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COUNCIL

BUSINESS TRAVEL:
A CATALYST FOR ECONOMIC PERFORMANCE

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INTRODUCTION

GLOBAL BUSINESS TRAVEL IS UNDER SCRUTINY. EVEN AS THE WORLD ECONOMY RECOVERS, COMPANIES REMAIN CAUTIOUS ABOUT RESTORING TRAVEL BUDGETS. MEANWHILE, VIRTUAL MEETING TECHNOLOGY OFFERS A READY ALTERNATIVE TO IN-PERSON MEETINGS. AND ENVIRONMENTAL CONCERNS HAVE BEGUN TO INFLUENCE BOTH CORPORATE AND GOVERNMENT POLICIES REGARDING TRAVEL.

These trends raise a fundamental question with significant implications: What role, if any, does business travel play in driving corporate performance and in the development of the global economy?

Published to coincide with the 11th Global Travel & Tourism Summit in Las Vegas, this study was commissioned by the World Travel & Tourism Council (WTTC) to seek answers to this question.

Two separate research channels were used to inform the study. The first was a survey of global business travellers and executives in the United States, United Kingdom, Germany, Brazil and China. The second channel was an econometric analysis covering 190 countries which tested for the existence of any causal relationships between business travel and national economic performance.

The results of these analyses are compelling, showing a clear relationship between business travel and corporate performance, as well as economic growth. Business travel not only helps the bottom line; it also grows economies, raises incomes, and creates jobs.

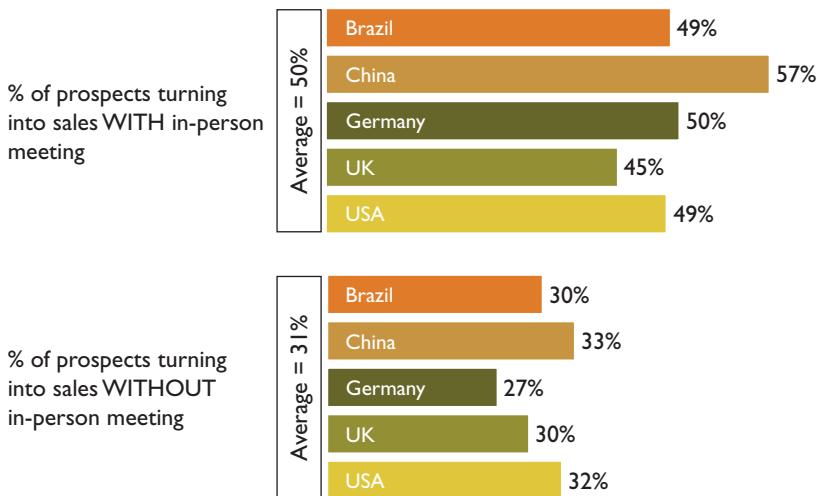
KEY FINDINGS

- Business travel improves global corporate productivity, yielding a return on investment of 10:1. In other words, one unit of new business travel spending produces incremental industry sales of ten units.
- Business travel is integral to international trade. Approximately one third of the growth in global trade over the past decade has been driven by international business travel.
- Growth in business travel from 2000 to 2007 facilitated the creation of over 40 million jobs through related increases in trade and productivity. This represented almost 20% of the growth in global employment over the same period.
- If business travel were cut by 25% over two consecutive years, global GDP would be 5% lower than would otherwise be the case after a five-year period. This would mean 30 million fewer jobs than forecast under baseline assumptions for the same period – an average loss of 1% of global employment.
- Global business travellers estimate that roughly 50% of their prospective customers are converted to new customers with an in-person meeting compared with 31% without such a meeting.
- On average, business travellers believe that 38% of their customers would switch to a competitor and their companies would lose 37% of annual sales without in-person meetings.
- The majority of respondents attend trade shows in order to network with prospective (66%) and current (61%) customers. These trade shows are estimated to generate 15% of annual revenue.
- A significant majority of international travellers feel it is “very” or “extremely” important to travel to international subsidiaries to expand business in international markets (70%) and to invest internationally (65%).
- Four out of five global executives (nine out of ten in China) “agree” or “strongly agree” that face-to-face business meetings are essential to their organisation’s success and that business travel improves a firm’s chance of increasing sales.
- On average, executives say that 29% of their company’s new sales depend on business travel, with China and Brazil reporting above-average returns.
- Three quarters of executives believe that business travel is “extremely” or “very” important in increasing profits (74%), increasing sales (75%), developing supplier partnerships (70%), and in spurring innovation (70%).

