Dr. Fried & Partner
MANAGEMENT CONSULTING

SCENARIOS 2025

An outlook into the future of the travel industry

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In cooperation with

TRAVEL INDUSTRY CLUB
The Open Minds Network.

PROJECT TEAM

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1. INTRODUCTION

The year 2020 brought unexpected challenges for the tourism industry and required rethinking and new perspectives. How will it continue in the years to come? What does the travel industry expect? At the end of the year, we dare to have a glimpse into the future. Together with members of the Travel Industry Club's Think Tank, we have developed five scenarios for the German market that represent the possible future of the tourism industry in 2025. The scenarios are deliberately pictured in a striking and exaggerated manner to show the range of possibilities.

The arrangement of the scenarios is based on the degree of structural and procedural effects from the perspective of the current market participants. While the „Revolution" scenario is accompanied by major changes in both dimensions, the structural and procedural effects of the „Apocalypse" tend to be the opposite.

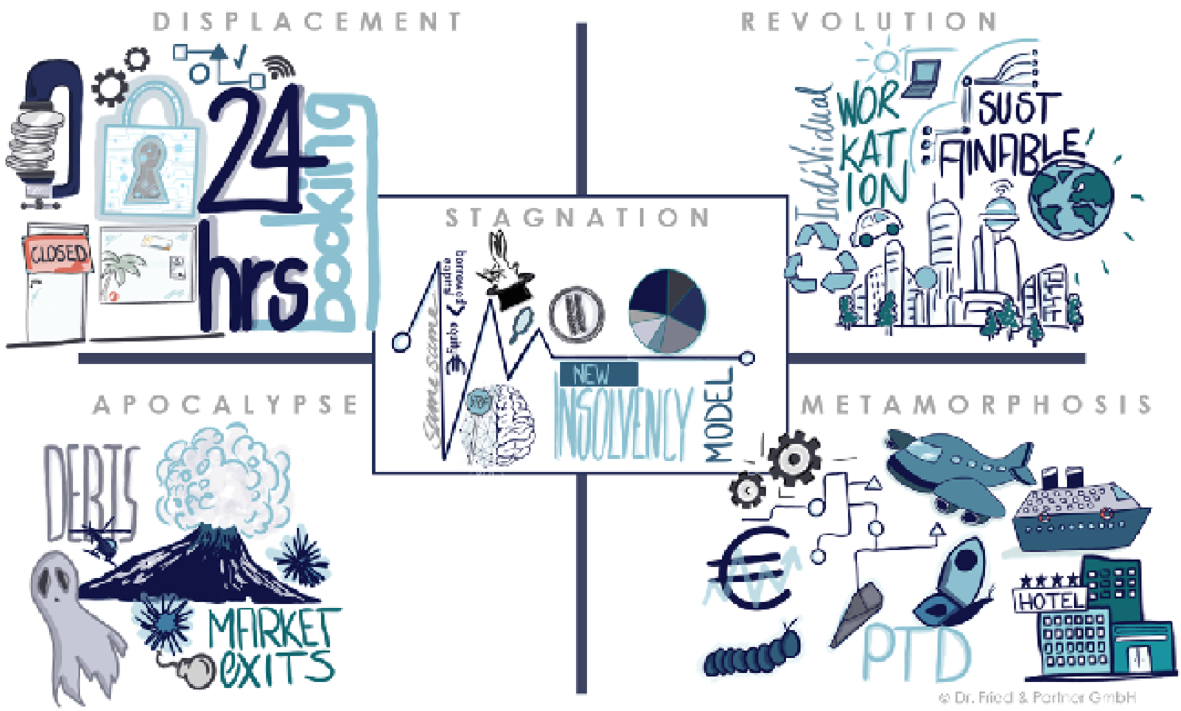

Illustration 01
Striking visualisation of the scenarios (own illustration)

The scenarios in short:

- Displacement: Platforms keep winning, production and sales take place in familiar processes
- Revolution: High degree of innovation through new players, sustainable change process
- Metamorphosis: Current market participants with a high degree of further development in processes and products
- Apocalypse: Exit of many market participants with simultaneous development standstill
- Stagnation: No far-reaching structural or process changes

A detailed description of the individual scenarios can be found in chapter three.

