



ECONOMIC RECESSION AND ITS IMPACT ON TOURISM

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Abstract

Travel is witnessing a drastic change from its old forms to new forms of doing business. The economic crisis along with the increase in the airfares has changed the way travel had been earlier. In many countries there is a decline in the number of people traveling whether for business or leisure purpose. With the word 'recession' floating around, companies are looking for ways to reduce spending and have tightened their travel budgets by cutting back on air travel, enforcing stricter travel allowances and substituting trips with web and video conferencing. It is a challenging economic time, and companies are looking at cost containment efforts across the board. They can't stop traveling entirely, so they are looking at ways to travel efficiently, to generate sales and revenue by traveling wisely. Due to the high cost of travel, many professionals are forced to limit both maintenance and repair efforts to a few scheduled onsite visits. One reason travel and entertainment budgets get the axe ahead of other cost-cutting measures is because these are simple steps companies can take to control the cost of business immediately. Making

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flight bookings well in advance, choosing restricted airfares and sticking to the same airlines or hotel chains as much as possible are some ways to lower corporate travel costs. This article is an attempt to understand the impact of economic recession on tourism and hospitality industry and explores various ways to handle the situation.

Tourism industry has been suffering the economic downturn erupted from the United States of America and spread across the world. Economic recession also had a much greater effect on leisure tourism and business travel. The economic crisis has changed the way travel had been earlier. In many countries there is a decline in the number of people traveling whether for business or leisure purpose. As a result of the economic crisis of 2008, international arrivals to India suffered a strong slowdown beginning in June 2008. Growth from 2007 to 2008 was only 3.7% during the first eight months of 2008. The Asian and Pacific markets were affected and Europe stagnated during the summer months, while the Americas performed better, reducing their expansion rate but keeping a 6% growth from January to August 2008. Only the Middle East continued its rapid growth during the same period, reaching a 17% growth as compared to the same period in 2007. This slowdown on international tourism demand was also reflected in the air transport industry, with a negative growth in September 2008 and a 3.3% growth in passenger traffic through September. The hotel industry also reported a slowdown, as room occupancy continued to decline. As global economic situation deteriorated dramatically during September and October as a result of the global financial crisis, growth of international tourism is expected to slowdown in demand growth and is forecasted to continue into 2009 as recession has already hit most of the top spender countries, with long-haul travel expected to be the most affected by the economic crisis. The entire major corporate or industrial sector has stopped traveling to reduce the cost, as first preference was given to reduce travel to control the organizational expenses, which highly affected the travel industry as a whole.

Shubhra Tandon published an article on 'Financial crisis to affect inbound tourism' in *The Hindu Business Line* and said that the New Year and Christmas fervors in Goa and other foreign tourist destinations in India dampened this year, as a result of the financial crisis that had hit the US, and the inbound tourism in India slumped by 20-30 per cent in 2008 compared to previous year. As the fears of recession in the US and European economies mount, travel and holidays would be the last priority on foreign tourists' list. Forward bookings for the upcoming season had an impact of recession in US and people may defer travel plans due to recession. According to the experts in the industry the bookings were in line with their expectation but the bookings will be affected largely later. There will be a softening in inbound

leisure travel market from not just US and Europe but other places as well. The reason for slump is not just about what happened with Lehman and Merrill Lynch, people have lost money in stock markets across the world and travel is the last thing one could think about at the moment. This downturn might negatively impact the hotel bookings and occupancies as well, especially when Indian hospitality majors recently increased their room tariffs by 8 to 15 per cent as part of their annual review. The impact of slowdown will be severe on business travel. Experts views that if US stays under this financial crisis for long, it is going to have a negative impact on the hotel Industry in India. As peak season just started, currently there has not been a surge in bookings. But the impact can be monitored from October onwards. The Indian travel industry is already looking at an alternative plan. The inbound tourists from the US and Europe would get affected with the downturn, Asian economies like China, Korea, Japan etc are not impacted as much as that of western world. Despite global meltdown and the Mumbai terror attacks, Indian tourism industry registered an increase of 5.6 percent foreign tourist arrivals in 2008. The total number of tourists arrival in 2008, was 53 lakhs and 67 thousand. The country registered a growth rate of 14.56 per cent in the tourism sector as against the global growth rate of 6 per cent.

With the word 'recession' floating around, tech companies are looking for ways to reduce spending and have tightened their travel budgets by cutting back on air travel, enforcing stricter travel allowances and substituting trips with web and video conferencing. In this challenging economic time, companies are looking at cost containment efforts across the board. They can't stop traveling entirely, so they are looking at ways to travel efficiently, to generate sales and revenue by traveling wisely. Companies like those in the technology industry have clients all over the world. In these cases, they are looking at ways to keep travel costs as low as possible.

