

Second Edition

Travel Industry Economics

A GUIDE FOR FINANCIAL
ANALYSIS



Harold L. Vogel

CAMBRIDGE

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A Guide for Financial Analysis

SECOND EDITION

HAROLD L. VOGEL



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Travel industry economics

A Guide for Financial Analysis: Second Edition

Each year, people around the world spend well over one trillion dollars on travel and tourism, thereby supporting one of the largest spending categories and a sector that employs around 300 million people, one-tenth of the global workforce. In this book, Harold L. Vogel examines the business economics and investment aspects of major industry components that include airlines, hotels, casinos, amusement and theme parks, and tourism. The result is a concise, up-to-date reference guide for financial analysts, economists, industry executives, legislators, regulators, and journalists interested in the economics, financing, and marketing of travel-related goods and services. The new edition expands coverage to airport management, private jet services, Asian gaming, recreational resorts, restaurants, and advertising. Sections on the pricing and availability of oil and public policy issues such as antitrust and predation have also been added. A glossary, time line diagrams, and technical appendices enhance the book's appeal as a reference tool. Its fully integrated assessment of the business of travel makes the work unique in the marketplace.

Harold L. Vogel is author of *Financial Market Bubbles and Crashes* (Cambridge University Press, 2010) and all editions of *Entertainment Industry Economics: A Guide for Financial Analysis* (Eighth Edition, Cambridge University Press, 2011), the latter of which is a companion to this volume. At Merrill Lynch & Co. for seventeen years, he was ranked as top entertainment industry analyst for ten years by *Institutional Investor* magazine and has been inducted into its All-America Research Team Hall of Fame. A Ph.D. in financial economics and also a Chartered Financial Analyst (C.F.A), he writes and lectures on investment topics related to entertainment and media, travel, and extreme market events currently and heads an independent investment and consulting firm in New York City.

TO MY BEAUTIFUL MOM

– WHOSE LOVE AND SPIRIT KNEW NO BOUNDS.

Preface

We are, it seems, all born with a natural curiosity – with an urge to travel. What normal infant, confined to crib or playpen, doesn't soon want to explore the world beyond? What normal teenager doesn't want to explore a new neighborhood or city or country? And what person hasn't ever dreamt of how it would feel to travel across the boundaries of space or time?

The urge to travel is universal. And this makes travel, as broadly defined, a big business indeed. In the United States, for example, travel and tourism is estimated to account for approximately 5% of gross domestic product and to be the third largest retail industry after automobile dealers and food stores. Clearly, in getting from here to there and back again, we need lots of goods and services. In fact, including everything, the travel industry turns out to be the world's largest in terms of numbers of people employed and in terms of total direct and indirect revenues generated. Three hundred million people – one of every ten employees worldwide – and more than US\$2.0 trillion out of a total world economic output of around US\$60 trillion are probably good estimates for those numbers in the second decade of the twenty-first century.

With an industry this large, it is difficult to even know where to begin. There are texts relating to hotel or restaurant or casino management

procedures and strategies. There are tomes and stock brokerage house reports and consultants' papers providing forecasts for the various travel-related business segments. Statistics of all types abound.

Yet what seems to be missing is a concise treatment that ties together all the major industry segments from the perspective of a potential investor and financial economist. That is the ambition of this book. Its mission is to broadly cover, for anyone who analyzes or manages or writes about travel-related investments, the financial and economic dynamics of the businesses that service the needs of people who, whether for pleasure (tourism) or commerce, require physical transportation: travel, in other words.

In contrast, the underlying concept of my related work, *Entertainment Industry Economics: A Guide for Financial Analysis*, involves a different kind of transportation – that of people's emotions. The style of that work, as well as the chapters providing an economic overview and coverage of casinos and theme parks, has been largely carried over. As in that volume, only those industry segments that have clearly defined boundaries and reliable data histories are examined

Travel Industry Economics is primarily a text for graduate or advanced undergraduate students. The minimum requirement, supported by the appended glossary, is for the reader to have some familiarity with general economics and financial terminology. However, the present work is also intended to be of interest to general readers and should prove to be a handy reference for executives, financial analysts and investors, agents and legal advisors, accountants, economists, legislators, regulators, and journalists.

