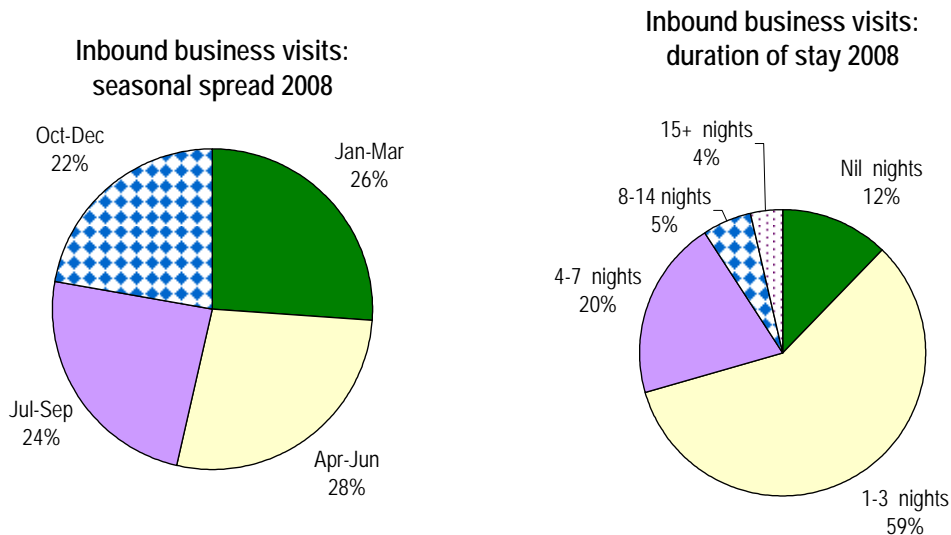
## Truckers

Visitors arriving in the UK onboard a Eurostar train will see plenty of articulated vehicles heading to and from Channel ports or the Channel Tunnel from their train window, and many of these trucks will be being driven by an overseas resident who, in terms of International Passenger Survey terminology at least, counts as an inbound business visitor, highlighting the fact that it would be a mistake to assume all business visits involve sharp suits and laptops.

According to IPS figures for 2008 an estimated 1.3 million inbound business visitors (that is 16% of all business visits) were in reality truckers, with one-in-four of these (370,000) having Poland as their country of residence. This is a group of business visitors whose key priority is to get from A to B, and back to A again, and is highly unlikely to spend very much money in the process.

## When and for how long?

Traditionally the final three months of the year accounts for more business visits than earlier quarters, but as can be seen from the following chart 2008 was very much an exception to this rule. There is no reason to suppose that this change is permanent, it is simply a coincidence of timing, with the global economic crisis resulting in a significant downturn in business travel in the final three months of 2008. From the second chart we observe that one-in-eight inbound business visits does not involve an overnight stay, and that almost 60% last for between one and three nights.



## Bags

With so many business visits being of short duration it is little wonder that many business travellers are keen to avoid the hassle of checking in bags (74% of all business visits were by air in 2008) and the imposition of a 'one bag rule' for security screening at UK airports in August 2006 may be partly to blame for relatively weak growth in business tourism in 2007. This rule has been progressively relaxed since early 2008, but those carrying laptops continue to face extra scrutiny.

## The domestic picture

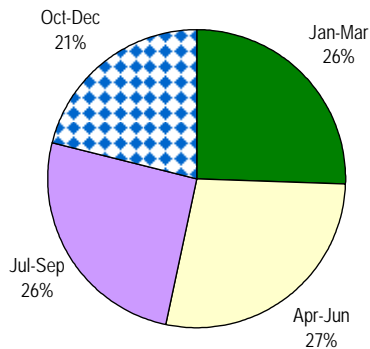
Data from the United Kingdom Tourism Survey indicate that in 2008 UK residents took 19 million overnight business trips (16% of all trips), spending £4.6bn in the process (22% of total spending). Average expenditure per trip and per night for business trips compares favourably with the figures for all domestic trips (£179 and £56 respectively). It is not a surprise that average trip length is rather lower than that for all trips (2.4 nights versus 3.2 nights).

Domestic overnight trips by UK residents in 2008	Travel / transport		Total
	Business	is my work	
<b>Trips (000s)</b>	18,199	734	18,933
<b>Nights (000s)</b>	42,876	1,736	44,612
<b>Spend (£m)</b>	4,483	128	4,611
<b>Spend per trip £s</b>	246	174	244
<b>Spend per night £s</b>	105	74	103
<b>Nights per visit</b>	2.4	2.4	2.4

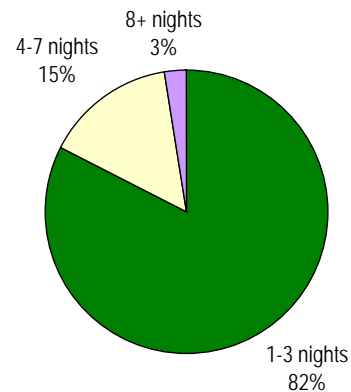
## When and for how long?