A survey conducted by *American Express* in November 2008 showed that there is a downward trend in corporate travel. The survey stated that over 70% of companies intend to reduce their travel budgets or keep them at present levels in 2009. On an average, respondents said they would be cutting their budgets by 12%.

The economic recession has affected the whole world with different intensity in different countries. India is a country with wide a range of economy consisting various sectors like services sector and manufacturing sector. The service sector that comprises of, Information Technology (I.T), telecommunication, health and finance is also affected. In India, the I.T industry was heavily affected by the crisis, because much of the businesses for these I.T companies were from the developed nations like U.S, Europe, and Australia etc.

A study was conducted at Bangalore to know the present changes in the travel patterns of the corporate travelers due to the global economic crisis, as most of the travel organizations in Bangalore were dependent on the I.T professionals. The study revealed much important information on corporate travel behaviors. The global economic crisis has affected all sectors of the industry in the world, which in turn impacted on the business of the tourism industry. There has been a large reduction in the air travel, Tour incentives, hotel bookings, etc. Due to the financial crisis there has been a large amount of cancellation of trips, air tickets, various events, meetings, conference, seminars, training programmes and all these makes business for the travel related organizations. Corporate travel is one of the major sectors, which are affected by this current scenario. Most of the corporate organization had cut short its travel patterns and expenses. Many organizations are cutting back on travel straight across the board, many are cutting back on internal meetings, and they are reducing international travel. Businesses are mandating pre-approvals for all discretionary travel and are considering or have already implemented coach-class travel for Europe. They are also telling employees to forgo limos and use smaller 'black cars' instead, and are asking same-sex employees to double up on a room whenever possible. The global technology companies plan to cut back on travel until the U.S. economy improves. Many companies are starting to rely on travel alternatives like web conferencing and teleconferences, which could substantially reduce what a company spends on internal meetings. There was a vibrant change in the travel pattern and buying behavior of the travel products by corporate organizations by reducing the travel frequency. The corporate organizations have reduced the travel incentives to their employers. These changes have heavily affected the sales of the travel and tourism organization leading to reduced bookings of business class hotels, low sale of air tickets and package tours etc. They have even reduced in the number of destination traveled to as compared to situation before the crisis. The companies have reduced the expenditure spend on travel, few companies have asked the employees to travel in economy class and to avoid business class on their flights. It is also necessary to get special approvals from the superiors before taking up travel. There has been a reduce in use of air travel as compared to the situation before crisis and number of people taking up rail travel is still low, but there has been a slight increase during the crisis. Bangalore the IT capital of India is one of the cities to be hit the most by the economic crisis. In order to cope with the economic crisis, the companies can adopt some value added services like efficient travel management. Here the travel consultant can suggest the most appropriate carrier and routing to minimize the cost. And if the travel management companies minimize the travel expense, they can be given some kind of incentives. Another suggestion to reduce the cost is to encourage executives to be loyal with the carrier and hotels and to strike corporate deals.

According to a recent corporate travel spending survey by the Association of Corporate Travel Executives (ACTE), 33 percent of the 131 companies surveyed indicated they would be spending less on travel next year and 31 percent said they would be spending the same — but those spending the same amount would ultimately be traveling less as the cost of travel has climbed significantly.

The latest edition of the UNWTO World Tourism Barometer confirms the rapid slowdown of international tourism growth since mid 2008, reflecting the impact of rising oil prices at the beginning of the year and the deterioration of the economic situation as well as of consumer confidence in recent months. UNWTO expects 2009 international tourism to be in the range of 0% to a 2% decline. Along with the Americas, Europe will be the most affected region in terms of overall tourism results as most of its source markets are already in, or entering into, recession. In Asia and the Pacific results are expected to be positive, although growth will continue to be much slower compared with the region's performance in recent years; the same applies to Africa and the Middle East. The slowdown in advanced economies, which are facing a contraction in gross domestic product for the first time since World War II, is already spreading to major emerging markets such as China, India, and Brazil. Despite the general deceleration, in 2008 several destinations around the world showed very positive results in all world regions, - notably Honduras, Nicaragua, Panama, Uruguay, the Republic of Korea, Macao (China), Indonesia, India, Egypt, Lebanon, Jordan, Morocco and Turkey. Traffic to closer destinations, including domestic travel, is expected to be favored as compared to long-haul travel. It is also reported that grounded by the diminishing value of the pound and fears about the recession, record numbers of Britons will choose to holiday at home this summer. New figures suggest that 2009 could be a bumper year for British tourism. Segments such as visiting friends and relatives, repeat visitors, as well as special interest and independent travelers are expected to be more resilient. The decline in average length of stay as well as on expenditure is projected to be more pronounced than in the overall volume. Destinations offering value for money and with favorable exchange rates have an advantage, as price becomes a key issue. Companies should concentrate on containment of cost in order to keep their competitive edge. More than ever, it is necessary to closely work together in the tourism value chain, between public and private sector and destinations with trade.