The ROI of Business Travel... The Business Perspective

TO UNDERSTAND THE ROLE THAT BUSINESS TRAVEL PLAYS AT THE COMPANY LEVEL – ITS RETURN ON INVESTMENT (ROI) – 500 GLOBAL BUSINESS TRAVELLERS AND EXECUTIVES WERE SURVEYED IN THE USA, UK, GERMANY, BRAZIL AND CHINA (100 IN EACH COUNTRY). OUT OF THESE SURVEYS, FOUR AREAS OF SIGNIFICANT IMPACT EMERGED.

Sales conversion rates with and without an in-person meeting



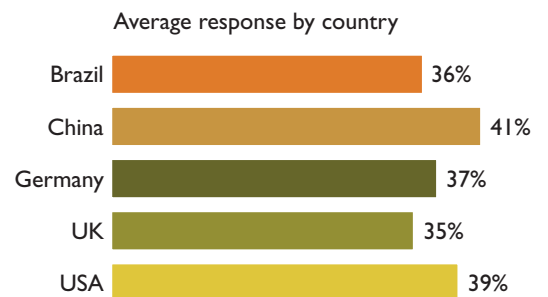
New sales

Travel and sales are inextricably linked. On average, executives report that 29% of their company’s new sales depend on business travel. And business travellers estimate that 50% of prospects become customers when an in-person meeting takes place versus only 31% without one. The most significant benefit was noted by Chinese business travellers, who indicated a 24 percentage point jump in conversion with an in-person meeting.

Keeping customers

Cutting back on business travel poses significant business risks. Over one-third of respondents (36%) project that between 25% and 49% of their current customers would switch to a competitor without in-person meetings. And, on average, business travellers estimate that 38% of their customers would switch to a competitor without in-person meetings. These responses were remarkably stable across the different countries surveyed.

Share of customers that would switch to a competitor without an in-person meeting

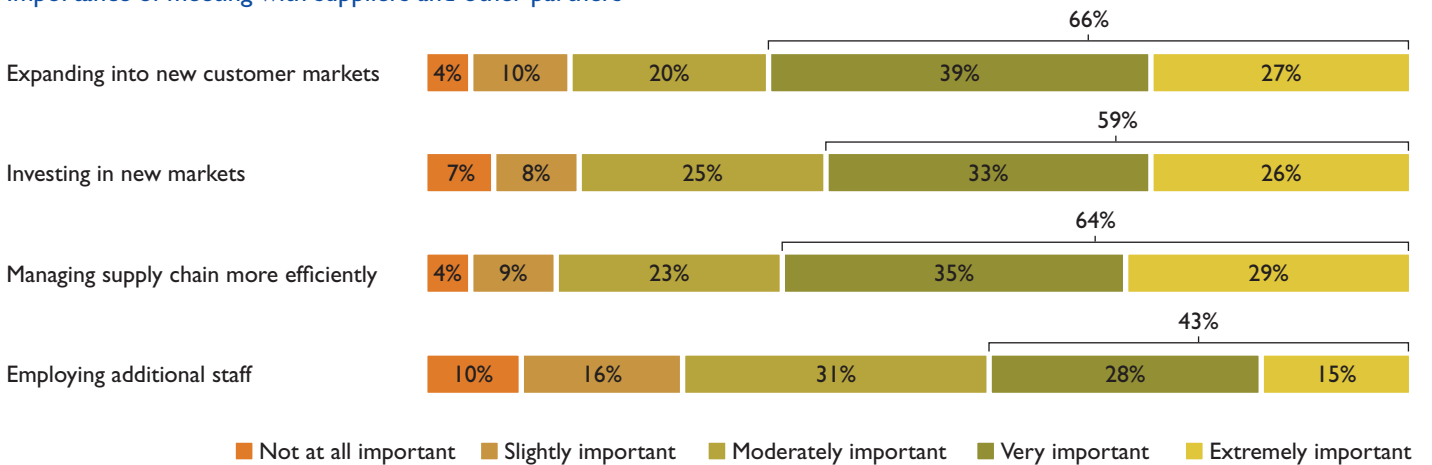


Partnerships

Co-operative relationships are integral to company performance. Global business travellers understand that travel is essential to building these relationships. For example, nearly three quarters (72%) of global business travellers find external conferences and conventions have a “significant” or “high” impact on developing

partnerships. And well over half of all respondents indicated that meeting with partners is “very” or “extremely” important to expanding into new markets, investing in new markets, and managing their company’s supply chain.

