PART FOUR

Travel and Tourism
The Hospitality Industry
CHAPTER THIRTEEN

Tourism: Front and Center

The Purpose of this Chapter

Travel and tourism at the local, state, national, and international levels are vital to the health of our economy as well as that of the hospitality industry. Indeed, tourism is big business and continues to grow in North America and worldwide. The economic and social impacts of tourism are significant, and this chapter discusses both of these dimensions.

This Chapter Should Help You

1. Describe the important impact of tourism on local and national economies.
2. List the factors contributing to the growth of travel and tourism, and explain their impact on the industry.
3. Identify current trends in mode of travel and trip duration.
4. Provide statistics supporting the importance of tourism in generating employment.
5. Explain why international visitors to the United States are an important means of improving the balance of payments and receipts, and how tourism affects international trade.
6. Identify major businesses outside the hospitality industry that service travelers, and explain the trends that are changing the way they do business.
7. List the noneconomic impacts of tourism, both positive and negative.
The Importance of Tourism

The importance of tourism to the hospitality industry is obvious. Some parts of the industry, such as hotels, derive almost all of their sales from travelers. Even food service attributes roughly 25 percent of its sales to travelers. Moreover, many leisure-oriented businesses with a major food service and hospitality component, such as theme parks, are also dependent on travelers.

The importance of tourism to the hospitality industry is increasing each year. As employment in smokestack industries—that is, manufacturing—continues to fall, the service industries, including those businesses serving travelers, must take up the slack by providing new jobs. Tourism, then, is central not only to the health of the hospitality industry but also to the economy as a whole.

The tourism industry is the collection of productive businesses and governmental organizations that serve the traveler away from home. These organizations include restaurants, hotels, motels, and resorts; all facets of transportation, including rental cars, travel agents, and gasoline service stations; national and state parks or recreation areas; and various private attractions. The industry also includes those organizations that support these firms’ retail activities, including advertising companies, publications, transportation equipment manufacturers, and travel research and development agencies.

Tourism is made up of many varied businesses. (Courtesy of Las Vegas Convention and Visitors Authority.)
Factors Affecting Travel and Tourism

Travel and tourism are as American as baseball, hot dogs, apple pie, and the interstate highway system. Figure 13.1 illustrates the growth in domestic travel from 1994 to 2002 to a level of over 1 billion person-trips. (A person-trip is defined as one person taking one trip. If two persons go on that trip, that equals two person-trips. A trip is any travel 100 miles or more away from home.) That is an increase of over 8 percent since 1994. In addition, Americans took over 23 million trips overseas in 2002. With domestic travel, the main form of travel is by auto, truck, and RV, which, together, account for 75 percent of all trips. There are also numerous transportation industries—air, rail, and bus—that help move travelers and are allied with the hospitality industry in tourism.

Moreover, tourism growth continues to be fueled by more leisure time (among certain age groups), rising family incomes, and the favorable demographic trends we have discussed in earlier chapters. We will look briefly at each of these factors.

Growing Leisure Time?

The debate about whether Americans have more or less leisure time than they had in the past rages on. One source indicated that the average household put in 500 more hours at work in 2000 than it did in 1980. Indeed, the trend seems to have been an increase in work for most people for most of the last two decades. Indications are that this is changing, though. In the annual Harris Poll Work and Leisure Poll, which asks respondents about work and leisure habits, it was found that the average number of hours worked per week in 2002 dropped from 50 hours to 47 hours, representing the first de-

Figure 13.1
crease since 1997/1998. At the same time, the median number of hours spent on leisure activities has remained essentially unchanged since 1989, at 20 hours per week.3

Over the last several years, many companies’ vacation policies have become more liberal, and the number of legal (and paid) holidays has increased. This latter point is significant in that more of these are timed so as to provide three-day weekends. At the very least, Americans take their leisure time as seriously as ever, and this impacts how they spend their time, where they go, and how much they spend.

**Income Trends**

The two-income family has become a major factor in travel. The majority of women today expect to work outside the home. A two-income family not only increases total family income but also adds to the family’s security: If one spouse loses a job, that does not eliminate all of the family’s income. One scenario suggests that a portion of women leave the workforce for a period of time at the birth of a child, and many women return to work only on a part-time basis while young children are still at home. For those committed to a career outside the home, however, the ultimate intention is to return to full-time work. A further element of stability to family incomes today is the fact that if a husband loses his job or otherwise suffers an economic reversal, young mothers can and will expand their working commitment outside the home earlier than they may have originally intended.

Two-income families are not all well-to-do “yuppies” (young urban professionals). Many families pool two modest incomes to support a comfortable lifestyle. Because
they are working to maintain a comfortable life, it is not surprising that they are dis-
posed to spend their money on the goods and services they want. They are good cus-
tomers—and even in bad times, they can usually maintain at least one income, mak-
ing the stability of family spending greater today than it was a generation ago.

Almost all two-income families have time pressures. When both parents work, the
household chores still need to be done and children must be cared for. This means
that many people may have to sacrifice leisure time for household and family main-
tenance chores. Therefore, when they do get away, time is at a premium, and they seek
“quality time.” Though sensitive to price/value comparisons, these travelers generally
seek good value for their money rather than low-cost recreational experiences.

DEMOGRAPHICS AND TRAVEL

As has been suggested in previous chapters, demographics play a role in con-
sumption and travel behaviors. As the population ages, much of it approaching mid-
dle age, there will be a tremendous impact on tourism. Middle age generally means
higher income and a greater propensity to travel. The age group that travels most,
whether for business travel or pleasure travel, are those age 35 to 44. This age
group is most likely to use hotels and to take longer trips (1,000 miles and over). Close
behind them are the 45-to-54-year-olds.

