Travel and tourism is one of the world’s most important industries in terms of economic clout, but is notable for its peculiarities as well. Indeed, travel and tourism cannot be adequately understood without an appreciation of such unique qualities. These would include the notion of perishability, the industry’s adaptability to revenue management, its ultra-sensitivity to the business cycle, severe seasonality problems, often intense competition, high rates of taxation, and susceptibility to terrorism. Learning about these and other key aspects provide a basic foundation for understanding how travel and tourism works as an industry.

Learning Objectives

After reading this chapter, you should be able to
✦ Understand the importance of the idea of perishability
✦ Discuss why travel and tourism is especially sensitive to the business cycle
✦ Explain how foreign exchange rates influence tourism flows between countries
✦ Evaluate the competitive forces among the various travel and tourism sectors, and discuss why some are more competitive than others
✦ Discuss the reasons why travel and tourism is so highly taxed
✦ Appreciate the impact that terrorism can have on the industry
Trading Stamps to Travel and Tourism Empire

The privately held Carlson family of companies participates in nearly all the travel and tourism sectors, including lodging, travel agency, tour operator, restaurant, and cruise line. In lodging, where its brands include Radisson, Regent, Country Inn, and Park Plaza, its hospitality division ranks among the top ten in revenue, number of properties, and rooms worldwide. However, unlike all the other travel and tourism industry giants who started in and have remained in the same business, Carlson grew and diversified after the family patriarch, Curtis L. Carlson, quit Proctor and Gamble after two years and founded the wildly successful Gold Bond Stamp Company in 1938. This was the firm that originated loyalty points programs in America. However, they weren’t called that back then. These were trading stamps issued by retailers like super markets and gas stations, which customers accumulated and later redeemed for merchandise rewards. The idea eventually spread to travel and tourism and became the major marketing tool for retaining customer loyalty among airlines, hotels, cruise lines, and rental car firms. Carlson bought his first hotel in Minneapolis in 1962 after recognizing that the trading stamp industry had become too competitive. Ten years later, the Gold Bond Stamp company became a subsidiary of the Carlson Companies. He died in 1999 after having ceded management control to his daughter Marilyn two years earlier. The genius of Carlson was that he was a daring entrepreneur who founded an industry but then was smart enough and flexible enough to move on to something else when this industry lost its growth potential.

Background

Although this book details the key transportation sectors such as the airlines, rail, and motorcoach, it should be noted at the outset that among the modes of transportation instrumental to travel and tourism, private autos, trucks, and recreational vehicles account for nearly 75% of all person-trips taken in the United States. This number would naturally be lower in other developed countries with a well-developed rail network. Further, in our discussions of attractions and destinations, there is little mention of shopping and visiting friends and relatives (VFR), which are in first and second place, respectively, among the leading reasons for travel. The omission is not intentional but due to the fact that much of the economic impacts of each are mainly felt either in a nontravel and tourism specific sector like retail sales (shopping) or included as a component of general leisure travel (VFR).

Travel and tourism has many of the same features as other mainstream industries but decidedly more special characteristics that make it unique. This chapter takes an economic perspective, concentrating on those aspects that set travel and tourism apart. The main distinguishing feature about this industry is its classification as a service industry. Travel and tourism products are not tangible in the same way that one can touch or hold a book or an apple, which are goods, nor can the product be sampled in advance. Service industries include transportation, communications services, wholesale and retail trade, health services, financial services, education, entertainment, and travel and tourism.
Developed countries in particular have become increasingly service-oriented as opposed to goods-oriented in recent years. In the United States, for instance, the latest data suggest that service industries currently account for 70% of gross domestic product (total spending) versus only 39% in 1950. In terms of employment, the service industries now account for about 80% of all jobs compared to approximately 50% in 1950. The shift has been caused by the relocation overseas of many goods manufacturers for economic reasons, the explosive growth of the almost exclusively service-oriented information technology industry, and the relative lack of foreign competition facing American service firms. Service companies like beauty salons don’t have to worry about one in Tokyo stealing its customers or hospitals losing patients to a health-care facility overseas. New York University faces enrollment competition from other domestic schools of similar caliber but only to a minor extent from schools abroad. U.S. airlines face foreign competition but not within its home markets because the U.S. air carriers are still protected by cabotage laws that prevent foreign airlines from picking up passengers within the vast internal American market. So whatever competition exists within the United States is generated by domestic airlines alone. Hotels face international competition only indirectly since they are identified with a particular destination. In other words, New York competes directly with London and Paris as a destination, but the hotels within each of those cities do not compete directly against those in the other cities.

What has particular relevance about service companies in a review of travel and tourism is that the output of these firms is perishable. This is not to suggest that the products have a short shelf life as when food goes stale but because once the day of sale passes, the sale is forever lost. An empty hotel room or airline seat or cruise cabin or unrented car means that potential revenue that day has gone unrealized. If the occupancy rate in a hotel last night was 80%, this means that 20% of the rooms failed to produce revenue that is now irretrievable. Contrast that with a box of cereal unsold today but still available tomorrow in the supermarket or an automobile sitting in a showroom but remaining available until a buyer materializes. Because travel and tourism industry profit margins, even in good years, tend to be slim in comparison to other industries (the airlines earned just 3.5 cents for each dollar of sales during the strong 1994 to 1999 period while a company like Microsoft typically makes about 30 to 35 cents for each dollar of sales), the prospect of

lost revenue from an unsold perishable product has pressured travel and tourism suppliers to devise innovative strategies designed to maximize revenues, especially as the day of sale nears. These include variable cost pricing, standby fares and online tactics, all of which are devices utilized by revenue or yield management systems. Along with the idea of perishability, travel and tourism products are also said to be inseparable in the sense that the product is produced and consumed simultaneously. In other words, both the supplier of the service and the customer are present when the exchange occurs. Because of this, quality control can be difficult as when airplanes fly full or when restaurant service suffers from overwhelmed or inexperienced dining room and kitchen staff from unexpectedly heavy demand.

Maximizing Revenue

Revenue management as a formal system first came to the airline industry when American Airlines set one up in 1982. Earlier, electric utility companies practiced a form of revenue management through peak pricing, which charged higher rates during periods of the day when usage was at its crest. Following American’s example, the other airlines quickly came up with their own systems, and the hotel industry began to adopt the idea by the early 1990s, although only an estimated third of all hotel properties have formal systems in place currently. Essentially such systems allocate and manage hotel rooms or airline seat inventory from the time the supply is put on sale up until the sale date, typically a year. The objective is to change price and availability based on the pace and quality of the bookings in an effort to sell out the hotel night or airline flight at the best average price attainable given market conditions. Such conditions would include the season of the year, day of week, the economic climate, and the level of competition. In the ideal circumstance, a hotel, for instance, would attain a 100% occupancy rate at the rack rate, the former representing the percentage of rooms filled and the latter, the basic nondiscounted room price.

