Shaping the future of travel in Korea

The big FOUR travel effects

October 2013
Contents

Foreword 3

The challenges and opportunities for Korea 4

The Korean traveller 5

The Me Effect: The increasing individualism of the Korean traveller 6
  The small-to-medium enterprise traveller 7
  The rise of the FIT 8
  The female business traveller – yet to emerge in Korea 8
  The VFR traveller 9
  Implications for the Industry – the Me Effect 9

The Red Tape Effect: The breaking down of barriers to travel 10
  The globalisation of the Korean economy 11
  The inbound business opportunity in Korea 11
  The inbound leisure opportunity – Korea is “cool” 12
  Implications for the Industry – the Red Tape Effect 12

The Leapfrog Effect: Technology & infrastructure in Asia Pacific 13
  The tech savvy Korean traveller 14
  The unique social media landscape in Korea 15
  Implications for the Industry – the Leapfrog Effect 15

The Barbell Effect: Growth at the upper and lower ends of the travel market 16
  The rapid growth in emerging markets 17
  The need for capacity at the budget end of the market 17
  The need for greater budget capacity in Korea 18
  Implications for the Industry – the Barbell Effect 18

Summary: The Korean traveller 19

Appendix
  Our approach 20
  Contributors 20
  About Amadeus 22
  About Frost & Sullivan 22
Foreword

This report follows on from our report “Shaping the future of travel in Asia Pacific: The big FOUR travel effects” and analyses the geopolitical, social, economic and technological trends that will have the greatest impact on the travel industry in Korea over the next 20 years. Primarily, we have sought to understand the implications of changing traveller behaviour on the travel industry – comprising transportation companies (airlines, rail operators and the like), accommodation and entertainment providers and intermediaries such as travel agents.

Korea is a hugely important outbound travel market – the third largest in Asia Pacific after China and Japan. Growth in travel from Korea over the past 30 years has been enormous, as Korean companies have internationalised and as Koreans have increasingly been able to afford international leisure travel. But matching this growth is a trend towards more diverse travel expectations and behaviour by Korean travellers. Korean leisure travellers are increasingly choosing to travel independently, away from the organised group tours that traditionally dominated the leisure market. And in the business travel sector we are seeing a move away from the dominance of travel by male executives of the large conglomerates (chaebols), as new groups emerge such as small business travellers and female business travellers. This greater individualism is being supported and encouraged by the use of technology.

Koreans are one of the most tech savvy people on Earth. They are increasingly using the internet to research and book their travel. But Koreans use the internet in unique ways – their social media landscape, for example, is quite different to everywhere else, and this needs to be understood by travel providers addressing the Korean market.

Korea is also an increasingly important inbound market. The government is actively encouraging inbound travel with over 11 million travellers visiting the country in 2012. Much of this growth is coming from the regional travel engine of China, but travel from other emerging markets such as India and Indonesia is also growing strongly. However, Korea needs to adapt its infrastructure to exploit the enormous wave of travellers from these countries.

Of course, these different effects and the various statistics will be of varying relevance to different elements of the industry – and I would encourage any interested party to review and draw their own conclusions.

The points this research and white paper undeniably highlight, however, are the opportunities that Asia Pacific now has to regain the leading position on the global stage that reaches well beyond travel, but to which it is inextricably linked.

Happy reading!

apacwhitepapers@amadeus.com
www.apacwhitepapers.amadeus.com
www.amadeus.com/blog/29/01/apacwhitepapers
The challenges and opportunities for Korea

Our research has identified four dominant themes that will fundamentally change travel in Korea to 2030. We have described these as “Effects”, because each will drive a significant change in the travel ecosystem, with implications for travellers, travel service providers and the industry at large.

**The Me Effect**
The fragmentation of the travel market into ever-increasing niches.

The emergence of new segments of travellers such as the Visit Friends and Relatives traveller, the female business traveller and the small business traveller who will be travelling to Korea in much greater numbers than before.

**The Leapfrog effect**
Technology & infrastructure changing travel behavior

The rapid development of technology – enabling travellers to behave in different ways.

**The Red Tape Effect**
The breaking down of barriers to travel within the Asia Pacific region.

The growth of emerging travel markets driven by liberalisation and economic growth across the region.