Another significant demographic development for tourism is the growth in the ma-
ture market, that is, people 55 and over. Growth in that population segment from 2006
to 2010 will be 27 percent. Although this group represents a smaller share of house-
hold income, people 55 and over control over half of household wealth. In fact, Amer-
ican Demographics states that average net worth is at its highest between 55 and 74,
an average of $500,000. In effect, their mortgages are paid and a large proportion of
them have a nest egg of savings and retirement benefits on which to draw. This puts
them in a position to be able to travel.

The pattern of growth in the mature market suggests two subsegments that will be
especially important. The 55-to-64 year-old group will grow by almost 15 percent be-
tween 2006 and 2010 (and a remarkable 44.3 percent between 2001 to 2010) as the
first baby boomers move into their mature years. This segment will be a very active
group of consumers seeking new experiences and learning to deal with extended
leisure, that is, the ability to take longer vacations as seniority increases vacation enti-
tlements and as retirement approaches or as early retirement permits. In addition, the
65-to-74-year-old age group will grow just over 13 percent during the same time period.
Among other things, these two age groups have the discretionary income as well as
the time to take extended holidays. Households in this age group already spend about
$17 billion a year on travel.
Travel Trends

The most frequent reason for travel is to visit family and friends. Other pleasure travel, for outdoor recreation and entertainment, is just behind that. All pleasure travel accounted for 77 percent of the 1 billion domestic person-trips taken in 2002. Business and convention travel accounted for another 12 percent.\(^8\) As Figure 13.2 indicates, travel sales vary with the economy but have grown (historically) somewhat more rapidly than the economy. On the other hand, after solid growth in the 1980s, business travel exhibited no clear trend, rising and falling from year to year. In the past three years, however, business travel has taken the hardest hit. Pleasure travel has been impacted by the Iraq war, SARS, and the recession, but business travel has suffered tremendously from post-September 11th effects as well as the lingering recession. Travel growth, then, is likely to come from pleasure travel, which has grown at a modest but steady rate each year. The effects of various events are explored more in Global Hospitality Note 13.1.

Mode of Travel

According to the U.S. Department of Transportation, automobiles are the most utilized mode of transportation, being used for almost 90 percent of all long-distance trips. Airlines are the second most frequently used means of transportation, and they are far and away the dominant common carrier, despite the effect that recent events have had. In fact, airlines are used more than twice as often as all other forms of public transportation combined. Further, they are the most utilized mode of transportation for trips of 2,000 miles or more. Travel by private vehicle is still the dominant

Figure 13.2
The first decade of the millennium has brought with it no shortage of significant events—each creating new challenges for the hospitality and tourism industries. September 11, 2001, was the most significant event and the one most still in Americans' collective minds. Before we discuss the impacts that this day had on our industry, though, we need to point out that its effects reached far beyond the hospitality and tourism industries. Attitudes and behaviors of Americans changed on that day. We continue to hear that people began to reassess their relationships, saw their families in a new light, were kinder to strangers, became more aware of (and concerned with) international events, and had improved feelings toward their fellow citizens. In addition, *American Demographics* reports that 80 percent of respondents indicated that their appreciation for their families increased as a result of that day, that safety and security of family have become more important and that people are seeking psychotherapy at a greater rate (as a way of dealing with the events).\(^1\)

That day affected families, businesses, educational institutions, nonprofit organizations, and governments. So, yes, the hospitality and tourism industries were affected, but it is important to see the larger picture.

With that being said, at this writing, the airline industry and the hotel industry have suffered the most and are still having serious problems. The terrorist attacks of September 11th had an immediate effect on travel, tourism, and the hospitality industry in general. It has been said, more than a few times, that this industry was the most affected by the events of September 11th. Consumer (traveling) confidence was shaken, and there were feelings of uncertainty surrounding personal safety and security. This resulted in immediate reductions in personal travel, which affected hotels, restaurants, and the like. To complicate matters, the United States was on the cusp of a recession, which only exaggerated and prolonged the effects. The U.S. airlines shut down in the days following September 11th—something that would be hard to recover from even under the best of circumstances. Some U.S. airlines still have not yet recovered. United Airlines and US Airways are both operating under bankruptcy protection, and most other major U.S. airlines lost a great deal of money between September 2001 and September 2003. Total travel expenditures by Americans dropped in the last quarter of 2001 and continued to drop in 2002 (compared to the previous years statistics). Travel to and from most countries dropped. Even tourism in the Caribbean (considered to be a “safe” destination) dropped by 10 percent in the last quarter of 2001. It should also be noted that airlines elsewhere in the world experienced problems at or around this same time, including Ansett (Australia), Swissair (Switzerland), and Sabena (Belgium). Internationally, it is estimated that the airline industry lost $13 billion dollars in 2002.\(^2\)

The results of the shutdown of airspace on September 11th were felt across the United States as well as globally. Some estimates suggest that global travel revenues dropped as much as 30 percent in the days and weeks to follow. Hotels saw decreases in all pertinent performance measures—occupancy rates, average daily rates, and RevPAR. These decreases occurred in most major destinations as well.