Importance of meeting with suppliers and other partners



Innovation and human capital

Global business travellers also affirmed a strong relationship between travel and innovation and productivity. Over two thirds of executive travellers (70%) believe that business travel is “extremely” or “very” important to innovation and to “added productivity/efficiency.”

Business travel is “very important” or “extremely important” to...

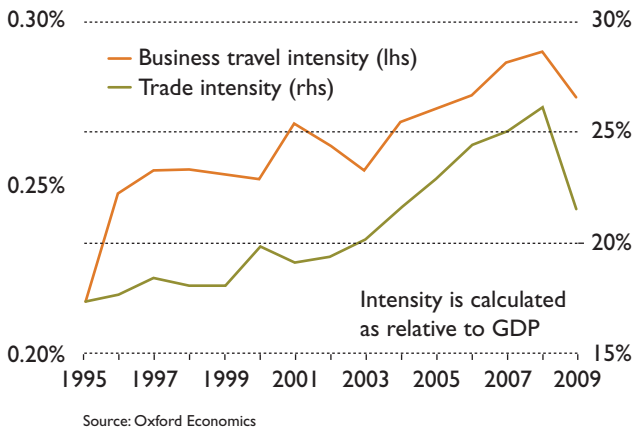


The survey shows how travel influences corporate and economic performance on multiple fronts. Results from all five countries illustrate clear benefits in terms of new sales, customer retention, innovation, partnership opportunities and overall operating efficiencies.

The ROI of Business Travel... The Econometric Results

IN ORDER TO QUANTIFY ANY CAUSAL RELATIONSHIPS WHICH COULD EXIST BETWEEN BUSINESS TRAVEL AND TRADE, PRODUCTIVITY AND OVERALL ECONOMIC DEVELOPMENT, A PARALLEL ECONOMETRIC ANALYSIS WAS UNDERTAKEN.

Business Travel and World Trade Intensity



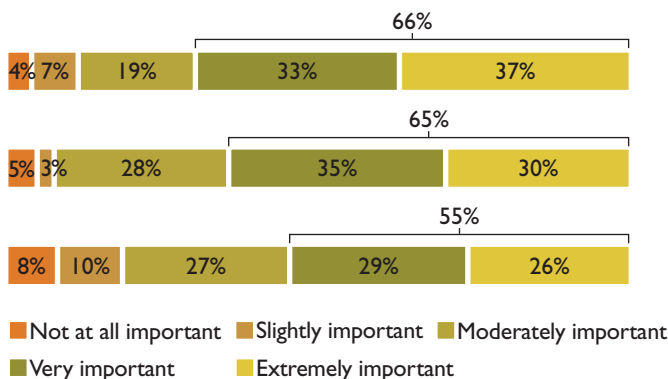
Trade effects

The trade effects of business travel identified by respondents to the survey are also borne out by the econometric analysis, which reveals a clear link between international business travel growth and growth in world trade. Countries with a larger outbound business travel market tend to enjoy higher exports, while faster growth in business travel is also linked to more rapid trade growth.

The modelling shows that higher business travel intensity (business travel spending relative to GDP) drives higher trade intensity (imports and exports relative to GDP). As well as identifying a clear correlation, the analysis shows that a causal relationship exists between a higher level of business travel intensity and higher trade intensity. By considering both travel and trade spending relative to GDP, it was possible to remove the impact of similar trend growth caused by broader economic trends and, by doing so, eliminate spurious relationships. The end result provides the percentage of trade growth which is attributable to business travel activity.