The necessary ingredients for any formal revenue management system would include customer segmentation criteria, a product that can be reserved in advance and hopefully some bookings history to guide the managers of the system. Segmenting customers means separating them generally based on demographic as well as purpose of trip characteristics. Demographic characteristics include gender, income, age, education level among others, and purpose of trip generally depends on whether the traveler is a leisure customer, a businessperson or someone visiting friends and relatives. Revenue management is a subject that is covered in detail in Chapter 18.

Another dimension of the travel and tourism industry involves its ultrasensitivity to the **business cycle**. The business cycle describes the alternating periods of economic conditions in a country over time and, explained simply, happens to **free market** economic systems largely because the trillions of daily consumer demand and company supply decisions are uncoordinated. Companies don’t always produce items that consumers actually buy, and customer tastes are also changeable. This may lead to supply/demand imbalances and the time it takes to work out these imbalances is the time, for instance, when **recessions** or business downturns happen. The usual reason is that too many goods and services are being produced relative to consumer and business demand, and time will be needed to work off the excess inventory. Because no new production is needed, this period will be one of declining output, employment, and income. Certain automatic stabilizers, including declining interest rates, prices, and wage levels as well as government intervention, work to reverse this negative trend, and when economic activity stops getting worse, a **trough** has been reached. This means that the economy has bottomed out, setting the stage for new production, which means rising employment and income and is known as the expansion phase of a cycle. Eventually the expansion will approach a peak and will end again, usually due to overproduction. Following the peak, employment, incomes, and production begin to shrink again, and the cycle comes full circle. In America since the end of World War II, there have been eight such cycles with recessions occupying roughly 15% of the time during this nearly 60+ year span. Expansions have averaged 50 months, and recent performance compares favorably to earlier periods in the nation’s history. The improvement has been due to a better understanding of economic forces and a greater willingness on the part of government to actively intervene (through **monetary** and **fiscal** policies) to prevent or mitigate business downturns but also to cool down a rapidly expanding economy before it overheats, possibly causing inflation.

Although mistakes have been made through bad timing and a misreading of the stage of the business cycle, monetary actions by the Federal Reserve Bank are designed to affect interest rates by increasing and decreasing the amount of credit available to borrowers. When credit availability increases, interest rates decrease, encouraging borrowing and spending, which should boost economic activity. On the other hand, an interest rate increase would have the opposite effect. Fiscal policy involves tax legislation and government spending. When taxes are raised, this limits the amount of income available for consumer spending, and conversely, a tax cut would increase

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**BOOM AND BUST**

**business cycle** In a free market system, alternating periods of economic expansion and contraction.

**recession** The familiar definition of an economic downturn when income and employment decreases.

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disposable or income after taxes. Further, an increase in government outlays, especially for infrastructure projects like highways, hospitals, and schools, may spur new job creation and lead to more consumer spending power.

When an industry is highly sensitive to the business cycle, this suggests that if aggregate economic indicators for the whole economy, for instance, are growing by 5% a year, than that industry in question might be increasing by 10% or 15%. Conversely, if the overall economy is decreasing by 5%, then the particular industry might be declining 10% or 15%. In other words, the industry may do better than other industries when general business conditions are strong and may do worse than other industries when the overall economy is weak. Travel and tourism often behaves in this manner. Table 2.1 shows some evidence of this phenomenon during the 1990 to 1991 recession (comparisons using the 2000 to 2001 recession experience are badly distorted by the impact of 9/11) and 1994 to 1999 expansion in terms of gross domestic product generated by industry. Total spending is a product of price paid per unit multiplied by the amount (airline seats and hotel rooms) consumed.

The 1990 to 1991 recession, which started in July 1990 and ended in March 1991, lasted only eight months but came as somewhat of a shock because it was the first business downturn in over eight years. Between 1990 and 1991, real (excluding price changes) spending for air travel and lodging establishments dropped by nearly 2% compared to an only 0.5% decline for the rest of the private sector. The expansion of the 1990s officially started in April 1991 (although the recovery was sluggish for almost two more years) and ended in March 2001. The 1994 to 1999 span includes a base year clear of the effects of the last recession and 1999 was among the most prosperous years of the decade (the calm before the storm). During this five-year period of expansion, air travel and lodging substantially outgrew the economy at large, 6.1% against 4.4% on average per year.

### Elasticity

The economic forces behind the results from these alternating cycles are best analyzed in a framework that distinguishes the main types of travel and tourism consumers: leisure and business travelers. The former far...
outnumbers the latter but due to higher prices paid by businesspeople, these travelers account for roughly 40% of all domestic travel and tourism revenue. Travel for leisure is essentially discretionary, meaning that it is not an absolute necessity like food and clothes and thus can be postponed. In this case, travel demand is said to be elastic. Elasticity measures consumer sensitivity to income changes as well as price changes. Individuals planning a travel and tourism experience will be subject to both factors, but income is by far the more important largely because, without income or a fear of insufficient income, there is no travel in the first place, however drastic the price decrease may be. On the other hand, one may be comfortable income-wise and confident about the future and thus will take the trip and maybe two or three more.

Assuming income is not an issue for leisure travelers, almost all of whom are price-sensitive, consumers will be encouraged to take advantage of the periodic price discounting that occurs in the airline industry. Consumers will be highly responsive to such enticements, especially if they perceive them to be temporary. By the same token, a jump in price would have the opposite effect. This consumer is said to be price elastic or sensitive and willing to spend or not based on favorable and unfavorable price changes. In the language of elasticity, consumers whose demand is price elastic will buy 15% more, if the price of the good or service decreases by less than that, say 10%, and will buy 15% less of a product or service if the price were to increase by 10%. Because leisure discretionary spending is thought to be nonessential, it is among the first casualties of an economic downturn for income-related reasons. This is the chief reason that trends in the travel industry tend to exaggerate the business cycle.

Demand by a consumer not sensitive to price changes, however, is inelastic if price is not the overriding issue in the travel/tourism decision. Here a 10% price increase might only bring a demand decrease of only 5% or a 10% price decrease might lead to a demand increase of only 5%. Some individual leisure travelers, especially those whose comfortable income or wealth situation allows them to be impervious to pricing concerns, fall into the inelastic category. Mostly, though, we’re talking about business travelers when we see inelastic demand. Finally, there is a class of traveler that simply must vacation whatever one’s pricing or economic sensitivities. Think Europe in August when whole towns and cities empty to go on vacation. However, business travelers form the one significant bloc that is most inelastic when it comes to price. The main reason is that, for this group, the trip must be taken and is essentially a shared-cost experience, meaning that someone else, namely the company, is paying. Even individual entrepreneurs who pay for their own tickets can partially benefit from this effect because, although

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6U.S. Commerce Department, Bureau of Economic Analysis, U.S. Travel and Tourism Satellite Accounts, Survey of Current Business (June 2006), Table 1, p. 19.
they directly bear the cost of air, hotel, and rental cars, such costs count as business expenses and can be used to reduce taxable income.