While September 11th has come and gone, concerns about safety and security remain. Further, the compounding effects of the lingering recession are all contributing to a very slow recovery. Tensions in the Middle East, war in Iraq, and new and misunderstood diseases are all being used as excuses not to travel. SARS is perhaps the most recent and best example of how an illness can create widespread con-

(continued)
SARS (Severe Acute Respiratory Syndrome) originated in China, and the first case was identified in February 2003 (but believed to have been first contracted in November 2002). From there it spread to Canada, Singapore, Hong Kong, Vietnam, and 13 other countries. The syndrome, which causes flulike symptoms, resulted in almost 800 deaths worldwide. In reaction, the World Health Organization (WHO) issued a global alert on March 15, 2003, recommending limiting travel to affected countries. The virus continued to spread until about July of that year. Even though most (new) cases were contracted from patients in hospitals, the public reacted with some concern. Travel to the SARS infected places was affected, and the economies of Hong Kong, Toronto (and other parts of Canada), and other travel destinations were severely impacted. Cities such as Toronto appealed to the federal government for financial assistance in the wake of decreased tourist revenues. It wasn’t until several things happened that the economic recovery began to occur. First, the WHO dropped its alert, then individual destinations began offering incentives, and finally, the simple passing of time helped matters tremendously. In the end, it is estimated that SARS cost Canada over $500 million, including lost hotel revenues, dining revenues, and actual health-related costs of dealing with the disease. Hong Kong, perhaps the hardest hit area, initiated a $1.5 billion plan to overcome the effects. KPMG reported that at the height of the SARS episode (April 2003), visitor spending was down over 70 percent from the same period in the previous year.

One result of recent security and safety issues has been the change in airport (and other transportation) procedures. One scholar has dubbed this the “hassle factor” of traveling. Indeed, given the lengthy waits in airports, the extra forms to fill out, the added cost of flying, and numerous personal searches during it all, some people are simply avoiding air travel altogether. Much will have to change to convince this segment of the population that flying is still worth the cost and aggravation. (continued)

form of travel for Americans, however. Air travel increased throughout the 1990s, as measured by revenue passenger miles (with the exception of a slight dip between 1990/1991 and again in 2001/2002). Air travel has also claimed an increasing percentage of overall passenger miles. When long-distance auto and air travel are compared, even though auto travel is the mode of transportation used for most trips, air travel accounts for 55.8 percent of all miles traveled (for long distance trips) and auto accounts for 42.6 percent of total miles traveled.

**Trip Duration**

As two working spouses in a family have become more common, vacations have become shorter. The typical vacation of the 1950s and 1960s was an annual event lasting 10 to 14 days. During the 1970s and 1980s, vacations, on average, were shortened to five to seven days, and taken twice a year. In the 1990s, the two- to three-day “miniva-
In light of all of these developments, the Harris Poll conducted a survey to determine the level of fear with regard to America travel plans and behaviors. The poll was conducted in May of 2003 and revealed some interesting results. Some highlights include:

- 59 percent of respondents feel that the risk to American tourists traveling outside of the United States is much worse or somewhat worse than it was three years earlier.
- Specific actions to reduce risk include fewer Americans planning to travel to Europe as a direct result of safety and security issues.
- Frequent travelers are more likely to reduce their travel as a result of the risk factor.

To sum this up, the business environment has changed for airlines, hotels, and all other services serving the traveler. Fear and concern, and altered travel patterns, are now an accepted part of the business landscape. Certainly, one result has been that Americans are taking shorter trips, closer to home, and often by automobile. Most operators have accepted the fact that it will be a long time before things return to “normal,” if it happens at all. It remains to be seen whether travel will reach the same level as pre-2001 or if the fear and hesitation will remain.


In total business receipts, tourism has consistently ranked second or third among all retail businesses. Only grocery stores—and, in some years, automobile dealers—have greater sales. The travel industry accounted for $528.5 billion in direct expenditures in 2002. Measuring the industry in terms of employment, as Figure 13.3 does, we see that tourism provides more jobs than any other industry except health care services. In 2002,
tourism provided 7.2 million people with employment. Tourism also provided various levels of government with tax receipts of over $93.2 billion.10

Although tourism currently accounts for over $500 billion in receipts in the U.S. economy, that is only a superficial, first-order measurement of travel importance. A travel multiplier measures the effect of initial spending together with the chain of expenditures that results. (For example, when a traveler spends a dollar in a hotel, some portion of it goes to employees, suppliers, and owners, who, in turn, respend it—

![The mode of travel has changed a great deal just over the last 100 years. (Courtesy of National Park Service.)](image)

Figure 13.3
and so it goes.) Figure 13.4 illustrates how the multiplier works in practice. Although the precise computation of the travel multiplier need not concern us, the final impact of the travel market for 2000 is estimated to be over $1 trillion.

**TOURISM AND EMPLOYMENT**

There is clearly a strong link between **tourism and employment**. Just over 1 in every 17 civilian employees is employed in an activity supported by travel expenditures. The travel industry contributes to job growth well in excess of its size. Employ-

![Figure 13.4](image-url)

ment in the last decade, as indicated in Figure 13.3, has consistently grown more rapidly than employment in the economy as a whole. Approximately one-quarter of food service employment can be traced to tourism, and a much larger proportion of hotel and motel employment serves travelers away from home.

**PUBLICITY AS AN ECONOMIC BENEFIT**

Communities often spend large sums of money to advertise their virtues to visitors and investors. They establish economic development bureaus to bring employers to town, and even offer tax incentives and low-cost financing. Aside from its direct economic impact, tourism also offers a chance to achieve many of these same benefits. That is, a tourist attraction brings visitors to a city or area, and they can then judge for themselves the community’s suitability as a place to live and work. A major tourist event in a city or region attracts huge numbers of visitors, often for their first visit to the area. Assuming the region has natural charms and man-made attractions, some visitors are likely to become interested in relocating there—or at least in making a return visit.