The seasonal spread of overnight domestic business trips within the UK during 2008 was, as was the case for inbound business trips, influenced by the onset of the economic crisis in late summer. The dominance of short-stay business trips is even more pronounced for domestic than inbound business visits, with the second pie chart showing that more than four-in-five domestic overnight business trips lasts for between one and three nights.

Domestic overnight business visits:  
seasonal spread in 2008



Domestic overnight business visits:  
duration of stay



## Not the whole picture

Our understanding of the true scale of business tourism is limited by the fact that unlike the International Passenger Survey for inbound business visitors there is currently no reliable method for capturing information about 'same day' domestic business trips. The problem is not simply that there is currently no survey collecting this information, but there is also no hard-and-fast rule about what would and what would not constitute a 'tourism' business day visit.

For leisure tourism day visits the rules are that the trip should not be taken regularly and should last for more than three hours. These are not necessarily the appropriate parameters for classifying 'same day' business trips, as for example we would want to include a trip made by someone from Manchester to the Best of Britain and Ireland Travel Trade Forum at Olympia in March 2010, but would probably not want to include occasional trips by a retailer in Sheffield to meet with a supplier in Leeds, even though in both cases the trip is not undertaken regularly and does last for more than three hours.

## An Olympic opportunity beckons

Much has been written about the potential tourism benefits of the London 2012 Olympic and Paralympic Games, and it is not all about holiday visitors and sports tourism. An Oxford Economics report commissioned by VisitBritain and Visit London in summer 2007 indicated that, provided appropriate investment in, and delivery of, marketing and planning strategies, the tourism benefit to the UK of hosting the 2012 Games over the 2007-2017 period is forecast at £2.09bn (after an allowance is made for trip displacement), and could be as high as £2.88bn.

Oxford Economics estimate that more than a fifth of this tourism benefit will come from additional business tourism, equivalent to £433m at 2006 prices. The Pre-Games period is forecast to generate £343m, the Games period itself £70m and the Post-Games period £21m.

If as a result of the Games Britain wins the prize of hosting more international sporting events then there is every chance that the business tourism benefit will be rather larger than that estimated in the Oxford Economics study, and success at attracting a large number of Pre-Games training camps to the UK would further boost the figures.

So how, and why, might the Olympic and Paralympic Games benefit business tourism?

- Accredited and non-accredited media will flock to London (and the rest of Britain) to cover the Games, representing additional business trips that would otherwise not take place
- There will be a plethora of delegates visiting Britain in order to attend meetings arranged by The London Organising Committee of the Olympic Games (LOCOG) and International Olympic Committee (IOC)
- Coverage of the Games will not just happen, both domestic and inbound 'media planners' will send teams to recce the 'where', 'what' and 'when' behind the stories that will be covered during the Games
- The Games will provide an unrivalled opportunity to show the world just how good Britain is at planning and delivering major international events
- London 2012 will be a catalyst to improve transport infrastructure, conference facilities and media facilities, all of which are vital ingredients in the fiercely competitive battle to be a leading international business destination
- An opportunity will exist to bring leading industry figures from The Games' global business sponsors to the UK to whom we can showcase the quality of our business product and organisational expertise
- Taking place in July and August the Games will boost business tourism at what is normally a fairly 'quiet' time of year for this type of travel
- The Paralympic Games will provide an opportunity to demonstrate that Britain and London is 'open to business' for everyone
- Many non London and non-UK businesses are involved in the construction of Games facilities and this will generate huge opportunities for additional overnight and same-day business trips associated with project management

### Emerging competitors

Looking beyond the current economic turmoil a more sustained threat to the pre-eminence of London as one of the world's leading centres for business tourism is the growing challenge from elsewhere. Cities such as New York and Frankfurt have been competing against London for the HQ's of global businesses for many years, but as with the wider global economic situation the focus is shifting from west to east and increasing numbers of businesses are looking to Mumbai or Shanghai for their new home.

Despite the immediate economic challenges and the longer-term threat from emerging destinations the UK still has one of the most dynamic business tourism sectors of any nation, and as we have seen business trips by inbound visitors and UK residents on overnight trips generated almost £9.1bn for the UK economy in 2008, which assuming that it takes about £43,000 of spending to generate an additional tourism sector job (based on estimates made by Deloitte) means that business tourism helps keep more than 200,000 people in employment.

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