Travel demand from the business traveler can be relied on to stabilize industry revenues, even in bad times, because of its relative inelasticity. Without business travelers, the industry would truly be one of boom and bust, considering how price- and income-sensitive most leisure customers are. For the business traveler, taking a trip is more of an imperative because he/she must be in contact with customers, suppliers, and colleagues at different locations around the country and world in his/her normal daily routine. However, when it comes to business travel, companies are not against cutting back. During a recession phase of a business cycle, companies will strive to cut expenses because revenues may decrease and will first look to reduce administrative costs before doing anything that might undermine product quality. Travel budgets are always a prime cost-cutting target at first because substitutes for business travel are available, namely teleconferencing, e-mail, faxes, and telephones. However, business travel remains steadier than leisure because companies recognize that those substitutes are often unsatisfactory replacements for face-to-face meetings.

Airlines have taken advantage of this perceived inelasticity of business travel, and early in 2005, Delta conducted an experiment in the elasticity of business travelers. In deteriorating financial shape and faced with rising jet fuel expenses, high labor costs, and tough competition, the carrier decided to challenge conventional wisdom by capping domestic, unrestricted, one-way fares at $499. This meant fare reductions, on average, of 35% and more for business travelers who were the main consumers of those fares.7 Although the limit was later increased to $599 to cover escalating jet fuel costs, the rest of the industry was incredulous because business flyers were thought to be relatively insensitive to price. In other words, if a fare was cut by 40%, for example, additional passengers would have to rise by an offsetting amount just to achieve a revenue break-even. Nevertheless, they matched Delta’s fares to avoid becoming uncompetitive price-wise. Although business traffic undoubtedly did rise, the increase also could have been spurred by improving economic conditions throughout 2005 not just the price cuts. In defense of its action, Delta claimed that the initiative was revenue neutral, meaning that rising passenger volumes offset the fare reductions. However, a truer measure may have come later that year when Delta filed for bankruptcy protection suggesting that the discounting experiment on business fares had actually been a failure.

The airlines had taken advantage of the perceived inelasticity of business travel over the years to the point that prior to the Delta fare action in January 2005, one-way business fares were averaging $600 compared to $100 for average leisure fares or six to one. After Delta’s failed business fare experiment,

where the mean leisure price remained at about $100, the business fare average dropped to around $400 or a four to one ratio.\(^8\)

**The Seasonal Issue**

**Seasonality** is another factor that plays a significant role in travel and tourism. In the Northern Hemisphere where most developed countries are located, leisure travel demand tends to be lower in winter than in summer, whereas spring and fall (the so-called shoulder periods) are stronger than winter but lower than summer. Summer is when most people take vacations because schools are closed and the weather is relatively steady, creating travel opportunities for families. An additional aspect of seasonality is the role it plays in pricing and supply decisions, particularly during slow demand periods. In the airline, lodging, rental car, and cruise line industries, discounts for leisure travelers are a nearly predictable event following the summer season. Business travel is far steadier throughout the year, breaking only around major holidays and also slowing a bit during the summer. The reason why travel volumes based on passenger trips differ from that based on revenue reflects the changes in the mix of traffic. Business traffic, which pays higher prices, accounts for a larger share of travel and tourism expenditures during the so-called nonpeak seasons or periods.

Further, there is the *day of week* issue in travel and tourism. Business travel mainly occurs during the week when most company activity is conducted.

Dawson, Yukon Territory, Canada, site of the 1898 gold discovery. Few tourists will visit between October and May.

\(^8\)Ibid.
FIGURE 2.1 U.S. Travel by Season

Source: Travel Industry Association.

TABLE 2.2 Airline and Lodging Seasonality 2005 (Percent of revenue received by quarter)

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines (American)</td>
<td>23%</td>
<td>26%</td>
<td>26%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Lodging (Hilton)</td>
<td>24</td>
<td>25</td>
<td>27</td>
<td>24</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Company reports.

whereas leisure travel tends to be concentrated around weekends and holidays when schools and businesses are generally closed.

**The Competitive Environment**

**oligopoly** An industry structure where a relatively few companies dominate, where new entry barriers are high, and where products can be differentiated among the dominant companies.

**interdependence** In an oligopoly where there are few dominant firms, price changes or product improvements by one must be responded to quickly by the others to avoid a competitive disadvantage.

Most corporations in America, as well as those in other developed countries, operate in a market structure known as **oligopoly**. An oligopoly is one in which there are a relatively few large firms, where barriers to new company entry are high, and products sold by each company can be differentiated within that industry. The personal computer industry, for instance, is dominated by Dell and Hewlett Packard, and Nokia and Siemens, Samsung, and Motorola hold sway in the mobile phone industry. In both industries where a few firms dominate, aspiring companies must raise huge amounts of capital to enter, and the companies within each oligopoly tend to maintain well-developed distribution networks. Further, oligopolists, through heavy marketing expenses, emphasize different features about their products. Theory suggests and reality shows that because so few sellers are involved, profits for companies in oligopolies tend to be higher than normal. Further, competitive pricing and product behavior among the leading players in these industries are heavily influenced by each other’s actions. In the language of business strategy, such a situation is called **interdependence** as each of the players are reactive to what the others are doing. This means that price and
product changes are usually matched by all the rivals as quickly as possible
to not be uncompetitive in the eyes of consumers. Consequently, competition
tends to be mild or cooperative and more focused on creating product differenti-
tation instead of price. Put another way, why cut prices if your competitor
is going to swiftly follow you? Coupled with high entry barriers, this sup-
ports the idea that oligopolies are positioned to earn more above-average
profits than firms in a more competitive environment, and most do.

Almost all the various travel and tourism sectors bear some resemblance
to the oligopolistic model in that relatively few companies account for a
lion’s share of national industry revenue. However, among the major sectors,
the cruise line industry is the only one that resembles that model in every
major respect. Two companies—Carnival and Royal Caribbean—account for
roughly 70% of all sales; their positions are protected by substantial entry
barriers due primarily to the enormous construction cost of new ships ($800
million for the Queen Mary). The two leading cruise companies reported a
healthy combined 17% profit margin for 2006, a year when the three largest
firms in the lodging industry earned a little over 9%, and the U.S. airlines
still had not turned any profit at all.

Since the industry was deregulated in 1978, the airlines have faced in-
creasing encroachment from smaller, low-cost carriers who have several key
competitive advantages, the main one being the low unit costs arising from
labor savings and operational efficiencies. Until 1978, no new companies
could enter the industry, but this obstacle was lifted with deregulation. Also
aircraft now tend to be leased instead of purchased, which substantially
lessens the formerly high capital requirement barrier to entry. Although most
of the new companies (and several older ones as well) have gone bankrupt
along the way, the effect of the nearly continuous creation of new carriers has
causethe largemajor companies to lose control of pricing to the low-cost
companies. This is a critical element because when a low-cost airline enters a
market for the first time, it can usually make money at the newly established
low price that must be matched (or risk losing competitive equality) by the
older carriers but who can’t cover operating expenses at such reduced price
levels. The fact that the six largest carriers still account for about 70% of all
U.S. airline passenger revenue suggests that it is an oligopoly, but this is true
only insofar as aggregate market share is concerned. In reality, the small low-
cost companies clearly control pricing in the markets where they compete.

Another vital ingredient of an oligopoly is missing, namely product dif-
ferentiation as consumers, especially with the advent of access to online dis-
tribution channels, have become extremely price sensitive. When consumers
view one company as having a superior product, in the airline case, through

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**deregulated** Refers to a break from government regulation. In 1978, overbearing government rule-making was removed in the airline industry.