**The United States as an International Tourist Attraction**

Tourism is the world’s largest industry, accounting for over one-tenth of worldwide economic activity. In fact, according to the World Travel & Tourism Council (WTTC), tourism now accounts for 10.2 percent of total economic contribution. In
2003, world tourism spending was $4.5 trillion. By 2013, the WTTC estimates that spending will have reached $8.9 trillion. Such numbers perhaps boggle the mind as much as they enlighten it, but they are cited to help us grasp an important fact: The international tourism industry is, indeed, a huge set of businesses whose effects are worth taking the time to understand.

**Measuring the Volume**

There are two different ways to measure the volume of international tourism. **Arrivals and departures** measure the volume of people traveling; **receipts and payments** measure money spent. Dollar figures have the disadvantage of being distorted by fluctuating currency values, but to measure the economic impact, currency measures must be used. The best measure of activity, on the other hand, is the physical measure, arrivals and departures.

**Arrivals and Departures in the United States.** Figure 13.5 shows arrivals and departures to and from the United States. Total arrivals to the United States show some interesting fluctuations—they dropped between 1992 and 1995, and then rose again through 2000. The drop-off in the early 1990s can be attributed to a variety of factors but can be boiled down to one thing: the strength of the U.S. dollar against other currencies. Keeping in mind that much of the travel reflected here represents other North Americans traveling to the United States, the amount of travel is largely dependent upon how well the Canadian and Mexican economies are doing at any given time. The value of the Canadian dollar (against the U.S. dollar) declined between 1992 and 1995, resulting in less travel from Canada. Then in 1995, the peso crashed and this resulted in decreased travel from Mexico. There was a slight stabilization in 1996, which saw inbound travel
increase again. Then, the subsequent drop through 2002 was due to a variety of reasons, as discussed earlier in the chapter (and specifically in Global Hospitality Note 13.1). Just over half of total arrivals from year to year are from Canada and Mexico. A large portion of these are very short stays, many less than a day. In the end, over a near 20-year period, the number of overseas visitors has more than doubled (since 1988).

**The Travel Trade Balance.** From the end of World War II until the mid-1980s, there was considerable concern about what was then called the “travel gap,” the much larger number of persons—and travel dollars—leaving the United States than arriving here from foreign destinations. Even as recently as 1985, the number of Americans traveling outside the country was more than the number of foreign visitors, creating an unfavorable travel trade balance of nearly $9 billion. The travel trade balance turned in favor of the United States by 1989 and increased for several years. Since 1996, it has decreased in size but still remains in favor of the United States. Today, a favorable travel trade balance exists in the amount of over $5.5 billion, which is expected to increase over the next several years.13

**Reasons for Growth of the United States as a Destination**

One of the principal reasons for growth in travel to the United States is the world’s rising standard of living, particularly in Western Europe, Asia (particularly China), and Latin America. Moreover, the political changes in Eastern Europe led to a large percentage of growth in travel, although from a very low starting point. Another factor appears to be increasing competition among international air carriers, which has held fares down. In addition, as more people travel, more people want to travel. People hear about places from friends and want to go there. The United States also has the destinations, whether it be Disney World, natural attractions such as the Grand Canyon, or urban centers such as New York City and Washington, DC. International travel is seen less as a venture into the unknown and more as something everybody’s doing.

An important factor in international travel, and in the long-term growth of the United States as a destination, is currency fluctuation. Following World War II, the U.S. dollar was the strongest currency in the world. Other currencies were weak largely because those countries were recovering from war damage. By the 1970s, however, that recovery was complete, and other currencies gained against the dollar. In the 1980s, economic growth in many of these countries accelerated the trend. The cheaper dollar, then, made the United States a travel bargain, and travelers to the United States and travel spending increased dramatically. This factor is a double-edged sword. When Asian currencies crashed in 1996 and 1997, the visitor flow from those countries to the United States slowed appreciably. More recent fluctuations have had similar effects.
In the hotel industry, some properties in large cities with large numbers of international tourists attribute one-third or more of their occupancy to visitors from outside the country. Twenty-five percent of international visitors' budgets goes for lodging. Many hotels, responding to the needs of this market, are anxious to hire multilingual managers, clerks, and service personnel. Some hotels have also begun actively to promote foreign business through representation at travel trade fairs abroad and through solicitation of foreign tour business from travel agents. The importance of international visitors to restaurants is suggested by the fact that their second most popular recreation activity (after shopping) was dining and food and beverage purchases. Nineteen percent of international visitors' expenditures is for food and beverage. Nearly half of international visitors' spending, then, is accounted for by the hospitality industry.

Businesses Serving the Traveler

Passenger Transportation

Earlier, we looked at travel trends as a part of tourism. Here, our concern is to see travel as an allied industry that works with hospitality firms in serving travelers. You may recall that growth in travel by air has increased compared to travel by auto or other private vehicle. Bus travel has been increasing, while rail travel has declined. Bus and rail, in any case, account for only a small share of travel. The growth component in common-carrier travel, then, has been air. The growth of the airline industry during the last decade is detailed in Figure 13.6. The figure expresses growth in terms of (1) available seat miles, (2) revenue passenger miles, and (3) unused seat miles. Available seat miles is a measure of capacity, revenue passenger miles is a measure of volume, and unused seat miles is a measure of utilization. Keep in mind, however, that while revenues may be increasing overall, deep dips in airline sales volume can occur. Airlines, like most tourism industries, are very sensitive to the general economic climate.