**The Barbell Effect**
Growth at the upper and lower ends of the travel market

As growth in the travel market is increasingly concentrated at the top and bottom ends of the travel market, this offers opportunities in both segments but particularly for budget providers such as hotels and airlines.
The Korean traveller

The growth in travel from Korea over the past 30 years has been extraordinary, matching Korea’s emergence as an industrialised, high income economy with many of its largest companies playing on the global stage. From one of the world’s poorest countries in the 1960’s, Korea has benefitted from the formula of promoting heavy industry and manufactured exports to become the 10th largest economy in the world. By 2011, 14 Korean companies were among the world’s largest 500 companies by revenue, and overseas sales by the largest Korean companies accounted for 52% of revenue, up from 44% in 2000.¹

As Korea has successfully globalised, its business executives have travelled overseas in rapidly increasing numbers. And since the 1990s economic growth has enabled significant numbers of Koreans to travel overseas for leisure and education. From less

than 350,000 international departures in 1980, Korea generated almost 14 million in 2012, an average annual growth rate of over 12%. International departures from Korea are now equivalent to 25% of the population – double the level of Japan and one of the highest in Asia Pacific. Korea is now the third largest travel market in Asia Pacific in terms of international departures, and is not far behind Japan, which has over double the population.

While the number of travellers has increased rapidly, the nature of Korean travellers is changing. Leisure travellers are increasingly confident in travelling alone or in small groups, away from the large organised group travel that often dominated leisure travel in the past. This growth in Free Independent Travellers (FIT’s) is driving change in the ecosystem of travel providers and intermediaries. At the same time, the Visiting Friends and Relatives (VFR) traveller segment will also grow, as Koreans increasingly choose to visit friends and relatives overseas.

In the business sector, the number of travellers from small-to-medium enterprises (SME’s) will grow strongly, as SMEs look to global opportunities. The number of female business travellers will grow sharply as more Korean women reach the executive ranks where business travel is required.

Korea therefore represents a fast-growing and rapidly changing travel market. We believe that the same four broad themes that are relevant to travel in the broader Asia Pacific region over the next 15 - 20 years also apply in Korea. We have termed these as “Effects” because each will have a broad impact across the travel ecosystem.

Sources: KTO

¹Source: McKinsey Global Institute, Beyond Korean Style: Shaping a new growth formula, April 2013
The Me Effect
The increasing individualism of the Korean traveller
The Korean economy is often thought of as dominated by the large conglomerates (chaebols) that have expanded their operations globally over the past two decades or so. Many of these chaebols have created dominant global positions. Hyundai Motors, for example, was founded in 1967 and is now one of the world’s largest vehicle manufacturers, selling in 193 countries. Samsung Electronics is now the world’s largest information technology company and has assembly plants and sales networks in 88 countries.

14 Korean companies are now in the world’s top 500 by revenue, and 3 are in the top 100.

As these large conglomerates have internationalised, business travel from Korea has increased significantly. Korea is now the third largest business travel market in Asia and eighth biggest in the world, with business travel expenditure growing on average 6% every year over the past decade.2

Yet, interestingly, despite the crucial role of the large conglomerates in the Korean economy, the majority of Koreans work for small-to-medium enterprises (SME’s). Companies employing 300 or fewer staff account for 85% of total employment in Korea. Almost 99% of the businesses in Korea are SMEs, yet they account for only 35% of total exports. Research indicates that relatively few of these SMEs currently trade internationally, with most focused on serving the domestic market. However the majority of Korean SME’s are now recognising that to grow they will need to address international markets.3

The Korean government is encouraging growth in the SME sector through increasing business in international markets. This is likely to stimulate the increase in SME business travellers from Korea, as SME’s look to adjacent markets for new sources of revenue. The SME traveller though is likely to be quite different from his or her counterpart at a large conglomerate. They will be more focused on budget travel and more likely to be doing business in nearby markets such as China and Japan. China is by far the most important target market for Korean SME’s.4

“The demand for overseas travel has increased every year and now the number of outbound travellers has hit a record. As more people travel abroad, travel products are becoming more diversified”
Ki Jung Hong, CEO, Mode Tour Network

Our research indicates that Korean travellers will become increasingly distinctive, travelling for a much wider and more specific range of reasons, with different aspirations and requirements for their travel experience. While a lot of travel in the past has often been undertaken in large groups through leisure packages sold in bulk, or in large organised business groups, future travellers in Korea will be in smaller groups, or even travelling alone.

‘New’ traveller types will emerge or grow significantly and will include:
1. Travellers from small-to-medium enterprises;
2. “FITs” or Free Independent Travellers;
3. Female business travellers; and
4. VFR or Visiting Friends and Relatives travellers.

We have called this the “Me Effect”.