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11Ibid. Hilton, Marriott & Starwood.
better on-time or baggage delivery performance, on-board amenities, or richer frequent-flyer programs or friendlier personnel, this represents product differentiation. This can afford that carrier an opportunity to charge fares above those of the competition. However, most consumers today view the airline product simply as a transportation mode between point A and point B and pay little heed to amenities (what little there are remaining). As a result, the network companies only have pricing power in the ever-decreasing number of markets, which are still devoid of a low-cost carrier. These factors have made it difficult for the network carriers to make a profit and places all of them in danger of extinction unless they can successfully address the cost issue. The term oligopoly then is clearly a misnomer when applied to the airline industry, as the large companies enjoy none of the advantages associated with the term. The segmentation of the products that is highly developed in the lodging industry hardly exists within the airline sector.

The rental car industry is dominated (76%) by five large firms, the largest, Enterprise, accounting for one-third of total industry revenues. In addition, around 60% of total revenue is generated at airports but only at two does one company capture more than 35% of sales at that location. Because entry barriers tend to be low, the larger companies face competition from off-airport operators who, as a rule, offer discounted rates. Finally, product differences seem as unimportant as with the airlines suggesting that consumer loyalty is minimal. Hence, rental cars are a highly competitive sector, and profitability for most of the large operators is elusive, the exception being Enterprise, which still generates most of its sales locally instead of at airports.

The hotel industry is also dominated by a few large chains or brands in terms of total market share, and most of them contain properties that cover the gamut of price and quality products from budget/economy to luxury. Upwards of 70% of all hotel properties in the United States are branded, with the remainder in the hands of nonaffiliated owners. Segmentation in this industry is based on price (luxury or upper upscale down to economy or budget), location (urban, suburban, highway, and airport or resort area) and size (number of rooms). Budget hotels do not normally compete with mid-scale or luxury hotels, and the competition is essentially local, meaning that a Hilton in midtown New York City is competing only with another upscale property in the immediate vicinity. Compared to the other large sectors within travel and tourism, a key distinguishing feature of hotels is that cost disparities among direct competitors are minor if they exist at all. Consequently, the major chains are not plagued by low-cost competitors as in the airline and rental car industries. Also, the lodging industry has ample opportunities for product differentiation based on amenities offered within each of its segments.

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14Ibid.
These factors have given hotels *pricing power* or the ability of companies to raise prices above levels set by normal supply/demand considerations, especially during periods of high demand. Demand pressure and product differentiation are the keys to pricing power, and it appears that hotels have both more frequently than airlines as an industry. Hence, the hotel industry tends to be far more profitable. The main hotel chains collectively reported a 9% profit margin in 2006 when the airlines in the aggregate had no profit at all.

Internal management decisions bearing on product development, marketing, cost structure, and strategic planning play leading roles in determining profitability over the life cycle of any company. In the short run, however, earnings also depend on the intensity of industry competition, which is most often not controllable. The intensity of the intra-industry rivalry depends on the number of competitors, the health of the economy, the rival management culture, and the strength of one’s own brand identity. The greater the number of competitors will naturally increase the possibility of fiercer rivalry, while a strong economy usually means good sales growth and profitable operations and so less of a need to gain market share from a competitor. Why be aggressive if you and everyone else is doing well and sharing in the prosperity? The opposite would be true in a sluggish economy, where the rivals must compete for a stagnant or diminishing number of customers and the only way to increase sales lies in gaining market share from a competitor. One way of finding a management culture involves determining whether a company has a sales growth or bottom line (net profit) mentality. Companies with a sales growth mentality, whether such a strategy is profitable or not, tend to be dominated by marketing executives who tend to be opportunistic competitors in most seasons and conditions. Conversely, a firm focused on profitability will probably not be as aggressive recognizing that the idea of interdependence means that rivals will match price and product changes allowing no competitive advantage. Further, the possibility of a no-winners price war is another deterrent to intense competition. Brand identity refers to customer recognition, strong or weak, of the product (product differentiation). Obviously, a highly regarded brand name, like the Four Seasons hotel chain, might enable that brand to charge a $50 to $100 price premium per room night. A strong brand attracts customers anticipating value in exchange for the higher price plus those already staunchly loyal to the brand.

Firms can also obtain insulation from competitive forces if it can achieve lower unit costs than its rivals. Unit cost refers to the expense of producing one unit of output (hotel room or airline seat) and is derived by dividing total operating costs by total output. If product differentiation is absent, a high-cost competitor is practically defenseless against a low-cost rival and will shy away from such competition. Often, however, the low-cost company will seek out opportunities to confront the disadvantaged high-cost operator.

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penetration When one company has the advantage of lower unit operating cost, it can enter that competitor’s market with a discounted price and make money, whereas the incumbent firm cannot.

When this happens, penetration occurs and is powerful competitive weapon for low-cost companies. In the airline case, this is happening with increasing frequency as the newer low-cost companies, who are usually not burdened by the onerous work rules and high wage demands imposed by labor unions that the large network airlines face. The low-cost airlines also tend to avoid congested airports because aircraft productivity suffers when planes are stuck on the ground waiting to take off. Hotel cost economies can be gained through minimizing amenities and operating with reduced staff. The great advantage of low unit costs is that its owner can flourish in a market by making money at an average price too low for the high-cost rival.

In addition to the normal competitive forces and competitive advantage described earlier, companies are often sabotaged by other external factors beyond their control. One of these involves foreign exchange rates. A strengthening currency is one whose exchange value in terms of another rises as the other one falls. This has an unfavorable impact on potential international visitors to the stronger currency country because travel and tourism costs become higher but also favor the strong country citizens traveling abroad because those costs become lower. The United States, for example, enjoyed a strong influx of foreign visitors in the 2004 to 2006 period because the dollar became noticeably weaker compared to its 2003 level against most other hard (freely convertible) currencies. At the same time, however, this exchange rate relationship discouraged some Americans from traveling abroad.

Assuming a 10% depreciation and a 1:1 ratio in the value of the dollar versus the Australian dollar, this means that a family trip to the United States budgeted at $10,000 before the currency shift will now only cost an Aussie the equivalent of $9,000. Conversely, for an American thinking of traveling to Australia, the same $10,000, prior to the foreign exchange revaluation, will now cost the American $11,000. Examining the reasons why currencies gain

![Image of currency exchange rates]

The U.S. dollar expressed in terms of other currencies.
and lose value is a subject taught in introductory economics, but suffice it to say, such changes can play a pivotal role in gaining or losing visitors for a destination, especially if the projected travel budget is large.

