

Australian Tourism, Hospitality & Leisure (THL) Risk Outlook 2015

In today's shifting global risk landscape, where new technologies and regulations complicate the risk agenda, the ability to manage and leverage risk provides a critical business and competitive edge. How are Australian travel industry players advancing their approaches to risk management and identifying ways to turn risk into opportunity?





Innovation

- Diversification and differentiation are key attributes for many Australian THL organisations. Emerging market factors and technologies are constantly changing the industry landscape and just in the last decade we have seen a wave of non-traditional entrants such as Airbnb and TripAdvisor challenge conventional thinking and pose a risk to standard operator business models.
- Technology enablers and disrupters, such as social media, mobile and big data, can threaten established business models. In a recent Deloitte survey on strategic risk, 91% of companies have changed their business strategies to accommodate these technologies.
- Actively encouraging consumer feedback through websites and then applying detailed analytics and business intelligence techniques to analyse consumer behaviour and trends is one way of tailoring travel products to the immediate needs of the customer and will continue to alter how we book our travel in the future.
- Many THL providers do not believe that disruptive innovation is their greatest risk—however most recognize the importance of an effective strategy to drive innovation as important.



Competition

- Global travel providers continue to view Australia as an attractive expansion opportunity and the arrival of new market entrants is expected to continue (as we have seen with the rise of global travel brands).
- Competition from overseas destinations where costs have been inherently lower compared to Australian-based supply costs in the past have made it more difficult for Australian THL companies to compete on price and most have had to find a more unique way of promoting their product.
- The unique and beautiful assets that Australia has to offer coupled with the nation's focus on eco-tourism and sustainability has led to a number of players surviving in a tough market.
- Australian THL providers appear to be responding to increasing competition risk by focusing on improving efficiency and cost control. However, this can bring about its own set of risks as companies take on significant projects to simplify their businesses, reduce cost and improve efficiency.



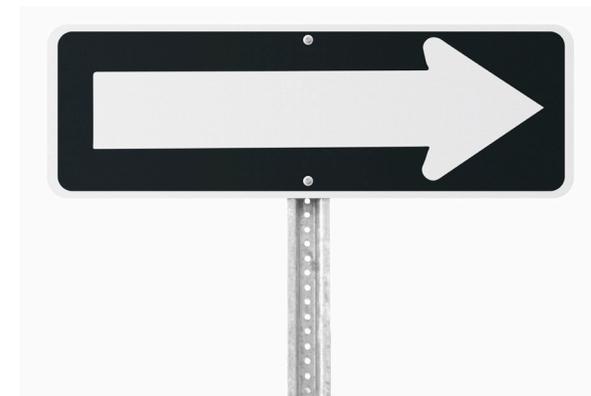
Technology

- The changing THL landscape is introducing digital risks that are both unprecedented and revolutionary in nature.
- Customer experiences such as digital rewards, mobile payment solutions, geo-fencing/IP recognition, intelligent video monitoring, digital displays and social media all bring new risks that can have big impacts—on strategy, customer loyalty and reputation.
- Daily news stories about cyber-crime, data breaches and social media gaffes demonstrate that many travel providers are not keeping pace with digital risks and failing to adequately consider the big picture and interconnectivity when it comes to managing cyber risks.
- Operators who have adapted their business models by utilising the most up-to-date technology to capture reservations through their own distribution channels and through the use of third party, web-based tools in addition to analysing and acting on consumer feedback are at an advantage.



Geopolitical

- Our aging population, increasing longevity and the growing diversity of the Australian population are well-publicised demographic trends and will ensure that there is a booming market for the Australian travel industry (currently being seen with the Baby Boomers).
- Immigration trends and a growing diversity have also shaped the Australian travel consumer in recent years and Australia as a country has had to adapt to this new traveller.
- We have all seen the impact that natural disasters such as flooding, cyclones, bush fires, climate change etc can have on tourism and crisis management planning is critical to reducing the devastating impact of such events and protecting Australia's natural assets.
- Politics also plays a role in tourism, whether it has an impact on a destination or a mode of transport; the symbiotic relationship between tourism and politics cannot be ignored.





Regulatory

- The THL industry is no stranger to regulatory pressures. Ongoing national and international legislative and compliance regulations plague the industry, heightening the risk of non-compliance. Increasing global regulation as a result of the increase of global travel brands into Australia is also a factor. Non-compliance risks extend well past the reputational issues associated with misconduct, exposing companies to steep fines and executives to the risk of personal liability and imprisonment.
- Stringent government guidelines and regulations for airlines such as safety and licencing requirements, security compliance costs, landing rights agreements and bilateral air service agreements are just some examples of regulation in the industry. Hotels and serviced apartments are governed by PADMA, the Office of Fair Trading and the Liquor Licencing Act and, travel agencies and tour operators have to comply with the strict financial criteria set by the relevant State or Territory and the Travel Compensation Fund.
- As the focus on managing regulatory risk increases, travel providers will need to keep an eye on balancing between keeping their organisation safe and on track, whilst preserving the resources and freedom to do the things they want and need to do to achieve their goals. Focusing on key stakeholder relationships will be key.



Customer

- The traveller to Australia has undergone a significant transformation in recent years. Asia is now our key market for inbound tourism and the rise of the new wealthy Asian middle-class traveller views Australia in a very different way to previous visitors. Likewise, the face of the outbound Australian traveller has changed with the baby boomers spending their retirement funds on exclusive overseas trips (evidenced by the spectacular growth in passenger numbers on overseas cruises and river cruises).
- Increasingly, consumers are demanding an 'extraordinary' and personalised experience that meets their desires. They expect a unified door-to-door experience from the booking engine, transportation, accommodation, entertainment, excursions, food and beverage to the post-holiday service, and they expect this at the quality of service they paid for (or better).
- THL providers who not only understand the type of experience their customers need and want, but can also deliver it in a seamless and sustainable way and at a price that delivers value-for-money will have a competitive advantage. This maybe through a loyal customer following, repeat business and tantalising online reviews and ratings, enticing other guests to try the same experience.



Economic

- Macroeconomic concerns continue to be the top risk for many travel industry companies, after weathering a number of years in a relatively bleak environment where staying afloat was a challenge and finding sufficient capital to fuel growth was difficult.
- Although we have seen an increase in inbound tourism into Australia (in the year ending May 2015, international visitor arrivals were up 6.3 per cent, to 7.1 million), outbound tourism has only slightly increased (in May 2015, there were 744,200 short-term resident departures, an increase of 1.8 per cent on May 2014), indicating that travellers still remain cautious and are highly sensitive to perceptions around their personal wealth and the broader condition of the Australian economy.
- The increase in inbound tourism seems to be continuing mainly due to the weakening Australian dollar and improved economies of Australia's overseas' visitors. However, rising unemployment; changes in commodity prices; interest rates; global economic markets and real estate pricing will still have an impact and the days of operators matching and beating competitor prices; offering significant discounts to stimulate consumer demand and squeezing profit margins look set to continue.



Reputation

- Brand preservation and reputation is top of mind for travel operators and continues to be a focus with many operators surviving on guest reviews (verbal and online), online ratings and word-of-mouth as key business drivers.
- Some of the biggest reputation risk drivers for THL include the integrity of the product offering—does your product match the description within your advertising and promotional material? quality of the experience—did the service deliver on its promise? food or service safety failures, supply chain management, security (physical and cyber) and social media—does your website showcase your service and do the online reviews and ratings do it justice?
- Reputation problems have the biggest impact on revenue and brand value. Respondents to a recent Deloitte survey noted impacts on revenue (41%), loss of brand value (41%) and regulatory investigations (37%).



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