Trends in Air Travel. The airlines have grown from an oddity in the transportation world of the 1920s, when only the daring flew, to the dominant common carrier Worldwide. Following deregulation in 1978, the number of airlines increased dramatically and competition became fierce on most routes. In order to achieve greater economies of scale, large airlines developed the hub-and-spoke system in the early 1980s. In this system, passengers are assembled at a central point—a hub—such as Chicago, New York, or Detroit by smaller aircraft that form commuter airlines. There they board larger aircraft that fly to another hub, from which passengers are distributed to their final destinations by the same feeder system. If large aircraft fly with effi-
cient load levels on high-volume routes, the **hub-and-spoke system** achieves the advantages of economies of scale.

On the other hand, there are some offsetting disadvantages to hub-and-spoke systems. Because of the complex schedules required to service such a system, traffic control and weather delays can create serious problems. Delays multiply through the system, increasing costs because of idle aircraft and personnel time—to say nothing of passenger annoyance. Moreover, the large investment in people and equipment at hubs raises the fixed costs for operators using the centralized system.

An alternative to the hub-and-spoke system is the short-haul airline, specializing in **point-to-point service**. In the mid-1990s, these short-haul airlines became more aggressive in both price and service. Point-to-point carriers manage short aircraft turnarounds, minimize staff, and hold down investment. As a result, they can offer lower fares and more frequent service, generally of the no-frills variety. As the point-to-point system has proved to have real competitive advantages, many of the larger carriers began launching no-frills, short-haul carrier subsidiaries that duplicated the shorter routes, limited service, and lower fares offered by short-haul carriers. One of the first and still most successful airlines using the point-to-point strategy is Southwest Airlines.

Deregulation also had the effect of encouraging greater price competition. There are literally hundreds of thousands of special fares—many available only for a short period of time, ranging from a few minutes to a few days. (Special fares generally appear on the computer network used by airlines and travel agents and can be discontinued at will by the carrier.) Almost all of these special fares are discounted fares, and the impact of dis-
Businesses Serving the Traveller

counting has been to hold down the cost of travel for cost-sensitive travelers. Most special fares, however, are structured so that they will not be attractive to the business traveler. Many, for instance, require travelers to stay over a Saturday night, a night when most business travelers would rather be home with their families. The effect of discounted fares has been to keep personal travel costs down while business travel costs rise. As a result, the volume of personal travel has been more buoyant than business travel.

Another significant development in air travel has been the growth of partnerships between airlines, generally airlines with noncompetitive route structures. These partnerships offer advantages to both customer and airline through the practice known as code sharing, whereby airlines share marketing and operating expenses over a route structure that is larger than either of their individual routes. As an example, consider the alliances that exist between international carriers. One such arrangement is the Star Alliance, which includes a partnership between Air Canada, United, and Singapore Airlines, among others. Through code sharing, the airlines can sell tickets on the same aircraft, whether it is operated by United, Air Canada, or any one of the other partners. Each airline will have a flight number designating that flight, say, United Flight 1 and Air Canada Flight 001. When the passenger goes to the terminal, he or she will be directed to the same aircraft by both airlines—with a simple explanation if the passenger has any questions. This permits the airlines to achieve a higher load factor. The term “load factor” refers to the percentage of seats sold and is analogous to occupancy in the hotel business. Like the hotel business, airlines are a low-variable-cost, high-fixed-cost industry. As a result, efforts that raise the efficiency of their use of resources have a pronounced favorable effect on profits. Overall, with regular rises and falls, airline load factors have been increasing. The biggest factor in this improvement, however, has been the reduction of overcapacity that existed in the early 1990s.

Another aspect of partnerships is that, by means of code sharing, airlines can quote through fares, which are substantially less expensive than two separate tickets would be. Thus, Northwest can quote a fare from Minneapolis to Antwerp, Belgium, working with its partner KLM. In all probability, passengers will travel on both Northwest and KLM but use the same ticket. This makes each airline more attractive in its own origination markets while adding passengers to each other’s aircraft to achieve higher load factors. Notice, too, that because they can both advertise this “better deal” of a through fare, they share marketing expenses as well as aircraft. The increased efficiency is passed on, in part, to the customer with the lower through fare mentioned a moment ago. Another feature that is attractive to passengers is that frequent-flyer miles earned on both airlines can apply to the frequent-flyer program of the passenger’s choice. Code sharing is under active consideration between airlines whose principal routes are in the United States, but questions of antitrust regulation and acceptance by the unions must be resolved.
The Infrastructure Crisis. What is likely to interfere with the growth in air travel and ultimately retard or even halt it is the infrastructure crisis. Air transport congestion is one potential problem. Airports all over the world are trying to address this issue through expansion, upgrading, and redesign. This overload is even worse in Europe and approaching critical proportions in much of Asia. New airports are being built in large metropolitan areas. It is not unusual now for a major city to have two, or even three, major airports.

CHANNELS OF DISTRIBUTION

In lodging, the emergence of channels of distribution as a significant factor is a relatively new development (see Chapter 12). On the other hand, in other industries, distribution channels have long been a fact of business. Those who manufacture consumer goods have several layers of businesses between the manufacturer and the final customer. Some of these intermediary businesses and agents are wholesalers, manufacturer’s representatives, and brokers. Typically, these intermediaries move the product from the manufacturer to the retailer, who then sells to the final user, the retail customer. Although much of the hospitality industry is made up of retailers who provide goods and services directly to the customer, the travel agent and tour operators represent an important channel for many hotels, as well as for other tourism operators.

