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ONLINE TRAVEL AGENCIES IN ASIA: PARTNERS IN E-SERVICES GROWTH

Travel Means Revenue and Jobs in Asia

Travel and tourism are one of the world's great economic forces. According to the World Economic Forum, there were more than 1.2 billion international travelers in 2016, and this number will reach 1.8 billion by 2030. The travel and tourism industry overall

contributed US \$7.6 trillion to the global economy in 2016.¹

As billions of people travel across borders, the cash they spend contributes to a vibrant chain of economic activity that supports local businesses, infrastructure, and entrepreneurship; creates jobs; and spurs growth.

Cross-border trade in services—such as

hospitality, online sales, transportation—fuels this growth.

Asia is the future of travel. Six of the world's top cities for international visitors are Asian, and the Asian travel market has more total gross bookings than either Europe or the US.

Phocuswright, a global travel market research firm, predicts that by 2020 the value of the APAC market will reach US \$488 billion. More than 500 million international tourists are expected in the region by 2030.

Travel brings not only money, but also employment. Globally, tourism provides as many as 1 in every 11 jobs. The World Economic Forum calculates that “for every 30 new tourists to a destination, one new job is created.”

On average around the world and in Asia, tourism growth exceeds GDP.

International travelers are increasing by 43 million per year.



2016: 1.2 billion
2030: 1.8 billion

Global Tourism Trade

2016: Contributed \$7.6 trillion to global economy



**APAC
31% global
market**

2016: \$346 billion
2020: \$488 billion

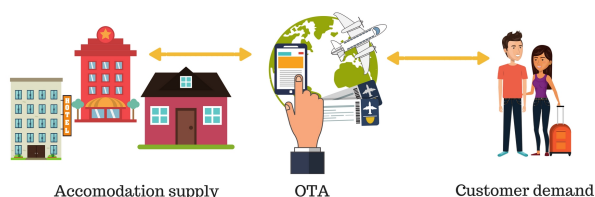
Asia is

"tourism powerhouse"

¹ For references, please consult the full-length version of this white paper: “Online Travel Agencies in Asia: A Major Opportunity in E-Services,”



OTAs match supply with demand



In the Asia-Pacific region, travel and tourism generated more than 67 million jobs in 2016. By 2027, including both direct and indirect employment, tourism will contribute over 10% of total APAC jobs. Clearly, travel is a key pillar of trade in the APAC region.

Travel is Moving Online



The world's *online* travel market is growing at 10%-11% per year – twice as fast as the travel market as a whole.

Digital strategies are “must-haves” for destinations that want to be competitive in travel, the World Economic Forum advises.

In this area, too, Asia leads the world.

Southeast Asia is the world's fastest-growing Internet region; the region's number of Internet users is projected to grow from 260 million in 2016 to 480 million by 2020.

Regional online travel is growing at 17% per year, with online travel agency (OTA) bookings expected to reach nearly US\$100 billion by 2020. Mobile already accounts for 37% of online travel bookings; one OTA, Agoda, already receives more than half its bookings from mobile customers.

Travelers and their data support trade as they move across borders.

The Value of OTAs

Online travel agencies are a critical force in this rapidly expanding market. They operate at the intersection of traditional trade services (tourism and travel) and the rapidly evolving e-commerce industry.

OTAs have transformed travel, bringing a global range of personalized options to consumers in ways that were never before possible.

They allow hotels and local hosts to reach customers around the world, adjust pricing to meet demand, market their properties, provide customer service in dozens of languages, and accept payments in a wide variety of currencies and modalities—securely—24 hours a day.

International OTAs have global reach, bringing travelers *from everywhere to everywhere*. They earn their revenue not from managing properties (as hotels do) but by charging for the research and booking, advertising, and reservation services they provide. OTAs present a major opportunity for e-services in Asia.