The econometric models suggest that business travel is responsible for about a third of the growth in world exports over the past decade. These benefits have been shared by both developed and developing economies. The implication, supported by the surveys, is that business travel is particularly integral to the relationships, investments, supply chains and logistics which are necessary for international trade to occur. For example, a significant majority of international travellers feel it is extremely important to travel to international subsidiaries to expand business in international markets (70%) and to invest internationally (65%).

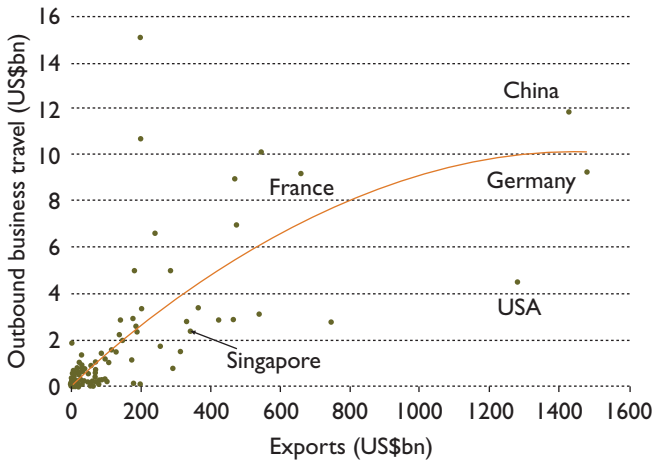
Importance of Travel to International Subsidiaries



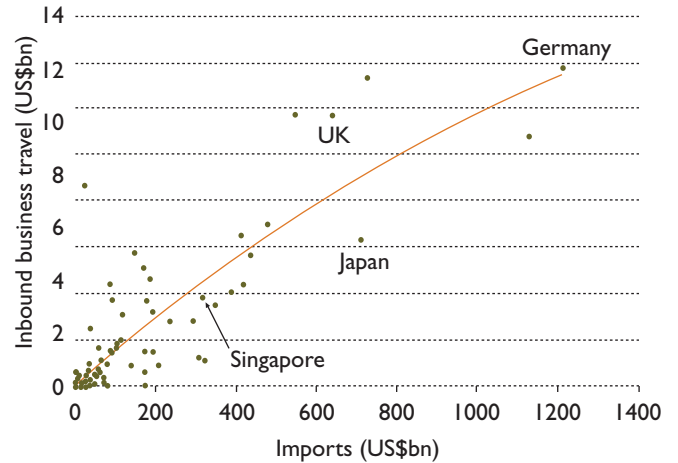
Business travel is responsible for about a third of the growth in world exports over the past decade.

When comparing the level of trade with the level of business travel spending across countries, it becomes clear that outbound travel is most powerful in its effect on exports, while inbound travel primarily influences imports, as shown in the charts below.

World Outbound Business Travel vs Exports

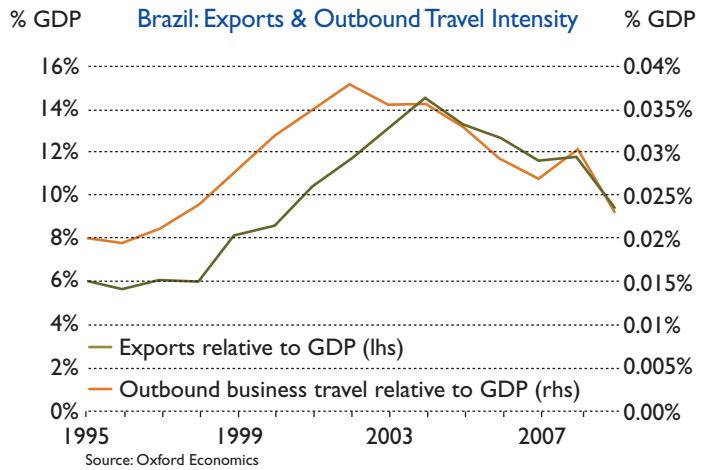
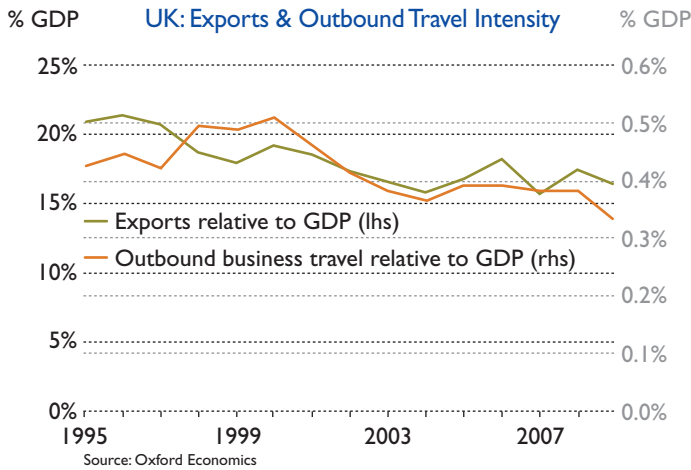