**The small-to-medium enterprise traveller**

The Korean economy is often thought of as dominated by the large conglomerates (chaebols) that have expanded their operations globally over the past two decades or so. Many of these chaebols have created dominant global positions. Hyundai Motors, for example, was founded in 1967 and is now one of the world’s largest vehicle manufacturers, selling in 193 countries. Samsung Electronics is now the world’s largest information technology company and has assembly plants and sales networks in 88 countries.

14 Korean companies are now in the world’s top 500 by revenue, and 3 are in the top 100.

“Not only large conglomerates but also SMEs (Small and Medium Enterprises) are looking for new opportunities overseas. This leads to an increasing number of business travellers overseas”
Hakjin Park, Managing Vice President of Passenger Support Department, Korean Air

---

3Source: Korea Institute for Industrial Economics and Trade, Korean SME’s Capabilities for Globalization and Policy Implications
4Source: Korea Institute for Economics and Trade, Korean SME’s Capabilities for Globalization and Policy Implications
The rise of the ‘FIT’

“We are seeing an increasing number of FIT travellers. Due to IT technology developments, an increasing number of travellers like to customise their own travel plans and current conventional travel agencies can’t cope with that demand”

Younggeun Lee,
Deputy Director, Korean Tourism Organisation

Traditionally the family has been at the centre of Korean society, and Koreans have travelled in family groups for leisure reasons, often as part of organised group tours. However, Korean culture is slowly veering towards individualism and this is driving an increase in the number of Free Independent Travellers (“FITs”).

FITs are now accounting for a majority of leisure travellers from Korea.

Our research indicates that almost 70% of Koreans are now travelling independently, although still mainly in family groups. Solo travel is still relatively uncommon in Korea, particularly when compared to Japan. Only 9% of Korean leisure travellers typically travel solo, compared to almost one quarter in Japan.

“The female business traveller – yet to emerge in Korea

The vast majority of business travellers from Korea are male, with females making up less than one-quarter of overall business travel, the lowest portion in the Asia Pacific region outside Japan. Although overall female participation in the workforce at 55% places Korea in the middle of major Asia Pacific economies, the representation of women in senior management positions where travel is likely to be required is very low. Women currently form only 2% of the membership of executive committees in Korea, and less than 1% of the CEO’s of Korea’s largest companies are female.5

Figure 2: Female business travellers as percentage of total

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

1Source: Heidrick & Struggles, A more diverse workplace: Increasing women’s power in Korea, 2013
Whilst there are strong cultural and societal factors that have impacted on the ability of women to reach more senior management roles, this is slowly changing. Encouraging gender diversity is increasingly on the radar of Korea’s largest companies, and with an increased willingness to introduce more flexible working practices the proportion of women in senior management ranks in Korea will grow. The election of Korea’s first female President in late 2012 is perhaps symbolic of this trend.

As more women enter the senior management ranks of Korea’s companies, we expect that the number of female business travellers will increase significantly, from just over half-a-million international business travellers in 2012 to near two million by 2030. With females having different expectations from the travel process, and researching and booking their travel in different ways, business travel providers will need to adjust to the growth of this group.

The VFR traveller

Korea has a large Diaspora of almost seven million overseas Koreans, largely living in the USA, China and Japan, but with increasingly large Korean populations in countries such as Australia, Canada and New Zealand. The size of this Diaspora, and the increased willingness and ability of Koreans to travel to visit overseas friends and relatives, is stimulating rapid growth in Visiting Friends and Relatives (VFR) travellers.

VFR travellers tend to behave in different ways to other travellers – often with a longer than average stay (particularly for older VFR travellers) and being more likely to stay in private accommodation than in hotels.

“Koreans love to travel to the US and Canada – large numbers attend university there and many have relatives settled in those countries”

Simon Akeroyd,
Vice President, Business Development, Amadeus Asia Pacific

Implications for the Industry – the Me Effect

The Me Effect will require travel service providers to provide a differentiated service, and to invest more in understanding the individual needs and aspirations of their customers. This could involve both changes to the physical product, for example the introduction of “female only” floors at hotels for female business travellers, but also in the way that service providers communicate with their customers. Female business travellers, for example, are likely to use different research processes than their male counterparts, relying more on peer recommendation, which in turn influences the way in which service providers need to communicate with them.

Small business travellers are more likely to be flying on a budget, and require a greater level of business support whilst travelling. The travel industry can address this segment by offering business support facilities as part of their service. As with small business travellers, FITs are likely to be undertaking their own travel research and often booking their own travel. To stay relevant, travel agents will need to evolve their service to provide a greater level of advice, and perhaps even consider a fee-for-service basis.