Based on the five developed scenarios, we carried out a representative survey at the end of the year, in which over 600 experts from the Travel Industry Club's environment participated. The aim was to determine the probability of the occurrence of the different scenarios and individual manifestations.

2. PROSPECTS FROM AN INDUSTRY PERSPECTIVE

Our analysis results make it clear: The tourism industry is on the verge of a new departure, which will be borne primarily by the current market participants. A self-renewal of the industry as part of the "Metamorphosis" is the most likely scenario. However, also the "Revolution", as a comprehensive upheaval of existing structures as well as increasing cutthroat competition from online platforms, will have a massive impact on the future from the industry's point of view. Clearly, there will be no "business as usual", just as an "apocalyptic" scenario is also unlikely.

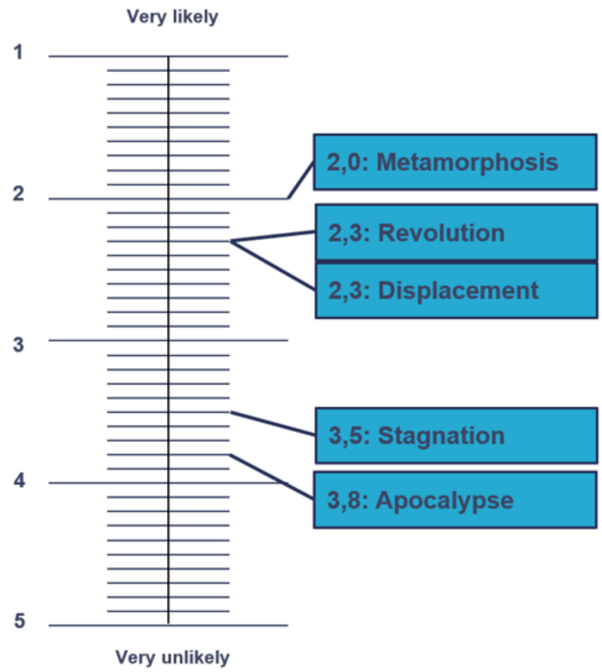

Illustration 02
Probability of the scenarios occurring (own illustration)

The belief in change is evident across all areas of the industry, with representatives from IT and data-oriented companies in particular having an above-average belief in the "Metamorphosis" and "Revolution" scenarios. Tour operators rather see themselves in cutthroat competition. Regarding the age groups of the respondents, Generation Y in particular cannot imagine an "apocalyptic" scenario. Especially when compared to upper management, young professionals are more likely to expect a “Revolution” and anticipate a structural realignment of the industry.

Overall, it is clear: As soon as possible, customers will travel again - also internationally. In 2025, digitalisation, flexibility and sustainability will determine customer behaviour. Existing market participants – whether in current or new company forms – will continue to shape the picture, provided they manage to set up efficient digital processes, increase productivity and add new, customer-centric forms of offer to the product ranges. Otherwise, they will not be able to compete with digital platform and innovative niche providers that are pushing into the market. The basic requirement is the optimization and future-oriented alignment of funding structures and financing models. Low capability for innovation combined with weak funding leads to the exit of some market participants.

Due to a worsening shortage of skilled workers, the competition between existing market participants and new players is not only about the favour of customers, but also about the favour of qualified employees. In particular, digital companies with an innovation mentality attract young professionals.

In order to secure the future of the tourism industry also after the crisis, political support is required, among other things in the form of compensation and support measures as well as regarding the revision of the Package Travel Directive and insolvency protection. It is also clear, however, that it is not only politics that is required to overcome the crisis and shape the future of the tourism industry. Rather, every company should make the best possible use of the current crisis and the available resources in order to position itself for the future and to push innovation and digital, efficient processes.
Overall, a constructive mood of optimism is visible in the tourism industry regarding the future. Now it is important to use it and prepare for the challenges of the coming years.