World Inbound Business Travel vs Imports

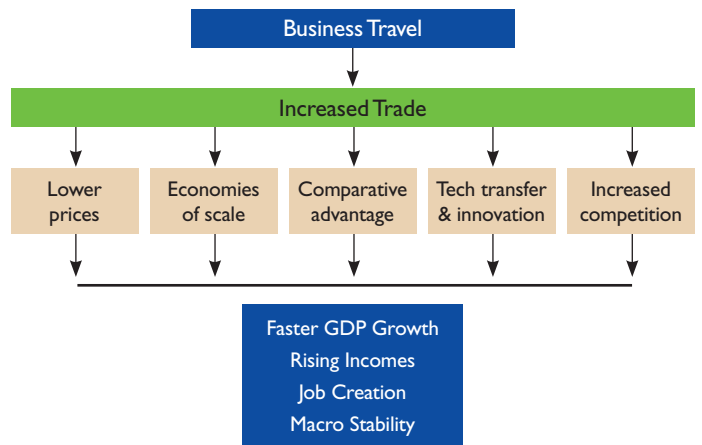


This relationship is also apparent when considering the importance of business travel and trade relative to GDP. The econometric modelling identifies a strong relationship between business travel intensity (relative to GDP) and trade intensity over time. The charts below show that changes in outbound travel are drivers of exports in both the UK and Brazil with a high degree of confidence.

These relationships are not exclusively in one direction (trade also drives business travel) so the analysis is careful to identify and isolate the causal effect of business travel on trade.



The implications of these trade effects are significant. Trade not only generates income for companies, but also advances economic development by lowering prices, creating economies of scale, allowing countries to focus on areas of comparative advantage, spurring innovation and creating competition. Business travel, as a catalyst of global trade, plays a significant role in driving faster GDP growth, improving standards of living, and creating jobs.



Broader productivity effects

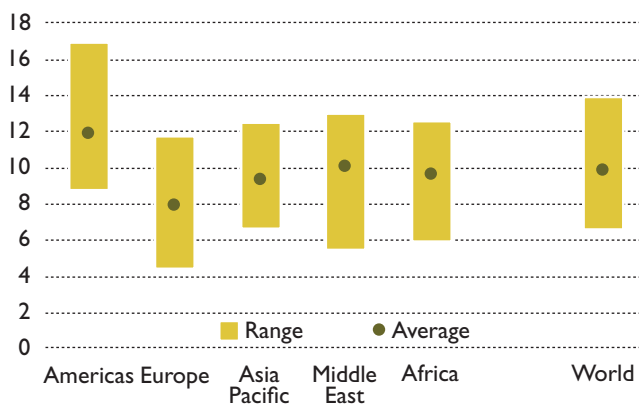
The effects of business travel on corporate and economic performance go beyond the facilitation of international trade. The survey results indicate that business travel also has an impact on overall productivity and, therefore, on business performance and profitability. And these impacts are evident with regards to both domestic company performance and international trade. Again, we find that causality runs in both directions: while business performance does influence travel budgets in the short term, there is a longer-term impact of business travel on overall business performance.

By running extensive causality tests and through the combination of time series and cross-sectional panel econometrics across more than 20 countries, it was possible to identify the specific effects of business travel on productivity¹ and, by extension, on sales and profits. This approach ensures that both the direct and indirect benefits of business travel are captured on the basis of historical industry data. Through this analysis, the broader indirect benefits of higher sales conversions, human capital developments, and partnership benefits are quantifiable.