Travel Agencies. The Office of Travel and Tourism Industries defines travel agencies as follows: “Travel agencies make travel reservations for the public and sell transportation, lodging, and other travel services on behalf of the producers of the services. They are retailers: they sell travel services provided by others directly to the final customer.” As we speak, the role of travel agencies is changing. Commissions are dropping (or being eliminated entirely), consumers are doing more of their own travel planning, and travel agencies are becoming more specialized, focusing on niche markets. Some of the basic services offered by travel agencies, as well as some more current issues, are discussed below.

Although the large travel agencies are the most visible, the smaller agencies with gross billings (i.e., ticket and travel package sales) under $2 million annually still constitute the largest majority of agencies. In total, there are an estimated 23,000 agencies (as associated with the Airlines Reporting Corporation). This doesn’t begin to reflect how many businesses there are that offer travel related services, though. American Express, Carlson Wagonlit Travel, and Navigant International are the three largest “traditional” travel agencies. Expedia, Travelocity, and Orbitz (all “online” travel agencies) are also in the top ten in terms of sales. Online travel agencies now account for just
over 10 percent of travel agent revenues but continue to grow at the expense of traditional travel agencies. The lines between traditional agencies and online agencies are becoming blurred, though, with more and more traditional agencies offering online services as part of their overall services. Even with the decrease in potential commissions from the sale of airline tickets, travel agents still book over 70 percent of all airline tickets. They sell a higher proportion of cruises and packages—lower rates for hotels (about 25 percent).

Smaller agencies have been hit especially hard by the airlines’ cutback in the commissions they pay travel agencies, from 10 percent to 8 percent to none at all in some cases. Many of the larger U.S. airlines stopped paying commissions in March of 2002. Agents continue to collect commissions for sales of other types of sales, however, and earn income from either incentives from airlines (for selling a certain volume of tickets) or from charging service fees to customers (an average of about $25 per ticket). Although airline commissions have been reduced, hotel, tour package, and cruise line

Travel agents have played a large part in the growth of the cruise industry. (Source: Radisson Seven Seas Cruises; courtesy of Carlson Cruises Worldwide.)
commissions, which range from 10 to 15 percent, encourage travel agencies to devote more of their efforts to selling those products to travelers. Many agencies earn more overall through the sale of these activities than they do from the sale of airline tickets. Travel agents not only make reservations and sell tickets but also sell packaged tours. About one-fifth of their sales of leisure travel are packaged tours. It’s clear that travel agents have considerable influence on the consumer and, thus, on the sales of other firms serving travelers. A majority of pleasure travelers, for instance, seek the advice of their travel agent on hotel selection, package tour choice, and car rental. Roughly 60 percent of business travelers use travel agents to make their travel arrangements. Travel agencies have had to adjust to the decreased margins in the travel industry by offering solutions to their customers. Some have repositioned themselves as “travel consultants,” essentially charging for offering travel advice rather than selling tangible products. One example of how a travel agency “reinvented” itself is the Rex Travel Organization in Chicago. Rex Fritschi, the owner of the company, is a well-traveled veteran of the industry. When he began to notice the changes taking place in the travel planning industry, he began to change what he offered customers. Instead of just offering his customers tickets and brochures of destinations, he now allows customers to tap into his personal knowledge base of some 144 countries that he has visited. He now runs something closer to a travel consultancy—charging customers for inside knowledge of an area, travel tips, and even providing local contacts. Similar agencies offer the same services but to niche markets. One company in New York only offers its services to professional tennis players. The business of providing travel consultation is a growing field—travel counselors can even earn a professional designation now.15

**Travel wholesalers** and tour brokers represent another segment of the industry. Brokers and wholesalers arrange to purchase space and services from all of the firms that serve travelers—carriers, hotels, restaurants, and attractions. Then they sell the services of these firms to the consumer, generally through retail travel agents in return for a commission on those sales. Travel wholesalers such as American Express often retail their own tours, but they also work with the retail travel agencies that sell the tour packages to customers in their local markets. Carriers (such as airlines and bus and rail operators) also have their own tour operations and act as wholesalers of package tours. Tour wholesalers purchase services at deep discounts. They make their package attractive by offering a retail price that is still significantly less than the cost of all the package elements if the traveler purchased them separately. Even after this discount, both the tour broker and the retail travel agent have a margin for their operating costs and profit.

Hotels (especially resort hotels) often profit handsomely from their associations with travel agencies. In return for the commissions they pay these agencies, the hotels have their properties represented in many communities. The travel wholesaler, too,
can be important to hotels, because a listing in a wholesale package guarantees a listing with all of the wholesaler’s retail affiliates. Some hotels, however, avoid travel agent representation and the accompanying commissions if it produces, on balance, relatively little income.

**Reservation Networks**

In the past, airline companies made airline reservations, and hotels and car companies made their own reservations. Travel agents called the appropriate reservation system to inquire about or reserve a seat, room, or automobile. The revolutionary development in the area of reservation networks has been the linkage of these systems. All of these reservation systems can communicate with one another on virtually a world-wide basis. Because nearly all travel agents have computer terminals linked to one or more of the airline systems, the emerging system has literally thousands of instantaneous selling points. More and more of these companies are offering online booking systems to Internet users. As a result, what is emerging is an even more competitive travel marketplace. Offering to book tickets is no longer enough for survival. Travel agents, increasingly, must use the tools of their information-rich environment and their expertise to provide services to consumers they cannot readily provide for themselves. Although the information revolution is making a great deal possible, it is not necessarily making it easy—and the information environment of travel is becoming increasingly complex. Ultimately, travel agencies and other intermediaries who make it possible for the consumer to choose intelligently from the many options now available will survive. Those who simply book tickets may not.