International OTAs deliver four clear advantages to travelers:

- *Choice:* OTAs provide consumers with a huge range of information, letting them compare properties by type, price, location, and ratings. And while hotel chains offer at most a few thousand choices, the largest international OTAs customers offer well over a million options.
- *Service:* International OTAs' customer service teams – many distributed around the world – are available 24 hours a day by email, phone, and even online chat. For example, Expedia's and Agoda's sites are accessible in 39 languages; Booking.com's communicates in 43.
- *Convenience:* Mobile apps help OTAs meet real-time, live, local consumer demand, whether customers are booking weeks in advance from abroad or – as many do – within 24 hours of the booking, and sometimes around the corner from the property.
- *Security and trust:* Customers around the world trust the security, privacy, and reviews of familiar international OTAs, which offer advanced security and fraud detection, data protection controls, the latest encryption standards, and continuous security assessments that comply with global standards – all at levels that local players and individual properties may not match.

Accommodations, too, receive critical benefits from OTAs. As online marketplaces, OTAs use technology to collect and analyze insights about consumer activity and help their partners match their supply to demand.

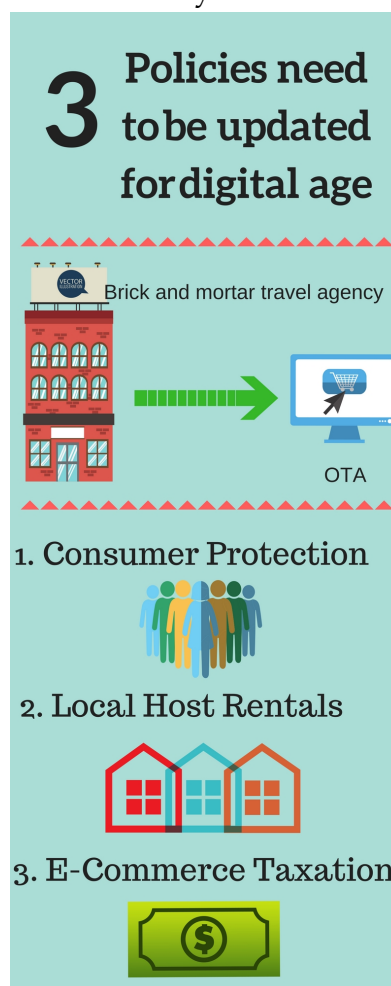
The analytical tools to properties provided by

OTAs can provide significantly enhanced capacity for understanding their consumers and potential customers. This is particularly important for smaller business owners that would otherwise be unable to capture such value data and insights into their client base and tailor their own offerings to better suit future customers.

Above all, international OTAs

are world-class marketers; they increase awareness to directly benefit both global chains and local properties that could never reach a global customer base on their own. This particularly benefits smaller properties.

Hotels on average spend 6% to 9% of revenues on marketing. OTAs, on the other hand, spend between 35% and 45%; in 2016, the Priceline Group spent at least US\$3.5 billion on overall





marketing, and Expedia another US\$4.3 billion. These massive investments bring customers from around the world to properties and destinations both large and small.

Supplementary Services

Online travel platforms do not just market properties. Many also provide a range of ancillary services that frequently highlight offerings that can only be provided by local vendors, such as travel guides for specific language needs or matched to specific interests, cooking schools, photography tours, dive outings and so forth.

Regulatory Issues

OTAs are clearly a crucial part of the economic powerhouse of travel – but they will provide the greatest benefits to destinations, businesses, and customers only if they are properly regulated.

Commercial rules written for a brick-and-mortar industry need to be updated for global e-commerce services in the digital and mobile age. Departments of consumer affairs, agencies considering data localization laws, and taxation agencies need to review their policies for a world that is operating under international e-commerce norms.

Three areas stand out: pricing choice, local host rentals, and taxation of cross-border e-commerce businesses.