Finally, the growth of Visiting Friends and Relatives (VFR) travellers is likely to stimulate travel particularly to and from markets with large Korean Diasporas – such as the USA, China, Russia and Australia. Additional capacity may need to be created by the industry to meet this increase in demand to and from these locations.

Our research shows that almost half of Korean travellers have close family members currently living overseas, and 90% of Korean travellers express the wish to visit their overseas relatives.

Within the Asia Pacific region the growth of VFR travel is likely to stimulate travel to countries such as China, Japan, Australia and New Zealand, where large numbers of ethnic Koreans live. VFR travellers, for example, now account for 13% of Korean visitors to Australia (almost double the number of business visitors).6

Figure 3: Overseas Koreans by location

Source: Ministry of Foreign Affairs and Trade

Source: Tourism Australia, South Korea Market Profile, 2012
The Red Tape Effect
The breaking down of barriers to travel
The globalisation of the Korean economy

Korea is more heavily dependent on global trade for its economic prosperity than the other major Asia Pacific economies. Exports account for over half of Korea’s GDP – a much higher percentage than other developed Asia Pacific economies such as Japan and Australia. As an economy heavily dependent on external trade, Korea’s largest companies are heavily globalised, driving significant international business travel from Korea. About 2.5 million Koreans travel overseas for business each year, as their business employers seek to drive their export business.

The Korean government is actively increasing Korea’s place in the global economy, and reducing barriers to trade. Since the establishment of the FTA Roadmap in 2003, the Korean government has actively pursued free trade agreements (FTA’s) with its key trading partners. Korea already has 13 trade agreements in force, with a number of others under negotiation. As the barriers to trade are reduced, regional trade with Korea and the travel that accompanies it will increase. In particular, small-to-medium enterprises in Korea will increasingly look to do business overseas. And overseas companies will be increasingly attracted to doing business in Korea, as some of the barriers that have made Korea a tough market for international companies continue to dissipate.

Greater economic convergence and integration across the region will gather pace and governments will continue to liberalise the regulations that have impeded trade, and associated travel. This will be seen through the liberalisation of visa requirements and of air travel agreements. We believe that Korea will become much more important as an inbound travel market – both for business and leisure travellers. The Korean government will increasingly seek to stimulate trade through free trade agreements and other measures that have impeded inward investment into Korea, and this will drive inbound business travel. At the same time, Korea is becoming increasingly important as a leisure destination for Asia Pacific tourists, particularly the younger destination that sees Korea as a “cool” destination. We have called this the “Red Tape Effect” as the red tape that has impeded travel is gradually cut.

The Red Tape Effect

“In terms of Chinese travellers, it’s still not very convenient to visit Korea due to visa issues”

Hakjin Park, Managing Vice President of Passenger Support Department, Korean Air

“Travellers want more convenience. Visa processes - get rid of the red tape. This will help boost travel”

Angel Gallego, President, Amadeus Asia Pacific

The inbound business opportunity in Korea

Korea has traditionally been an outbound business travel market. Only 215,000 business travellers visited Korea in 2012, mainly from China, Japan and India. The number of inbound business travellers has been little changed over the past decade as Korea has generally not been a target market for most overseas companies – concerned about the difficulties in doing business in Korea, such as language, red tape and the preferences often given to domestic companies.

“Consumers in Korea favour local products. Hyundai, KIA and Samsung cars take up the road. Only now are major European and US brands slowly gaining a foothold”

Simon Akeroyd, Vice President, Business Development, Amadeus Asia Pacific

But the size of the Korean economy and improved access to its market are likely to stimulate increased interest from overseas companies, driving more and more inbound business travel.

Source: OECD, External Trade as Percentage of GDP
Source: Korean Tourism Organisation
Korea is also growing rapidly as an inbound leisure travel destination, with the number of inbound leisure travellers more than doubling over the past decade. The bulk of the increase is coming from the rapidly growing Asian economies. Inbound visitors from China, for example, have increased tenfold over the past decade, and visitor numbers from Indonesia and Thailand have grown impressively. The Korean government has eased visa restrictions on travellers from countries such as India and Indonesia to further encourage travel from these rapidly growing markets. This has had a significant effect on stimulating travel to Korea, with most of the increase coming from neighbouring Asia Pacific countries.

Korea is increasingly seen as a “cool” destination by young Asians, as cultural phenomena such as K-Pop drive increased interest in travelling to Korea. This so-called “Korean Wave” (or Hallyu) is now effectively global and is being used by the Korean government to stimulate international trade – for example by promoting it as a key plank of inbound tourism.