**Noneconomic Effects of Tourism**

So far, we have stressed the economic structure and impact of tourism. As we will see, however, tourism has other impacts, both unfavorable and favorable and certain noneconomic effects.

**Crowding**

A successful tourist attraction may, in effect, self-destruct from its own success. One of the major potential problems of tourism is crowding. So many people want to see the attraction that its own success destroys its charm. Many students can probably think of one of their own personal experiences that could support this.
At successful theme parks, this problem is addressed by designing places where guests will be waiting in line as “staging areas,” with interesting views and even live or mechanized entertainment to distract the visitors. Another theme park tactic is to have lots of cleanup help, so that paper, cigarette butts, and other trash never accumulate, thus reducing or eliminating some of the evidence of crowding.

Another example can be found in areas of scenic beauty such as popular national parks, where trails often become more and more difficult as they progress. Most people turn around and return to the parking lot once the pavement ends, and even fewer continue once the unpaved trail actually becomes difficult to follow. In effect, reducing the amenities is a subtle form of rationing; the ultimate example of this is the wilderness area, where entrance is only on foot or by horse. Difficulty of access can thus reduce crowding. Another reaction to mass tourism and its impact is ecotourism, which is discussed further in the next chapter.

Along with crowding, tourism can result in noise, odors, and pollution. A special form of crowding is the traffic jam. In many areas, tourist traffic has increased but the local infrastructure—roads, bridges, and airports, for instance—has not kept up. The result is traffic overload, causing delays and, in some cases, accidents and injuries as well. The traffic jam is equally annoying to visitors and local inhabitants. This is an especially serious problem in the developing world, where infrastructure was not highly developed in the first place. In the face of exploding traffic, the situation often becomes critical. Not surprisingly, people who live in a tourist attraction area may have mixed or hostile feelings about further development because of their concern for privacy, the
Golf is becoming an increasingly popular vacation activity. (Courtesy of ClubCorp.)
environment, or just their ability to get safely to and from home on crowded highways. This can contribute to the love-hate relationship that often exists between tourists and locals.

Another possible impact of crowding is “crowding out.” For example, a beach or other scenic area formerly used by local people may be bought and its use restricted to paying visitors. This has happened on several Caribbean islands and, in some cases, has resulted in the local populace’s becoming unfriendly or even hostile as they found themselves deprived of access to their beaches. This has led, in a number of instances, to sharp clashes between local people and visitors, an unfriendly environment, and a subsequent drop in the number of visitors. Another example, albeit an extreme one, is Mount Everest, where few people travel to (and climb) but that is experiencing the effects of the garbage left behind by trekkers. Because of the extreme weather, garbage can remain intact for decades. There are now policies in place for the removal of garbage.

These potentially unfavorable developments related to tourism give rise to the notion of “carrying capacity,” that is, the idea that an area can accept only a certain number of visitors without being made less desirable as a destination. That carrying capacity can be seen in terms of the physical infrastructure we discussed in an earlier section of this chapter, but the notion extends to social institutions as well.

**Favorable Noneconomic Effects**

Not all noneconomic effects, however, are necessarily unfavorable. Successful tourist destinations can often fuel local pride: Some tourist events, such as festivals and fairs, may even be staged to celebrate some aspect of the local culture. Agricultural fairs, for instance, which draw thousands—and sometimes hundreds of thousands—of visitors, celebrate a region’s agricultural heritage and its favored crops, as well as provide important educational activities such as 4-H meetings and contests.

In other cases, a local tradition may be observed. In a Portuguese community, it may be a blessing of the fishing fleet; in an area where many of German descent live, it could be Oktoberfest. In these cases, adults are reminded of their background, and the young see their heritage dramatized as visitors come to admire it.

Much early travel was for the purpose of pilgrimage, and religion still plays an important part in travel in some areas.

Because of its importance to the hospitality industry, tourism is significant to students of hospitality management. However, even if this weren’t your field of study, it would be important for you to know about it. This is because whatever problems tourism raises, its positive economic, cultural, and social impacts make it an important phenomenon of contemporary mass society.
Summary

This chapter opened with a discussion of the reasons that tourism is important to the hospitality industry. We then explained why people are traveling more: changing use of leisure time, rising family incomes, and more middle-aged people who have the time and money to travel.

The most common reason for traveling is pleasure, followed by business. More people travel by car than by any other means. Travel by air increased over the last ten years but is somewhat subject to price sensitivity when fares increase.

The economic significance of tourism is clear: Tourism ranks in the top three industries for total business receipts. Moreover, about 1 in 17 people is employed in an activity supported by travel expenditures. Indeed, communities seeking potential employers may profitably use tourism as an attraction.

The United States is a popular international tourist attraction; its popularity is often based on the value of the U.S. dollar versus that of other currencies, as well as a number of other factors. International visitors to this country are an important means of improving the U.S. balance of payments and receipts, as well as the U.S. employment outlook.