The modelling was then extended to cover each world region on a country-by-country basis by applying industry-specific results for representative countries to the broader region. The industry composition and the business travel intensity (domestic and international) for each country determine ROI estimates for this broader set. A range of values is estimated, as well as the average for each region according to volatility in cross-country calculation, also factoring in any country-specific uncertainty.

On a worldwide basis, the analysis shows that, on average, business travel yields a return on investment of 10:1 – that is, one unit of incremental business travel spending produces incremental industry sales of ten units.

ROI of Business Travel
Incremental sales per dollar invested



On average, business travel yields a return on investment of 10:1.

¹ The measure used, Total Factor Productivity, accounts for the effects of technology and other capital and provides a purer benchmark of changes in industry-by-industry productivity over time.

Business Travel Spend and ROI by Region

	Total Business Travel Spending (US\$ bn)	Business Travel Intensity (% GDP)	International outbound share of travel spend	Average Estimated ROI *	Range of possible ROI values
Americas	302	1.6%	10%	11.9	+/-4.1
North America	275	1.7%	8%	11.5	+/-4
Other America	27	0.9%	26%	13.3	+/-4.2
Europe	290	1.5%	31%	7.9	+/-3.6
EU	243	1.5%	31%	6.9	+/-3.3
Other Europe	47	1.4%	27%	12.8	+/-5.7
Asia Pacific	226	1.7%	17%	9.4	+/-2.9
Middle East	18	1.2%	58%	10.1	+/-3.7
Africa	21	1.5%	27%	9.7	+/-3.3
World	856	1.5%	20%	9.9	+/-3.6

* Return on investment to gross sales of additional spending in business travel

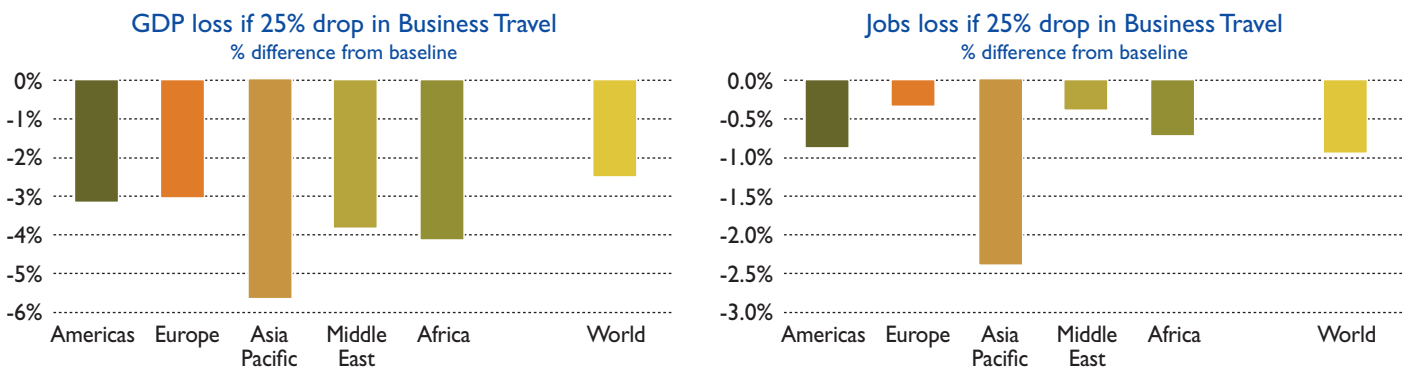
Differences across regions are partly determined by the industry composition of countries within each region. Historic relationships between business travel and industry-by-industry productivity are also important, reflecting relative spending on business travel across countries, and underlying productivity changes over time. For example, a higher estimated ROI has been determined for the USA than for the EU, consistent with overall higher productivity response in the USA over the past 20 years but also reflective of different industry compositions.

Typically, one sees a stronger response to business travel in emerging markets that are receptive to growth in key productivity sectors. However, the Asia Pacific region as a whole has a relatively low estimated ROI. This is influenced by a low estimated ROI for Japan, which carries a large weight in the calculations as a key regional source market for business travel.

Scenario Analysis: What happens if business travel is cut by 25% over two years?