“K-pop is a manifestation that Korea is ‘cool’. K-pop started off in Korea and is now branching out and becoming very popular across Asia – in Japan and Thailand especially”

Simon Akeroyd,
Vice President, Business Development, Amadeus Asia Pacific
The Leapfrog Effect
Technology & infrastructure in Korea
“The penetration of the Internet helps anyone obtain plenty of travel-related information, which is providing travellers with much greater insight into their destination”

Ki Jung Hong,
CEO, Mode Tour Network

A key aspect of travel over the next two decades will be the revolutionary impact that technology will have on the travel experience. This effect will be particularly marked in the Asia Pacific region, where technologies such as the high-speed mobile Internet will create a significant shift in the way that travellers research and manage their travel. In many respects the Asia Pacific region will leapfrog the rest of the world in adoption of mobile technologies.

Korea leads the Asia Pacific region (and indeed the world) in adoption of information technology, and this is driving significant change in travel behaviour. We have called this the ‘Leapfrog Effect’ as countries like Korea overtake or leapfrog other markets in their use of technology, manifesting itself in ways such as the increased use of mobile devices and social media during travel.

The tech savvy Korean traveller

“Korea’s technology infrastructure is phenomenal. Everywhere is connected with WiFi. It’s pervasive. It’s expected to be everywhere. Technology in metro Korea is the highest level of anywhere I have seen. Everyone has the latest smartphone (Samsung) - technology adoption is among the highest in the world”

Angel Gallego,
President, Amadeus Asia Pacific

Koreans are probably the most tech savvy travellers in Asia Pacific. Virtually every Korean up to the age of 50 uses the Internet, averaging over two hours per day. Well over half of Koreans buy products and services on the Internet, including travel. Our research shows that usage of the internet to research and book travel is the highest in the region, with 66% of Korean leisure travellers generally booking their travel online (either via a travel agent’s website or on websites of travel providers). For the rapidly growing FIT segment in Korea, internet use is helping travellers to independently plan and book their travel.

At the same time Korea has the highest smartphone penetration in the world, estimated at 73% in 2013. Koreans are more confident than most in using their smartphones to make travel arrangements and bookings when travelling, encouraged by their experiences with fast and reliable mobile broadband networks in Korea.

Figure 5: Use of smartphones to make travel arrangements and bookings, by country

For travel providers, therefore, the Internet is increasingly important to reach the Korean traveller. It is possible that traditional travel distribution channels in Korea will be increasingly by-passed, as the Korean leisure traveller is more confident in self-management of their travel, enabled by the Internet and the increasing use of mobile devices.

Source: Korea Communications Commission, Survey on the Internet Usage, 2011
Korea has a highly vibrant but unique social media culture. Two-thirds of Koreans use social media, including virtually everyone in their 20’s, but the type of use is quite different to other countries. Websites such as Yahoo! and Facebook trail their counterparts in Korea such as Naver and Tistory. Maintenance of a personal blog is highly common in Korea, with 84% of social media users reading or maintaining a blog, and over two-thirds maintaining a unique site called a “minihomepy,” which is a personalised online space such as a homepage or landing page, available through the Cyworld network, allowing users a significant amount of self-expression.10

Use of social media during travel is very prevalent in Korea, with over 80% of Korean leisure travellers using social media during their trip, the highest proportion in the region outside Indonesia, and over double the level in Japan.

“Our social media networks are rapidly increasing in popularity amongst all ages which helps to drive demand for travel through these channels”

WS Lee
PSS Project Executive, TOPAS

Figure 6: Proportion of leisure travellers who use social media during travel

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

Implications for the Industry – the Leapfrog Effect

Korean travellers will increasingly use the internet to research and manage their travel, and an increasing amount of this will be done through smartphones. Travel providers need to ensure that they not only have an effective web presence, but that presence is optimised for mobile.

Social media will also become critical for the industry, as travellers use it not just to research but increasingly to transact. Direct purchasing from a social media site, for example, is likely to become more common as the major social media platforms enhance their service offerings. Korean travel providers addressing inbound markets also need to adapt to the very different social media landscapes outside Korea and develop a stronger social media presence in international markets.
The Barbell Effect
Growth at the upper and lower ends of the travel market
The rapid growth in emerging markets

“The number of travellers from South East Asia has increased but they are not spending a lot of money when compared to Japanese travellers – they rather use LCC’s than premium airlines such as Korean Airlines”

Hakjin Park,
Managing Vice President of Passenger Support Department, Korean Air

As outlined in our regional report “Shaping the future of travel in Asia Pacific: The big FOUR travel effects”, the bulk of growth in traveller numbers across the Asia Pacific region over the next two decades will come from the emerging economies of China, India and Indonesia. The number of travellers to Korea from these countries is growing enormously, at a much faster rate than travellers from the more traditional market of Japan. But despite the rapid growth in traveller numbers, most travellers from emerging economies will still be travelling on a budget, as even by 2030 per capita average incomes will be well below mature market levels.