3. THE SCENARIOS

3.1. METAMORPHOSIS: THE INDUSTRY IS REINVENTING ITSELF

Current players are entering the travel market with new, future-oriented approaches and structures as well as improved productivity. The travel industry has used the crisis to make extensive investments in modern systems, new products, and the further development of its organizations. The asset models of important market participants enable a rapid revival of the industry after the crisis. In addition, market-oriented solutions regarding the Package Travel Directive and insolvency protection ensure a future-oriented industry development and that most market participants remain in the industry. The industry‘s attractiveness for young professionals also benefits from this.

System improvements are the central element for efficient processes, new product strategies and increased productivity. Process loops and manual interventions are reduced to a minimum thanks to high-performance interfaces and modernized system applications.

Political cooperation in the form of a coordinated, goal-oriented representation of touristic interests is part of everyday life. The relevance of political cooperation was highlighted throughout the implementation of a market-oriented revision of the Package Travel Directive and insolvency protection, which prevented a wave of market exits after the crisis.

Asset strategy is the dominant approach. Market participants pursuing vertical integration had additional disadvantages during the crisis but were interesting from an investor‘s point of view. In addition, after the crisis they were able to restart all levels of the value chain quickly and efficiently in a coordinated manner and adapt them to government requirements.

3.2. REVOLUTION: EVERYTHING CHANGES

Based on the disruptive power of the Corona crisis, the travel industry has changed completely. A large number of new travel offers dominate, which combine both work and vacation, implement sustainability and are highly flexible. The extensive use of customer data enables widespread customization of both offer and customer approach. Booking processes are digitized and highly automated. Platform operators and innovative specialists dominate tourism and the entry of new players into the travel market leads to a better funding structure. The industry is bursting with innovation and attracts young talents.

New forms of travel determine the future:

> **Resonance vacation** redefines tourism. Monotonous mass tourism and comparable offers that appeal to travellers primarily as isolated tourists only play a subordinate role. Instead, the demand for authentic and touching experiences in harmony with nature, culture, and surroundings as well as individualized, value-oriented offers has a massive impact on the touristic offer.
>
> **Workation** is no longer exclusively reserved for digital nomads and executives. Instead, there is no longer a clear separation between vacation and work at all levels.

Digitized processes are relevant enablers to meet the demand for flexible forms of booking and offers. Automated and digitized cancellation and payment processes meet the customers‘ need for flexibility and increase the providers‘ efficiency. Offers in rural areas are also fully digitally available and integrated.

Changed industry culture through new travel offers, new digital opportunities, new players in the market and changed structures. The high degree of innovation and the high innovation mentality have a strong external effect that counteracts the shortage of skilled workers.

3.3. DISPLACEMENT: SHIFTS IN THE MARKET

The continuous migration of customers, especially to the large booking platforms, continues. Hence, they continue to gain market share. On the other hand, poor innovative ability, and weak funding forces "older" market participants to exit. Overall, the market is consolidating, and new providers of the New Economy are occupying product areas such as destination services or activity offers. The existing market participants continue to work with legacy systems that are only slowly enabling digitization as in other industries. The use of data is heavily restricted by law, which means that better product and service orientation towards customers is only possible to a limited extent. The shortage of skilled workers remains.

Platform economy causes digital providers to be the winners due to their increased ability to innovate and their consistent focus on the booking and travel behaviour of their customers. Old IT infrastructures were replaced by cloud-based systems, and processes were largely digitized and automated. Legacy systems can no longer keep up.

Extended booking offer in the digital environment. The population not only books local experience offers and trips digitally and in advance, but also the individual services in the destination. This trend was accelerated by distancing rules, admission restrictions, and so forth during the pandemic, has offered space for new digital players and has now established itself in the long term. It is reinforced by customisation - new players are serving the demand for unique products.

Restrictive data usage makes customer orientation difficult. Despite the focus on digital offers and platforms, restrictive regulations on data usage continue to make customer-centric marketing and production more difficult. Production and sales processes are therefore unchanged.