- *Protecting consumers through pricing choice:* OTA customers value choice, and they are willing to pay for it. Hotels (that determine rate policies) know this, and offer cheaper, non-refundable rates for travelers who are certain about their plans and more flexible, but more

expensive, rates for travelers who want to keep their options open. Offering both types of reservations gives consumers more choice and helps hotels manage inventory. This tiered pricing system is an international standard. In a few countries, regulators seek to protect consumers by prohibiting non-refundable rates – but by reducing choice and raising prices they risk harming the very people they seek to protect. It is both simplest and best for consumers when regulators allow OTAs to provide options customers want; offer more choice and lower prices; and create a level playing field for all players, whether local or international.

- *Enabling local host rentals:* Local host rentals, in which travelers rent space in privately owned residences, complement hotels by offering more variety, facilities that families and groups often need (such as kitchens and laundry), and, often, more affordable pricing. This style of accommodation is extremely popular and growing rapidly – and it is here to stay. Mature markets have begun to regulate this industry segment in ways that create opportunities for travelers, hosts, and destinations alike. Japan's approach is a good example. Japan has been Airbnb's fastest-growing market, and with an eye toward the 2020 Olympics, the national Cabinet approved legislation that allows residents to rent privately up to 180 days a year. In setting clear terms to help local host rentals flourish, Japan has paved the way for other Asian



countries to use local host rentals as assets for economic growth. OTAs excel at bringing international tourists to all kinds of accommodation in local destinations; regulation that enables local host rentals to thrive will enhance this goal.

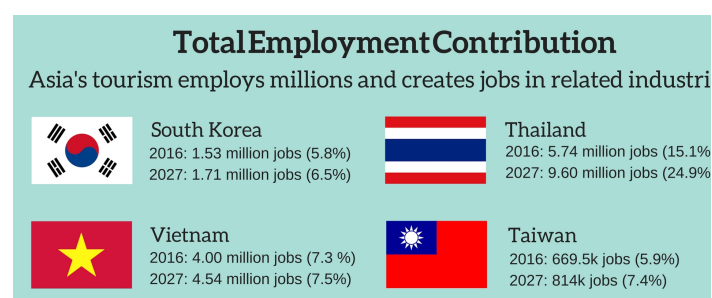
- *Taxation of cross-border e-commerce:* Like many multinational companies, OTAs pay corporate taxes in their home countries, but do not pay taxes in countries where they lack a taxable presence. (Hotels and other accommodation properties, on the other hand, typically have an obligation to remit certain taxes based on the room rate, as well as paying regular income taxes.) Regulators who consider imposing or increasing tax on international OTAs must be careful to ask themselves whether their true objective should be simply to increase tax revenue – or to maximize the *overall* economic benefits of travel and tourism. Excessive taxation could weaken economies rather than strengthen them.

Conclusion

E-services accelerate and strengthen tourism's positive impact. International OTAs are highly effective marketers that help local economies thrive by bringing travelers from around the world. These companies are a powerful tool to spread the wealth of tourism. They can help attract visitors to low-traffic destinations and accommodations, spreading demand among new players and communities. As technology companies, OTAs stimulate entrepreneurship, talent development, and employment on a broad

scale. They help both travelers and locals share the broadening cultural benefits of travel, and they bring high levels of tourism revenue and create millions of jobs. In short, they are engines of growth. They can be valuable allies that expand economic opportunity to destinations – if regulators help them do so.

To leverage the full value of international OTAs, destinations need to adapt. Rather than viewing these companies as outsiders, regulators should recognize the value these services provide to their citizens, businesses, and national economies. They should foster the free flow of data across borders, meet international standards, and provide a level playing field for all participants. In short, regulators should welcome OTAs as trade partners with shared goals, and work with them to the benefit of all.



The Asian Trade Centre (ATC) is the premier regional thought leader, advocate and educator for trade in Asia. ATC works directly with governments from around the world, companies, think tanks, foundations, non-governmental organizations, aid agencies and serves as the resource for trade-related activities in Asia.

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