Hence to capture the growing traveller numbers from emerging economies, Korea will need to increasingly cater for the budget traveller with facilities such as budget airlines and hotels. Korea faces similar challenges to Japan, not just through its high costs but through the relative lack of infrastructure for budget travellers. We have called this the “Barbell Effect” as future growth in infrastructure is increasingly concentrated at the upper (luxury) and loser (budget) levels of the travel spectrum.

The need for capacity at the budget end of the market

“The demand for short haul trips to Japan, China, Southeast Asia, etc. is growing faster than that of long-haul. This fast growing demand for short haul is driven by the higher competitiveness of LCCs”

WS Lee,
PSS Project Executive, Topas

Although Korea has a number of budget airlines such as Jeju Air and Air Busan, their international market share is still relatively low at less than 10%, in comparison to over 30% in markets like Singapore. Budget airlines do have a very strong market position for domestic travel, with a share over 50%. However that position has yet to translate into the international market. Our research shows that only 35% of Korean leisure travellers and 25% of business travellers have used budget airlines in the past 12 months, a much lower proportion than in most Asia Pacific markets.

Source: Survey of 1,531 Asia Pacific Travellers, August 2012

Budget airlines to some extent have also been held back in Korea by cultural expectations towards “full-service” air travel, especially on international flights.
Implications for the Industry – the Barbell Effect

With most of the growth in travel over the next two decades coming from emerging economies, the travel industry in Korea will need to adapt. There will be a growing demand for luxury travel, as the number of high net worth individuals increases, particularly in markets such as China, India and Indonesia. But the bulk of the growth will be in budget travellers, as average incomes in these emerging economies will still be well behind the levels in developed countries. As well as improving budget airline capacity, Korea will need to address other elements of its travel infrastructure such as rail, bus etc. This is the issue that most airline companies are facing and that’s why LCCs in Korea like Jin Air, are providing more service than in other countries.”

Hakjin Park, Managing Vice President of Passenger Support Department, Korean Air

However budget carriers are important to stimulate travel, particularly for the emerging class of traveller from countries such as China, India and Indonesia that is likely to be travelling on a budget. To ensure it can compete as a destination, Korea needs to ensure that capacity at the budget end of the market is expanded.

“Budget airlines’ penetration rates are low in Japan, Korea and China – this is where the huge potential is”

Peter Harbison, Executive Chairman, CAPA - Centre for Aviation

The growth of international budget airlines in Korea is being held back by their ownership by the major full-service carriers Korean Air and Asiana Airlines, as these airlines still develop their dual brand models. But to meet the enormous growth potential in markets such as China, India and Indonesia, Korea will need to enhance its budget airline capacity, both in terms of a greater range of flights but also the infrastructure to address them. Stimulating budget airline capacity in Korea is likely to require significant enhancements to airport infrastructure outside the main hub of Incheon. This could involve enhancements to the older Gimpo airport as well as to other regional airports outside the Seoul area. And Incheon airport itself is likely to require additional terminal capacity and ideally a dedicated budget carrier terminal to address the likely rapid growth in budget airline capacity.

“Korean inbound traffic will be to more varied places – not just Seoul. Technology will be the key to facilitate that demand. Without it, connections don’t work properly, and the proposition is too restrictive”

Simon Akeroyd, Vice President, Business Development, Amadeus Asia Pacific

However budget carriers are important to stimulate travel, particularly for the emerging class of traveller from countries such as China, India and Indonesia that is likely to be travelling on a budget. To ensure it can compete as a destination, Korea needs to ensure that capacity at the budget end of the market is expanded.

Implications for the Industry – the Barbell Effect

With most of the growth in travel over the next two decades coming from emerging economies, the travel industry in Korea will need to adapt. There will be a growing demand for luxury travel, as the number of high net worth individuals increases, particularly in markets such as China, India and Indonesia. But the bulk of the growth will be in budget travellers, as average incomes in these emerging economies will still be well behind the levels in developed countries. As well as improving budget airline capacity, Korea will need to address other elements of its travel mix that still make it a relatively high-cost destination. Average hotel prices in Korea, for example, are higher than those in China or Japan. With the next generation of Asia Pacific travellers being increasingly cost-conscious, Korea will need to ensure it has the capacity in place to address the rapidly growing budget travel market.