Perhaps the greatest external threats to travel and tourism are acts of terrorism. Such acts have usually been carried out by political and religious groups to achieve a specific objective of the group. Travel and tourism attractions and destinations are often lightly protected and are inviting targets to terrorist organizations seeking publicity and attempting to disrupt normal civilian discourse. Fortunately, such acts are relatively infrequent and practically impossible to predict but nevertheless can have a devastating impact on a travel company or destination. In 1986, a year of strong, worldwide economic growth, the travel and tourism industry was looking forward to a banner year. However, a rash of airline hijackings by Palestinian terrorists in the eastern Mediterranean caused a rash of cancellations and resulted in large financial setbacks for travel and tourism companies operating in the region. Over the past 15 years, Egypt absorbed a series of murderous rampages from terrorists at popular tourist destinations in an effort to destabilize an industry key to Egypt’s economy and thus undermine the political leadership. The first great international airline, Pan American, lost a plane over Lockerbie, Scotland, in 1988, the work of Libyan terrorists. Many blame this event as being the fatal blow to the already fragile and now long-departed carrier.

**TABLE 2.3 Exchange Rate Impact**

<table>
<thead>
<tr>
<th>Prechange Cost of Trip</th>
<th>Postchange Cost of Trip</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price to Australian visiting the U.S.</td>
<td>$10,000</td>
</tr>
<tr>
<td>Price to American visiting Australia</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Paper money of many countries.
Following the incident, some fliers began avoiding Pan Am, fearing it had become a terrorist target. The same fate befell TWA, who suffered a suspicious fatal explosion aboard a New York–Paris flight in July 1996, again causing flyers to shy away from the company. TWA limped along until 2001,
when it was bought by American Airlines. The Islamic militant attacks of 9/11/2001 on the World Trade twin towers, which cost 3,000 lives, set back inbound U.S. tourism for at least two years as foreigners became anxious about visiting America, the declared avowed enemy of Islamic extremist groups. More recently in 2002 and 2005, the Indonesian resort island of Bali was the site of a deadly terrorist attack aimed at Western tourists. Also late in 2005, a Seabourne cruiseship was stalked in the Indian Ocean off Somalia, and three U.S.-franchised hotels were victimized by suicide bombers in Amman, Jordan.

As a reaction to terrorism, governments have enacted tighter airport security and more restrictive visa rules, which also can have a negative effect on the number of visitors. The United States, in the wake of 9/11, initiated stringent visa requirements on top of airport fingerprinting. It remains to be seen what impact, if any, this will have on future arrivals and whether future travelers become more or less resilient to urban disturbances and terrorist bombings. If the experiences of 2004 to 2006 are any indication, however, it would appear that tourists have become more likely to return to troubled areas faster than during earlier times. Suicide bombers on the London subway and at an Egyptian Red Sea resort, the Tsunami in Southeast Asia, and the hurricane devastation in Key West, Florida, all failed to keep tourists away for very long. This suggests that tourists have become more resilient to terrorism, which is a positive and hopeful sign. The subject of terrorism will be revisited throughout the book.
Travel and tourism is one of a relative handful of U.S. industries that has continuously (since 1989) produced a surplus in the U.S. international trade balance, also known as the current account in the balance of payments. For the past 15 years, foreign tourists and business travelers have spent more money in America than their American counterparts have spent outside the United States. Absent the contribution of the travel and tourism sectors, the overall balance of trade deficit, which has been approximating $800 billion, would be even worse. A U.S. travel export occurs when a foreign citizen travels to America on an American airplane and spends money here. A Canadian flying to Las Vegas from Toronto on United Airlines brings revenue to the U.S. airline company and, once in Las Vegas, spends money there for transportation, lodging, food, entertainment, and probably gambling. The Canadian is buying a vacation experience outside his home country, resulting in a transfer of money from Canada to America. This counts as a U.S. export and is no different than an American farmer selling soybeans to Canadians because the proceeds of the sale comes back to America. The opposite happens when Americans spend money overseas and such transactions count as imports. An American visiting France may have traveled there on Air France and, if he visits the Louvre Museum, stays in a hotel, rides the Metro, and enjoys some Parisian restaurants, the total spending represents a transfer of funds from America to France. The effect will be the same as if an American buys a bottle of Bordeaux wine at his local liquor store.

Table 2.4 shows that prior to 1989, more money was spent abroad by Americans than was spent by foreigners in the United States. But afterward, America became an increasingly popular destination for visitors from overseas.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (billions of dollars)</th>
<th>Imports (billions of dollars)</th>
<th>Balance (billions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$14.7</td>
<td>$23.8</td>
<td>$(9.2)</td>
</tr>
<tr>
<td>1988</td>
<td>38.1</td>
<td>40.0</td>
<td>(1.9)</td>
</tr>
<tr>
<td>1989</td>
<td>43.8</td>
<td>42.6</td>
<td>1.2</td>
</tr>
<tr>
<td>1990</td>
<td>52.8</td>
<td>47.6</td>
<td>5.2</td>
</tr>
<tr>
<td>1995</td>
<td>82.3</td>
<td>59.6</td>
<td>22.7</td>
</tr>
<tr>
<td>1996</td>
<td>90.2</td>
<td>63.9</td>
<td>26.3</td>
</tr>
<tr>
<td>1997</td>
<td>94.3</td>
<td>70.2</td>
<td>24.1</td>
</tr>
<tr>
<td>2000</td>
<td>103.1</td>
<td>89.0</td>
<td>14.1</td>
</tr>
<tr>
<td>2001</td>
<td>89.8</td>
<td>82.8</td>
<td>7.0</td>
</tr>
<tr>
<td>2002</td>
<td>83.7</td>
<td>78.7</td>
<td>5.0</td>
</tr>
<tr>
<td>2003</td>
<td>80.0</td>
<td>78.4</td>
<td>1.6</td>
</tr>
<tr>
<td>2004</td>
<td>93.3</td>
<td>89.3</td>
<td>4.0</td>
</tr>
<tr>
<td>2005</td>
<td>103.9</td>
<td>95.7</td>
<td>8.2</td>
</tr>
</tbody>
</table>

as well as Canada and Mexico. Americans continue to travel and spend overseas but not as much as that of foreign travelers to the United States. This trend was severely tested by the 9/11 occurrence, which was a major blow to inbound travel, although not comparably impeding Americans traveling abroad. Between 1990 and 2000, outbound American travel and tourism spending grew by an average of 6.5% per year while foreign travel and tourism spending here rose by a 6.9% annual average. However, by 2005, foreign travel and tourism spending in America barely topped its 2000 level, while American spending abroad rose by 1.5% per year. With healthier world economies and a weak dollar, the U.S. position improved measurably in 2005, although short of the $14.1 billion positive balance of 2000 and the peak $26.3 billion in 1996, the year of the Atlanta Olympics. What made these numbers even worse than they seemed was that the value of the U.S. dollar fell by about 13% after 9/11 against a weighted index of world currencies.17

In normal times, weaker currencies make local products cheaper to foreigners, and hence the country whose currency is losing value should become more attractive as a tourist destination. Probably without the weaker dollar, the small 2003 surplus would have been negative instead.

In normal times, foreign travel and tourism is mainly affected by economic trends in the home country and overseas. Strong economies mean rising employment, income and profitability, which generally lead to higher domestic tourism but increased overseas spending as well. The reverse can be expected to occur when an economy is weak. Thus, with worldwide economies mostly on the rebound beginning in 2003 and with the dollar remaining fairly weak relative to other currencies, 2005 and 2006 saw much higher numbers of foreigners visiting the United States despite the more stringent security and visa rules.