We have also examined other businesses serving the traveler, such as passenger transportation companies and travel agents. In looking at air travel, we considered the competition between hub-and-spoke and point-to-point airline systems and the strengths and weaknesses of both. While discussing channels of distribution, we noted the impact that technological change is having on this industry, made up predominantly of small businesses. Finally, we closed the chapter by touching on the noneconomic effects of tourism, both unfavorable (such as crowding) and favorable (such as festivals, fairs, and the celebration of local traditions).

Key Words and Concepts

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**Review Questions**

1. What is tourism, and what organizations does it include?
2. What are some of the factors that have caused the increase in tourism?
3. What are the main reasons that people travel?
4. Which age groups travel most, and what kinds of trips does each group take?
5. What are the recent trends in automobile and airline travel, and what are their causes?
7. What factors account for the improvement in the U.S. travel trade balance? What could threaten the favorable balance?
8. What are the relative advantages of hub-and-spoke and point-to-point airline systems? How does each work? Give examples of airlines that rely on each type of system.
9. Describe some of the favorable and unfavorable noneconomic effects of tourism.

**Internet Exercises**

1. **Site name:** American Hotel & Lodging Association  
   **URL:** www.ahla.com  
   **Background information:** AH&LA is a 94-year-old association throughout the United States with some 11,000 property members worldwide, representing more than 1.5 million guest rooms. AH&LA provides its members with assistance in operations, education, and communications, and lobbies on Capitol Hill to provide a business climate in which the industry can continue to prosper. Individual state associations provide representation at the state level and offer many additional cost-saving benefits.  
   **Exercises:** Click on the “News and Information Center” tab; then select the latest “Lodging Industry Profile.”  
   a. List the ways tourism affects our economy.  
   b. Which country currently receives more tourists than any other in the world?  
   c. How many international travelers visited the United States in the last year?  
   d. How much money did visitors spend in the United States last year?

2. **Site name:** eTurboNews  
   **URL:** www.eturbonews.com  
   **Background information:** Since the launching of eTurboNews in April 2001, their readership has increased from 26,000 of mostly U.S. subscribers to more than 209,000
international subscribers in 230 countries and territories. This achievement places them at the forefront of the industry, making them the largest international newsletter for the travel trade. Their database of readers is composed mostly of travel agents, tour operators, airline employees, cruise operators, resorts, and hotels. Both national and international government personnel, private tourism marketing organizations and associations, and more than 3,500 media companies and journalists subscribe to eTurboNews.

**Exercises:**

a. Browse the eTurboNews Web site. List and describe five reasons why a tourism professional could benefit from the information on this Web site.

b. Choose a recent travel and tourism news item and lead a class discussion on the importance of that news item to the tourism industry.

3. **Site name:** The World Travel & Tourism Council  
   **URL:** www.wttc.org  
   **Background information:** The World Travel & Tourism Council (WTTC) is the forum for global business leaders, comprising the presidents, chairs, and CEOs of 100 of the world’s foremost companies. It is the only body representing the private sector in all parts of the travel and tourism industry worldwide. WTTC’s mission is to raise awareness of the full economic impact of the world’s largest generator of wealth and jobs: travel and tourism. Governments are encouraged to unlock the industry’s potential by adopting the council’s policy framework for sustainable tourism development.

**Exercises:**

a. What is the WTTC’s blueprint for new tourism? What are the three strategic priorities included in the blueprint?

b. The WTTC maintains a competitiveness monitor for tourism. Describe the eight indices of competitiveness featured in their report.

4. **Site name:** Air Transport Association  
   **URL:** www.airlines.org  
   **Background information:** Founded by a group of 14 airlines meeting in Chicago in 1936, it was the first, and today remains, the only trade organization for the principal U.S. airlines. In that capacity it has played a major role in all the major government decisions regarding aviation since its founding, including the creation of the Civil Aeronautics Board, the creation of the air traffic control system, and airline deregulation.

**Exercises:**

a. What data is provided by the ATA that would be of interest to the travel and tourism industry?
b. Choose three graphs from the ATA Annual Report and discuss the importance of the graphs to the travel and tourism industry. (If you were a professional in this industry, why would you want or need this information?)
c. Review the ten-year summary and track the passenger load factor for the last ten years. What is the passenger load factor, and what are the implications of the trend?
d. What has been the trend for employment in the air transport industry over the last ten years?
e. Overall, what has been the trend in the air transport industry over the last ten years?

5. Site name: U.S. Department of State
URL: www.state.gov

Background information: The Department of State is the leading U.S. foreign affairs agency. It advances U.S. objectives and interests in shaping a freer, more secure, and more prosperous world through formulating, representing, and implementing the president’s foreign policy. The secretary of state, the ranking member of the Cabinet and fourth in line of presidential succession, is the president’s principal advisor on foreign policy and the person chiefly responsible for U.S. representation abroad.

Exercises:
a. What international travel services/information does the U.S. Department of State provide on its Web site?
b. Given two countries such as Saudi Arabia and Austria, determine the safety issues/warnings issued by the State Department for traveling in these countries.
c. What countries is the State Department currently warning Americans not to travel to?

6. Site name: World Tourism Organization
URL: www.world-tourism.org

Background information: As the leading international organization in the field of travel and tourism, the World Tourism Organization (WTO) is vested by the United Nations with a central and decisive role in promoting the development of responsible, sustainable, and universally accessible tourism, with the aim of contributing to economic development, international understanding, peace, prosperity, and universal respect for, and observance of, human rights and fundamental freedoms. In pursuing this aim, the organization pays particular attention to the interests of the developing countries in the field of tourism.

Exercises: What services does the World Tourism Organization offer?
Notes

9. Ibid.
10. Ibid.