The global recession has created a large number of job cuts in services, manufacturing as well as in the tourism sector. Tourism sector is the part of the service sector, but the tourism industry is dependent on all other sectors where the recession of other sectors slowed down the growth of tourism industry. Employment figures in the industry have reacted more slowly to the crisis but the negative effects

will be longer lasting. Employers at first hesitated to reduce staff levels, although reducing cost on personnel shorter hours. The common tendency, particularly in the service sectors, is for staff lay-offs to be partially compensated by increased productivity. Consequently, the longer the crisis lasts, or the slower the industry recovers, the more jobs are lost irretrievably. Employment numbers in the tourism sector do not react immediately to a decrease in business. Because the special characteristics of employment relationships in the sector allow for some labour cost reduction to take place before workers finally become unemployed. Flexible working arrangements such as part-time or on-call working are common for at least one quarter of the labour force and help to avoid their complete unemployment in a business crisis, although with reduced income. Employees accounting for almost another quarter of the total have full time. However, the temporary employees are the first victims of formal unemployment when reducing their working time and income. However, employers usually hesitate to reduce their core trained staff. Only if a crisis persists, businesses tend to re-structure and workers are eventually laid off permanently. Jobs then remain lost, even in times of recovery.

Tourism demand has undergone structural changes in the re-distribution of demand between countries and regions. Leisure destinations located close to important markets have prospered. Domestic tourism has made a difference. For example, the traditional tourist inflow from the US and Britain has been affected. Many of the 5 million foreign tourists who came to India in 2007 were from the US and Britain—among the hardest-hit countries in the global economic slowdown. Long-distance international air transport has suffered more than international tourism in general due to increased short distance trips across borders; business tourism and conventions and luxury hotels. Cruises during the winter season were particularly affected, while social tourism, rural tourism, rail and road travel made gains.

The research findings of a study in Turkey revealed that neither the government nor private organizations had any plans for dealing with the crisis before or after the event. It had both negative and positive impacts although its benefits were often overlooked. The overall implication of the study is that national culture, the level of economic development of a country, the availability of financial resources, and the ability and knowledge of its government officials and managers of private firms has a direct impact on how such an event is responded to and managed. The Govt. of India conducted a detailed survey across all major cities to come out with a solution to tackle the problems faced by the industry due to economic recession. The organizations are taking major precautions in order to overcome the present scenario. Efforts are on to promote Indian tourist spots in Asian and African countries. The Indian tourism industry could compete with other countries, particularly South East Asian countries and Sri Lanka, if the authorities reduce the tax on the

hospitality sector. National tourist authorities and tourist boards, as well as the tourism industry itself - at local and national levels - have reacted in a number of ways to counteract the negative impact of the crisis and to make their destinations more attractive to customers. In many cases, special committees were set up to deal with the situations during recession. Partnerships were established between the private sector and public authorities to tackle problems of financial bottlenecks, e.g. the funding of marketing campaigns or the prevention of bankruptcies in the sector will also help to deal the situations. The other measures taken range from price reductions introduced by individual enterprises in the areas of travel, hospitality, tour operating, culture and recreation, to large-scale advertising campaigns by tourist authorities. These have often depended upon substantial injections of finance by both the industry and governments. Remarkable measures were taken to stimulate consumer demand and support the industry by sectoral bodies, including national tourist boards and ad hoc committees composed of tourism authorities and industry representatives in public-private partnerships. Governments have been participating financially in advertising campaigns, quality improvement programmes, tax relief schemes, or the granting of subsidies to small and medium-sized enterprises (SMEs).

Conclusion

The various articles published in the journals as well other reports from the outside sources and the research shows that there has been a heavy change in the business scenario. The present global slowdown adversely affects the growth of tourism sector. The general economic constraints continue to force consumers to apply various types of saving measures such as avoiding air transport, choosing cheaper destinations, staying for shorter periods of time, and booking late. Another point worth noting is that developing countries are not benefiting proportionately from any recovery in leisure tourism because of their heavy dependence on foreign tourists, and particularly on long-haul tourists. Corporate travel professionals are not expecting to see a recovery in business travel for at least another year. Although in terms of numbers, business travelers may account for no more than one-fifth of the total traveling population, they contribute nearly one-half of the industry's total revenue because of their high frequency of travel. It has been observed that, in light of the economic downturn, travel managers of corporations and businesses are moving to re-negotiate contracts in order to reduce business travel costs. Though certainly not immune to the economic woes, tourism has initially resisted the economic downturn better than other economic sectors, such as construction, real estate or car manufacturing and is expected to face the problems effectively with the integrated efforts from all stakeholders of the industry.

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