Strengths and Vulnerabilities

Because of location and individual characteristics, attractions and destinations are unevenly affected by world events. For instance, New York City is heavily dependent on international visitors as opposed to a destination like Branson, Missouri. The former, America’s most popular tourism destination, is popular with Americans but is a natural attraction for Europeans given its East Coast location, varied ethnicity, world-class museums, nightly musical and dramatic productions, and scores of other tourist venues. For the year 2000, foreigners accounted for nearly 20% of all overnight visitors to New York City.18 Branson, on the other hand, is a town built for tourism in Middle America that exclusively features contemporary American culture. It is also inconvenient transportation-wise to foreigners and hence is not high on the

17The Economist (February 14, 2005), 97.
list of must-see attractions for travelers from abroad. About 95% of visitors to Branson arrive by cars or motorcoach suggesting a nearly exclusive domestic clientele.19 Other cities resembling New York as a destination would include San Francisco, New Orleans, and Washington, D.C., whereas attractions and destinations centered on family entertainment closely match the Branson model.

In summary, adverse overseas developments such as weak economic conditions, unfavorable foreign exchange movements, and terrorism leave destinations resembling the New York model more vulnerable to lost business than the domestic-oriented locales like Branson. For instance, for 2001 against 2000, international visitors to New York City declined by 17% compared to a 12% drop in foreign visitors to the rest of the country.20 However, when adverse overseas events do not interfere, business can be very good because foreign guests not only augment the domestic base but also tend to stay longer and consequently spend more money per capita than their domestic counterparts.

With people as with companies and whole industries, the various travel and tourism sectors experience a life cycle. The staggered stages may be defined as development, growth, maturity and decline. The successive phases have important implications for internal planning and will often affect the competitive climate as well. The development phase is clearly the point when, for instance, the primitive automobile was invented as a means of ground transport and began competing with the horse and buggy as well as rail transportation. When a more advanced, inexpensive, standardized car resulting from the mass production technique was achieved, the growth phase ensued. At the point where the product or service has been accepted by the mass market, the market becomes saturated. This is when the mature phase starts. In the case of the automobile, the mature stage is where it currently resides, one in which the product is widely owned (although not yet in the developing world) and hence incapable of the high growth rates previously achieved during development, but also one in which a replacement product has not as yet appeared. When such a product does indeed appear, the automobile will reach the non-viable or decline phase, just as the horse and buggy industry did when the mass-produced black Model T automobile was introduced by Henry Ford around 1920.

Looking at the life cycle for the airline industry (the best sector for reliable historical data), one would start with the discovery of human flight itself around the start of the 20th century. By World War I (1914–1918), flying machines were playing a limited military role. Following the war, planes began carrying mail under contract to the U.S. government, but only by 1936 did passenger revenues exceed freight and mail revenue at American companies. Temporarily, World War II (1939–1945) stalled further development of passenger air transport, but afterward, growth virtually exploded as speed and size of aircraft as well as on-board amenities advanced greatly. The growth phase was so strong that passenger enplanements increased each year without interruption until 1970, even though the nation had experienced five recessions since the end of World War II up to that point. Growth slowed noticeably after 1970, when two debilitating recessions over a relatively short period (Nov. ’73–March ’75 and Jan. ’80–Nov. ’82) occurred, but there was growth nevertheless because the growth phase of the air transport life cycle had apparently not yet run its course. By the 1980s, however, the industry had clearly become mature as average annual increase slowed to under 5% per year even as the decade was recession free. The decade of the

22R. Kane and A. Vose, Air Transportation (Dubuque, IA: Kendall/Hunt, 1971), 31.
American Airlines, the largest U.S. carrier.

1990s, which was the most prosperous in terms of income growth and job creation in history, nevertheless saw airline passenger growth slow markedly. Finally, the 2000 to 2003 period of the new century was scarred by the 9/11 terrorism and recession but rebounded in 2004 to 2005, especially on the international side. For the balance of the decade, growth will have to average over 5% per year to match the total enplanement growth of the decade of the 1990s.

Market research information supports the notion of a mature phase for the airlines, as well as the lodging industry. Upwards of 80% of adult Americans have flown in a plane and have stayed in a hotel or motel by now. This means market saturation has occurred, at least domestically, one because there is a physical limit on the number of vacations or business trips individuals or families can take, and two, there are not as many new consumers as before. High passenger growth levels for the newer low-cost airlines have

<table>
<thead>
<tr>
<th>Decade</th>
<th>Domestic</th>
<th>International</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950–59</td>
<td>13.6%</td>
<td>13.2%</td>
<td>13.5%</td>
</tr>
<tr>
<td>1960–69</td>
<td>12.1</td>
<td>9.6</td>
<td>11.9</td>
</tr>
<tr>
<td>1970–79</td>
<td>7.4</td>
<td>4.5</td>
<td>7.2</td>
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<tr>
<td>1980–89</td>
<td>4.8</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>1990–99</td>
<td>3.6</td>
<td>2.6</td>
<td>3.5</td>
</tr>
<tr>
<td>2000–05</td>
<td>1.9</td>
<td>4.2</td>
<td>2.1</td>
</tr>
</tbody>
</table>

largely come at the expense of the older incumbents. A possible new source of growth for domestic travel and tourism companies would involve attracting the large, emerging sources of new tourists, namely those from China, India, Russia, the former Soviet-satellites in Eastern Europe, and Latin America. There does not seem to be a new product replacement for air travel or hotels on the horizon, so those main pillars of travel and tourism will likely remain mature for some time to come, but growth prospects have dimmed.

The cruise line industry, which has blossomed during the last 10 years, may be on the borderline between development and growth. Cruise lines have outgrown simply catering to luxury travelers and have been pursuing the mass market for some time now. However, industry market research indicates that only 15% of adult Americans has ever taken a cruise (compared to 80+% for air trips and hotel stays).24 Yesawich, Pepperdine, Brown & Russell, a travel research organization, reports that 33% of leisure travelers have taken a cruise. Thus, by either measure, the main target population (middle-class Americans and foreigners) remains largely untapped.

Companies finding themselves in a mature industry must face the prospect of sluggish sales growth and profitability compared to the days of rapid sales growth and increasing profitability that was achieved during growth. Once a firm’s future is thus defined, internal planning changes drastically. During development and growth, companies look to expansion and new products, but under maturity those same companies begin to retrench losing operations, fight to keep costs down to ward off new competitors and search for merger partners. Consolidation in mature industries has become an attractive strategy in recent years because mergers not only eliminate a competitor and save expenses through firing redundant employees but may also mean higher total sales for the surviving company if it can reinvent itself in the eyes of consumers. Rebranding a hotel is an example of such possible renewal when, for instance, an independent property becomes a Crowne Plaza or reopens as a Hilton. Another implication of maturity is that competition tends to become more intense because, over time, more possible substitutes (other hotels) become known to consumers. Costs also tend to rise at older properties as age usually brings more maintenance problems and an increased need to replace worn-out fixtures. So at this stage in the life cycle, the only way individual companies can achieve above-average revenue growth is through merger or at the expense of a competitor. The latter requires stealing market share from a rival suggesting aggressive but risky marketing tactics.