Source: The Hotel Price Index, 2012
Korea is one of the travel powerhouses of the Asia Pacific region. It is the third largest travel market after China and Japan in terms of outbound travellers. But the percentage of the population that travels internationally is much higher than in China and Japan, and at current growth rates, outbound traveller numbers from Korea are likely to exceed those from Japan within the next few years.

The growth rate in outbound travel from Korea over the past decades has been remarkable, with traveller numbers increasing by an average of over 12% annually, as Korean companies have increasingly internationalised driving business travel, and as Koreans have been able to afford to travel for leisure and education reasons. Whilst this growth in outbound traveller numbers will continue, we expect that the Korean traveller will become more diverse. More Koreans will choose to travel independently for leisure purposes, with the internet increasingly used as a resource to research and book their travel. And the outbound business traveller market is also likely to become more fragmented, as segments such as the small business traveller and female business traveller become more significant.

As well as being a growing and increasingly fragmented outbound market, Korea will grow rapidly as an inbound market. Improved access to the Korean domestic market will see a greater number of international business travellers visiting Korea. And as Korea continues to build upon its status as a “cool” destination, leisure travel will increase as well, particularly by younger travellers. The enormous growth potential of the Asia Pacific leisure travel market is well-documented. But to exploit this opportunity, Korea will need to focus on enhancing its infrastructure especially at the budget end of the market.

This has a number of implications for travel providers such as airlines and hotel groups. The nature of travel distribution is likely to change as Koreans increasingly self-manage their travel, using the internet to research, communicate and book. Korea’s unique social media landscape and high usage of mobile devices means that travel providers will need, for example, to ensure that they have mobile versions of their websites available. And with the increasing fragmentation of the outbound leisure market, travel providers will need to provide more nuanced and differentiated offers to the emerging market segments in Korea.

But above all, travel providers will need to ensure that they are using the latest technology to attract, to communicate and to transact with the tech savvy Korean traveller.

As the inbound market in Korea grows, authorities will need to address the capacity issues which are likely to emerge. With many travellers of the future from Asia Pacific likely to be on a budget, Korea needs to pay attention to greater budget airline capacity, as well as increased availability of budget hotels.

Korea is on the precipice of an amazing opportunity. If it can develop the right capacity to meet the enormous growth in travel to the market, it will not only benefit as a nation, but to the growing number of travellers visiting this increasingly “cool” destination.

Summary

The Korean traveller

Korea is one of the travel powerhouses of the Asia Pacific region. It is the third largest travel market after China and Japan in terms of outbound travellers. But the percentage of the population that travels internationally is much higher than in China and Japan, and at current growth rates, outbound traveller numbers from Korea are likely to exceed those from Japan within the next few years.

The growth rate in outbound travel from Korea over the past decades has been remarkable, with traveller numbers increasing by an average of over 12% annually, as Korean companies have increasingly internationalised driving business travel, and as Koreans have been able to afford to travel for leisure and education reasons. Whilst this growth in outbound traveller numbers will continue, we expect that the Korean traveller will become more diverse. More Koreans will choose to travel independently for leisure purposes, with the internet increasingly used as a resource to research and book their travel. And the outbound business traveller market is also likely to become more fragmented, as segments such as the small business traveller and female business traveller become more significant.

As well as being a growing and increasingly fragmented outbound market, Korea will grow rapidly as an inbound market. Improved access to the Korean domestic market will see a greater number of international business travellers visiting Korea. And as Korea continues to build upon its status as a “cool” destination, leisure travel will increase as well, particularly by younger travellers. The enormous growth potential of the Asia Pacific leisure travel market is well-documented. But to exploit this opportunity, Korea will need to focus on enhancing its infrastructure especially at the budget end of the market.

This has a number of implications for travel providers such as airlines and hotel groups. The nature of travel distribution is likely to change as Koreans increasingly self-manage their travel, using the internet to research, communicate and book. Korea’s unique social media landscape and high usage of mobile devices means that travel providers will need, for example, to ensure that they have mobile versions of their websites available. And with the increasing fragmentation of the outbound leisure market, travel providers will need to provide more nuanced and differentiated offers to the emerging market segments in Korea.

But above all, travel providers will need to ensure that they are using the latest technology to attract, to communicate and to transact with the tech savvy Korean traveller.

As the inbound market in Korea grows, authorities will need to address the capacity issues which are likely to emerge. With many travellers of the future from Asia Pacific likely to be on a budget, Korea needs to pay attention to greater budget airline capacity, as well as increased availability of budget hotels.