3.4. STAGNATION: NOTHING HAPPENS

The aid measures put in place during the Corona crisis are taking effect and the industry finds itself in its usual structures, with the same market participants and the same balance of power as before the crisis. The burden of debt is alleviated through measures such as capital conversion or debt relief. Against this background, nothing changes in the limited attractiveness of the industry for young talent.

3.5. APOCALYPSE: EVERYTHING IS BREAKING DOWN

The Corona crisis left a deep, irreparable cut in the behaviour and trust of the population. Travel intensity is not returning to pre-crisis levels. The low existing demand focuses primarily on a favourable price performance ratio. Moreover, a lack of income in turn prevents investments in new technology and a future-oriented orientation of the market participants. In addition, missed opportunities regarding a market-oriented insolvency protection and Package Travel Directive lead to many market exits of traditional tourism companies. These circumstances make the industry even less attractive to work in.

A decline in travel is clearly noticeable. Even after overcoming the pandemic, the population is still unsettled, hence travel intensity is at a very low level compared to the pre-crisis period. Travel primarily focuses on domestic trips or the direct neighbouring countries – a business that often bypasses tour operators and stationary travel sales. Long-distance travel and also business trips, which used to be a high margin business, hardly take place at all.

Market exits are on the agenda. Continuous market exits followed the first wave of insolvencies due to the re-enforcement of the bankruptcy reporting obligation. The low travel intensity also contributes to this, as does the strong price war, a poorly designed insolvency protection and a lack of investment in the future. Continuous market exits, in turn, increase travellers' insecurity.

The industry's attractiveness as a workplace is at a very low level. Skilled workers and young talents avoid the tourism industry, among other things because of its volatility and low resilience to crises. On the other hand, continuous market exits lead to a lower need for skilled workers.

4. ABOUT US

Dr. Fried & Partner is a management consultancy with a strong focus on „travel and mobility“. We support our customers with a holistic consulting approach in the core topics of strategy and implementation concepts, structural and process organizations, service excellence, IT system solutions, digitization of the customer journey, change projects as well as management and controlling. In this context we design and support crucial projects for well-known companies in the fields of tour operators and distribution, cruise operators and shipping companies, transportation, and mobility as well as incoming and events.

As an independent expert, we have been collecting market and company data for several decades and evaluating them. Our key services include commissioned studies and company-specific case studies, which we carry out to clarify relevant questions. We compile market research results based on primary research, use our broad and industry wide network of experts and deepen findings with secondary analyses. In addition, we regularly publish articles and studies on general market changes.

Digitization is the central topic in the twenty-first century, and it affects every industry. We at Dr. Fried & Partner see ourselves as a think tank and have always dealt with future-oriented topics and approaches. Our in-house expertise ranges from analytics and IT systems to data science. This know-how is supplemented by our extensive network of experts. Inspired by the IT industry, we have trained our entire team and are able to design project management according to the needs of our customers, classic or agile.

ABOUT US

The Travel Industry Club is opinion, network, and future. This is where the makers and movers of the travel industry meet, and together, the future of tourism is thought out independently. This is where complex future topics are discussed, and ideas are developed – and all of this with a view of the bigger picture. In addition, the Travel Industry Club brings the economic importance of the travel industry more into the limelight of the public, the media, and politics and, with the Young TIC, connects young talent with the leading players in the industry.

In cooperation with Dr. Fried & Partner, the Travel Industry Club launched the **Think Tank** in 2016. The topics developed by the Think Tank are guard rails for the travel industry. On this basis, discussions are initiated, events are designed and awareness for tourism is actively promoted. In this context, leading figures from the industry actively discuss future issues, propose theses, and give recommendations for action that are aimed at both business and politics.

This elaboration is based on expert opinions as well as primary market research with industry participants. The forecasts and conclusions contained in this paper are based on the information described above and the judgment of Dr. Fried & Partner and should not be construed as final predictions or guarantees of future performance or results. The information contained herein does not constitute advice, is not intended to be used for investment purposes and Dr. Fried & Partner assumes no responsibility or liability regarding the use of or reliance on the information contained in this document. This work is protected by copyright and may not be published, copied, or reproduced in whole or in part without the written permission of Dr. Fried & Partner.

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