The Labor Union Impact

Labor union penetration varies greatly among the travel and tourism sectors. For the United States, union members hold only about 8% of total private service industry jobs. However, the airlines and railroads are 70% to 80% unionized, while hotel unionization is under 10%.25 Lodging in certain areas like Las Vegas is heavily unionized, with New York much less so but still much higher than the national lodging average. Unionization within the restaurant, cruise line, and rental car industries is essentially nil. Companies desire to keep unions out of the workplace because employers want to keep labor costs as low as feasible while retaining the discretion to allocate human resources as they see fit. A union presence makes this difficult what with strict job descriptions and limitations on hours of work, which often interferes with the needs of the workplace. Also wages, benefits, and pensions at unionized companies tend to be more costly than in the same but unorganized industry. On the other hand, unions are good for workers not only because wages and benefits tend to be higher but they can also be protected against arbitrary firings, which can be appealed through an arbitration process. Further, unionized workers do not change employers as frequently as non-union workers, which means more experienced employees and lower training expenses. The latter trait is particularly valued in hospitality.


Unionization is far more pervasive in Europe than America, where companies have successfully resisted the spread of unions by, in many cases, paying salaries and benefits comparable to what union members might earn in the same job. This is not so in the airlines or among railroad companies because the roots of unionization in these industries go back to the period of government regulation when unions were much more powerful. Companies offering comparable wages and benefits as unionized firms nevertheless still retain control over the work rules governing hours of work, employee scheduling, and the ability to cross-utilize employees across job classifications. Along with most of the newer low-cost carriers, Delta is the lone large airline not fully unionized (only the pilots are). The industry profit leader, Southwest, has unions across most job classifications, but their contracts tend to be more flexible than those at the old network carriers. Given that the low-cost companies have become more financially successful of late while the large carriers have languished, the degree of unionization must be counted as a factor. Wage, benefit, and work rule concessions among the latter carriers, most of whom have been in or at the brink of bankruptcy, have been grudging at best.

**Taxation**

Outside of cigarettes and alcoholic beverages, travel and tourism might be the most heavily taxed industry. Apart from federal, state, and local income taxes that all corporations and individuals pay, the travel and tourism sector
has absorbed what many consider to be exorbitant sales taxes and user fees.

Among the various sectors, rental car companies are the most heavily taxed, paying various state and local governments an average 24% over the actual rental price. Other add-ons like insurance can increase the base price even more. Six of the ten largest tax burdens on rental cars are at Texas airports, including Houston Bush International, where taxes alone add 71% to the rental price.26 This means that the basic $40 per day rental actually costs the consumer $68 before all other fees or charges. Other expensive Texas airports are in Austin, Houston Hobby, San Antonio, and El Paso. In other states, Cleveland Hopkins, Kansas City International, Phoenix Sky Harbor, and Albuquerque Sunport are not far behind.27 Although not as severe as for rental cars, airline passengers are taxed on departure (and sometimes arrival), gaming establishments and hotels are similarly subject to high taxes, based on occupancy. Airline sales taxes, security charges, and other fees add about 20% to airline fares.28 In this sector, given its high degree of competition, airlines have had great difficulty in passing on the elevated tax burden as higher fares, and profitability has suffered as a consequence. Although the gaming sector has been forced to pay about 16% of gross revenues on average to state and local governments,29 these extra charges have been more easily absorbed because casinos, if they choose, can adjust payout ratios on slot machines to cover their taxes, among other cost pass-along devices.

Understandably, since gaming is vital to the state economy, Nevada is tax-friendly to the casinos with rates ranging from zero to 6.75% on gross revenue depending on local conditions and volume. Even at this low rate, Nevada casinos still generated about $1 billion in tax receipts for the state. Casinos in Illinois must pay up to 50% (down from 70% pre-2005) to state and local authorities plus $3 in admission taxes per head. According to a 2003 study by the American Hotel and Lodging Industry (AHLA), hotels paid an average of 12.4% in sales and special taxes as a percentage of room revenues.30 The rationale for such taxes involves the cost of public services provided to visitors. However, such methods of raising government revenue have proven irresistibly attractive to local politicians because, by definition, visitors live somewhere else and hence do not vote in local municipal or state elections. One of the truisms of politics is that the primary goal of officeholders is re-election, hence they strive to please only their constituents, not visitors who

30 Jane Engle, Hotel Guests Subjected to Taxation Without Representation, SF Gate.com (September 19, 2004); http://sfgate.com/cgi-bin/article.cgi?f=/chronicle/archive/2004/09/19/trg2q8p9s.
do not vote in that district. Further, local residents, not directly or indirectly touched by the potential loss of visitors who may seek out lower taxed destinations, also will enthusiastically favor these kinds of taxes because it may reduce their own burden.

Increasingly, especially in gaming, travel and tourism companies have tended to avoid new investment in high-tax states where the after-tax profit potential is less than friendlier jurisdictions. However, hotels cannot just pick up a property and move it elsewhere as can airlines, but while airlines can move aircraft to other markets, they also unfortunately must locate in markets where the customers base is substantial or competition low, regardless of tax levels, and rental car companies who depend on airline-driven business must do the same. Finally, state and local authorities have not used much of this type of tax revenue to promote tourism. Rather, in many instances it has gone toward building new sports stadiums but mostly toward general government expenses.

**Full Speed Ahead?**

A final point to make concerning a unique characteristic of travel and tourism involves its enormous potential for growth of the industry around the world. Few, if any, other industries can make such a claim. New tourists are created when countries develop sustainable middle-class populations. This occurs when economies expand and wealth spreads, lifting families into a higher socioeconomic class. Once newly minted middle-class populations obtain the creature comforts that have previously been out of reach, such as better housing, improved education, cars, and appliances, the next logical new consumption item is travel and tourism. Moreover, as income continues to rise, the number of trips taken tends to grow in tandem. While the number of tourists originating in the developed countries of North American, Europe, East Asia, and Oceania may have reached a mature phase reflecting a relative lack of population growth and constraints on vacation time, this is not the case with regard to the developing nations of South and Southeast Asia, Russia, Eastern Europe, and Latin America. The latter areas are already becoming and should remain natural development points for new originating tourists for years to come. China and India alone account for one-third of the total world population, and both countries have been among the fastest-growing economies on earth.

At first, tourists tend to travel in groups and to nearby destinations, but with experience, the new tourists will become more adventurous, the same as the Americans, Europeans, and Japanese before them. Destinations and transportation companies, particularly in the developed world, would be well advised to prepare themselves for a changing worldwide originating tourist composition in the years to come.
Networks

No overview of travel and tourism can exclude mention of the key role played by technology in bringing suppliers and consumers together in a more efficient manner. With all the corporate and customer data moving over networks in technology today, at the outset it will be useful to pause a bit to understand some of the terminology and options available in network usage. What the data travels through to get from one place to another, known as mediums, can vary and can also be used in combination with one another. From a managerial perspective, a basic understanding of what they consist of is necessary.