Korea is on the precipice of an amazing opportunity. If it can develop the right capacity to meet the enormous growth in travel to the market, it will not only benefit as a nation, but to the growing number of travellers visiting this increasingly “cool” destination.
Appendix

Our approach

We sought qualitative and quantitative input from three sectors; travel service providers, industry associations and travellers themselves.

Specifically, we undertook 17 in-depth, one-on-one interviews with thought leaders from the travel industry across the region, including inputs from industry associations, national tourism bodies, airlines, hotels, travel agents and consultants. We also interviewed several of Amadeus’ own thought-leaders. Contributors are listed at the back of the report.

We undertook quantitative research with 1,531 business and leisure travellers (defined as individuals who have travelled overseas at least once in the past 12 months) from the seven key markets of Australia, China, India, Indonesia, Japan, Korea and Singapore. The research therefore involved travellers from both developed markets (the OECD members of Australia, Japan and Korea, plus Singapore) and the emerging and highly populous markets of China, India and Indonesia. Research was undertaken by means of an online survey.

We also reviewed existing published sources on the travel industry in the region, from sources such as the World Tourism Organisation (WTO), Centre for Aviation (CAPA) and the Pacific Asia Travel Association (PATA), as well as from broader data sources such as the Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD).

Contributors

We are extremely grateful to all the individuals who contributed their time and ideas to the development of this report:

Angel Gallego, President, Amadeus Asia Pacific
Dr Li Qiang, CIO, Air China
Hakjin Park, Managing Vice President of Passenger Support Department, Korean Air
Jayson Westbury, CEO, Australian Federation of Travel Agents
John Koldowski, Head of Research, Pacific Asia Travel Association (PATA),
Jonathon Broughton, Head of GSR, American Express Corporate Travel
Ki Jung Hong, Vice President, Mode Tour Network
Markus Keller, Regional Director Sales, Accor Hotels
Mitsunori Nobe, President and CEO, JTB-CWT Business Travel Solutions, Japan
Keisuke Okada, EVP Alliances & International Affairs, All Nippon Airways
Peter Harbison, Executive Chairman, Centre for Aviation (CAPA)
Puneet Mahindroo, former Corporate Director of Revenue Management & Global Distribution,
Rajnish Kapur, Chief Innovation Officer, Makemytrip.com, India
WS Lee, PSS Project Executive, TOPAS
Yeoh Siew Hoon, Editor and Founder, Web-in-Travel

Younggeun Lee, Deputy Director, Korean Tourism Organisation

We are also grateful for the time and perspectives of the following senior Amadeus representatives:

Ankur Bhatia, Director, Amadeus India

Bruno Des Fontaines, Vice President, Customer Solutions Group, Amadeus Asia Pacific

John Chapman, Vice President, Airline Account Management and Sales, Amadeus Asia Pacific

Karun Budhraja, Vice President, Corporate & Marketing Communications, Amadeus Asia Pacific

Leon Herce, Vice President, Market Management, Amadeus Asia Pacific

Miho Ohtake, General Manager, Amadeus Japan

Simon Akeroyd, Vice President, Business Development, Amadeus Asia Pacific

Disclaimer

The opinions and viewpoints expressed in this report do not necessarily reflect wholly those of the contributors.

All information is accurate at time of publishing.

For more information about this report, please contact corporate marketing communications at Amadeus Asia Pacific

Email: apacwhitepapers@amadeus.com
About Amadeus

Amadeus is a leading provider of advanced technology solutions for the global travel industry. Customer groups include travel providers (e.g. airlines, hotels, rail and ferry operators, etc.), travel sellers (travel agencies and websites), and travel buyers (corporations and travel management companies).

The Amadeus group employs around 10,000 people worldwide, across central sites in Madrid (corporate headquarters), Nice (development) and Erding (operations), as well as 71 local Amadeus Commercial Organisations globally.

The group operates a transaction-based business model. For the year ended December 31, 2012 the company reported revenues of €2,910.3 million and EBITDA of €1,107.7 million.

Amadeus is listed on the Spanish Stock Exchange under the symbol "AMS.MC" and is a component of the IBEX 35 index.

To find out more about Amadeus please visit www.amadeus.com

About Frost & Sullivan

Frost & Sullivan enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company’s Growth Partnership Service provides the CEO and the CEO’s Growth Team with disciplined research and best practice models to drive the generation, evaluation, and implementation of powerful growth strategies. We leverage 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from over 40 offices on six continents. For more information about Frost & Sullivan’s Growth Partnership Services, visit http://www.frost.com