Instructors should find it easy to design one-semester courses focused on one or two areas. A minimum grasp of what travel industry economics is all about would require that virtually all students read at least Chapter 1 and, at the end of the course, the first section of Chapter 8. But different modules can be readily assembled and tailored. Among the most popular would be a concentration on transportation modes, including airlines and cruise ships (Chapters 2 and 3). Another possibility might involve a course covering hotels, gaming and resorts, theme parks, and tourism (Chapters 4 through 7).

To stay focused, however, the larger aspects of transportation industries that could, for example, further include studies of airport planning and urban public transit have been omitted. In-depth analysis of tourism-related subjects that would take the text into areas such as trade and regional development are also merely sketched, as giving those topics the full treatments that they deserve would only distract from the primary purpose. For much the same reason, there is only tangential coverage of subjects that are commonly discussed in transport economics – externalities, infrastructure investment criteria, peak-load pricing, regulation, and social cost-benefit analysis, to name a few.

This second edition updates previous data and broadens coverage with new sections on airport management, restaurants, private jet services, Asian

gaming, recreational resorts, virtual tourism, and advertising. In addition, sections on public policy issues such as antitrust and predation and, most importantly, on oil have been added. The pricing and availability of oil, of course, vastly influences the economics of all travel and tourism industries.

I am indebted to the transportation and travel industry economists upon whose academic shoulders this work rests. Particularly noteworthy for making the task of exposition a lot easier than it would have otherwise been are Kenneth Button's *Transport Economics*; Kenneth Boyer's *Principles of Transportation Economics*; Adrian Bull's *The Economics of Travel and Tourism*; Rigas Doganis's airline economics masterpiece, *Flying Off Course*; and J. P. (Pat) Hanlon's *Global Airlines*. Also proving invaluable were Morrell's text on airline finance, Graham's on managing airports, Block's on REITs, Dickinson and Vladimir's on cruise ships, Meyer and Oster's on intercity passenger travel, Hayes and Ninemeier's *Hotel Operations Management*, and Friedman's, Greenlees's, and Scarne's pioneering works in the casino gaming field.

In addition, the book has substantially benefited from data made available by the various industry trade groups including the Airline Transport Associations (ATA and IATA) and the International Civil Aviation Organization (ICAO). Similar benefit was derived from data of the Cruise Lines International Association (CLIA), the United Nations World Tourism Organization (WTO), and the International Association of Amusement Parks and Attractions (IAAPA).

For the first edition, I thank Michael Lenz, Director of Investor Relations at American Airlines, for taking time to review a draft of the airline chapter, and Erin Williams, Manager of Investor Relations at Royal Caribbean, for reviewing the cruise ship section. Thanks similarly to Laura Paugh, Vice President for Investor Relations at Marriott International, for reviewing the hotel chapter. I am further indebted to Bobby Bowers of Smith Travel Research (STR), who kindly guided my quest for essential aggregate hotel industry data. And additional acknowledgments are due to Vance Gulliksen, head of Public Relations at Carnival Cruise, to Ryan Wahlstrom of cruisemarketwatch.com, and to Robert Mandelbaum of PKF Hospitality Research.

This project and several earlier ones also benefited enormously from the support of Scott Parris, economics editor at Cambridge University Press.

Even with such impressive backup, however, the responsibility for any errors that may inadvertently remain is mine alone.

In all, I hope and expect that readers will find *Travel Industry Economics* to be a truly enjoyable and moving experience. As Danish storyteller Hans Christian Andersen wrote, "to travel is to live."

All aboard!

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Part I

Introduction

1

Economic perspectives

Travel broadens the mind. – Proverb, early twentieth century

It also costs money and takes up time.

This chapter examines the fundamental economic factors that affect all aspects of the travel and tourism business. The perspectives provided by this approach will provide a framework for understanding how travel industries are defined and fit into the larger economic picture and will also highlight the financial features that guide investments in this field.

1.1 Time concepts

Alternatives

You need time to get from here to there. And given that time-transport machines are still to be seen only in science fiction films, it is worth spending a little time to understand the economic value of time.

Time for leisure or business travel comes out of a budget that includes time for work, time for play, and time for taking care of the necessities of life. In recent years, though, the boundaries between these categories have become