**Twisted pair copper wire:** Copper has long been a preferred medium to transport data, which actually wraps itself around the wires in transit. Your phone line at home is most likely copper. A standard phone line is known in the tech world as RJ-11. The bigger version of your phone line seen in computer labs and corporate settings is known as RJ-45. Inside the protective coating are a series of copper wires, which are twisted around one another in pairs in such a way that interference with the other twisted pairs next to it is minimized.

**Coaxial cable:** Copper is also used in a cable environment. This is the cable used in cable television, which is also used in data networks. Coaxial cable contains one heavy copper wire that is heavily insulated by different protective layers to likewise prevent interference.

**Fiberoptics:** This is a medium consisting of expensive glass tubes where the data is represented as pulses of light. Fiberoptics serves as the “backbone” for long-distance transmission. Many glass cables in protective coating sit on the ocean floor, allowing for long-distance communication. Your long-distance phone company uses a lot of fiberoptic cable.

**Wireless:** To be fair, wireless technology is not technically a medium, but rather a broadcast technology. Wireless technology has become all the rage in tourism and other industries, allowing the mobile manager and client more mobile options. Wires are actually used in a wireless network. It is the space between, say, your laptop with a wireless card and an access point found in walls, ceilings, and rooftops that is the wireless part. Once the access point receives the data, it can use any of the preceding mediums (including wireless technology) to move the data.

Choosing a medium can be tricky. RJ-45 continues to see wide presence at the local level, feeding into a fiberoptic long-distance network. Wireless is coming on fast due to the freedom of movement and access. Security issues have not been completely worked out in the wireless environment and must be studied carefully before private data is broadcasted.

**Summary**

- The service sector, of which travel and tourism is a part, dominates the economies of the United States and most other developed countries. Service industries account for 70% of the gross domestic product and provide 80% of all jobs in the United States.
Perishability is a feature of travel and tourism products that defines a loss unless sold on the day offered. Hotel rooms or airline seats unsold today will mean a foregone sales opportunity that can never be recovered. This characteristic has made revenue management for travel and tourism enterprises difficult.

Travel and tourism enterprises are highly sensitive to the business cycle. When the economy is growing, travel and tourism companies tend to do better than most others while they tend to do worse when the economy goes into recession. This relationship stems from the fact that industry demand has a very large discretionary or leisure component that is a postponable expenditure during times of adverse economic conditions.

Elasticity measures the responsiveness of demand to changes in price and income. Travel and tourism companies know, for example, that if prices rise for leisure travelers, they will be more apt to reduce travel than less price-sensitive business travelers. This is the main reason that business fares and rates are much higher than those charged tourists. Rising incomes will mean more travel demand and falling incomes the opposite.

The various travel and tourism sectors are highly seasonal, meaning that demand has very pronounced peaks and valleys. This is mainly due to the preponderance of leisure consumers in the total travel and tourism mix who must time their vacations to fit their children’s school schedule and their own work constraints. Also more attractions and destinations are available during warm weather.

The value of currencies affect the direction of tourism flows. When one nation’s money becomes cheaper relative to that of another, the former will attract tourists because their tourism products will be less expensive to visitors from the stronger currency nations. At the same time, the country with the stronger currency might attract less visitation because tourism items will be more expensive to tourists from the country whose currency became weaker.

The main travel and tourism sectors are dominated by a few large firms. Usually when a few firms control a larger share of the market and are able to differentiate their product offerings, there is less competition, and consumers wind up paying higher prices. This theory seems to hold up for lodging and cruise lines but not for any others, most notably the airlines. Airlines especially have lost their ability to induce consumers into believing that their products are different due to consumer obsession with price.

The United States has attracted more travel and tourism dollars to its shores than Americans have spent in foreign countries for the past 16 years. This reflects the wide variety of attractions and destinations available as well as strong industry infrastructure in terms of transportation and lodging facilities.
1. What is special about service industries?
2. Do you think U.S. airlines ought to be protected from foreign airline competition on domestic routes?
3. When a product is perishable, does that force suppliers to act differently toward consumers?
4. Why do you think airlines built revenue management systems before hotels?
5. What makes travel and tourism companies especially sensitive to business cycles?
6. Can business cycles be avoided?
7. Within the same industry, why do some companies earn a profit while others cannot?
8. Can you think of nontravel and tourism industries affected by seasonality?
9. Why do you think the American dollar is accepted all over the world while the Russian ruble is not?
10. How can travel and tourism companies reinvent themselves?
11. Do you think terrorism will be a continuous problem for the travel and tourism industry?
12. If you were director of scheduling at an airline or cruise line, how would you handle seasonality?
13. Do you think that more foreign travel spending in America than American spending overseas is a permanent or temporary event?
14. Are currency exchange rates a decisive determinant when choosing a foreign tourist destination?
15. What are the main similarities and differences between New York City and Branson, Missouri, as a tourist destination?
16. What are life cycles? Explain the various phases.
17. Is the life cycle of a hotel any different from that of an airline?
18. Why are cruise lines more profitable than airlines and hotels?
19. Is worldwide tourism growth inevitable?
20. Where is future tourism growth likely to come from?
21. What is the difference between a good and a service?
22. Why do service industries now account for such a dominant percentage of the national economy?
23. What is an occupancy rate?
24. What is meant by profit margin?
25. Name the three prerequisites for establishing a revenue management system.
26. What constitutes a business cycle?
27. What should happen to demand for travel and tourism products during a recession? An expansion?
28. Which is more important in determining demand for travel and tourism products, price or income?
29. What is the difference between discretionary demand and nondiscretionary demand?
30. What does the term shared-cost mean and why is it important?
31. If one $US could buy 100 Japanese yen last year but now can buy 110 yen, has the $US appreciated or depreciated in value versus the yen?
32. What is an oligopoly? What travel and tourism sector most resembles one?
33. What is meant by pricing power?
34. What companies dominate the cruise line industry? What percent of total industry revenue do they account for?
35. What is the difference between elastic and inelastic demand?
36. Which of the following is a U.S. service export?
   a) an American goes to the opera in Vienna
   b) a Brazilian visits Disneyworld in Florida
   c) a Swiss buys a U.S.-made automobile
   d) an American student spends a semester studying in Paris
37. Which of the following is a U.S. service import?
   a) an American goes to soccer match in London
   b) a Mexican visits Miami South Beach
   c) an Australian spends a week on a
Hawaiian beach d) a Korean student moves to New York and enrolls at NYU
38. What main factor distinguishes older airlines from newer airlines?
39. What is important about having a strong brand identity in travel and tourism?
40. In examining life cycles in travel and tourism, what is meant by saturation?

Useful Web Sites

Air Transport Association
www.airlines.org

American Gaming Association
www.americangaming.org

Auto Rental News
www.fleet-central.com

Branson, Missouri
www.bransonchamber.com

Carlson Companies
www.carlson.com

Cruise Line International Association
www.cruising.org

National Bureau of Economic Research
www.nber.org

New York City
www.nycvisit.com

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Bureau of Labor Statistics
www.bls.gov