Based on these results, a scenario was then run through the Oxford Economics macroeconomic model to see the effects on GDP and employment. The model assumes a consecutive two-year reduction in business travel spending of 25%, relative to current business travel activity – not dissimilar to what many companies experienced during the recent global recession. The relationship between business travel and total factor productivity for each country was used as an input to the global macroeconomic model. The scenario includes the assumption that business travel activity falls by 25% in the first year and then remains at that lower level for a second year before returning to the baseline level of spending. However, it takes several years for the impacts to fully feed through into lower productivity and be felt in the wider economy.

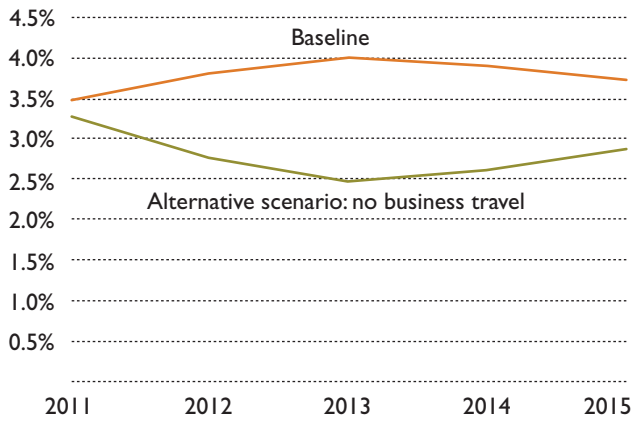
For the world as a whole, if business travel were cut by 25% over two years, global GDP would be 5% lower than would otherwise be the case after a five year period. In addition, employment would be 1% lower in each year based on this scenario – a loss of 30 million jobs relative to the baseline forecast.



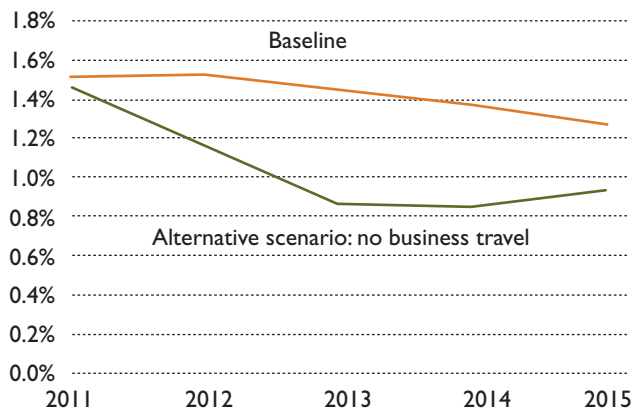
If business travel were cut by 25% over two years, global GDP would be 5% lower than would otherwise be the case after a five-year period. In addition, employment would be 1% lower in each year based on this scenario – a loss of 30 million jobs relative to the baseline forecast.

Though not sufficient to tip the world back into a recession, the global economy would grow at a slower rate than if business travel continued at normal levels. After five years, growth would begin to return to the baseline growth pattern, but the level of GDP and employment would remain lower than under baseline assumptions.

World GDP Growth
% growth



World Employment Growth
% growth



Implications

The results of this analysis have implications for both business leaders and policy-makers.

For business leaders, the evidence shows a strong connection between spending on business travel and corporate performance. Representative surveys across five diverse countries illustrate a consistent view that travel yields benefits in terms of sales, customer retention, partnerships, innovation and human capital. These perspectives are substantiated by statistical and econometric analyses which indicate an average business travel return on investment to sales of 10:1.

As with any cost, there are likely savings to be realised through more careful allocations of business travel. However, the evidence points to substantial risks associated with cutbacks in this particular area. And companies that continue to invest in travel seem to experience returns that more than warrant the investment.

Equally, the clear effects of business travel on overall economic performance should inform policy decisions related to corporate travel. Given the dividends of productivity, jobs, exports and taxes generated by business travel, policies should be designed to foster this catalyst of the global economy.



The World Travel & Tourism Council is the forum for business leaders in the Travel & Tourism industry.

With the Chairs and Chief Executives of the 100 foremost Travel & Tourism companies as its Members, WTTC has a unique mandate and overview on all matters related to Travel & Tourism.

WTTC works to raise awareness of Travel & Tourism as one of the world's largest industries, supporting around 260 million jobs and forecast to generate over 9% of global GDP in 2011.

Together with its research partner, Oxford Economics, WTTC produces comprehensive reports on an annual basis – with updates whenever required – to quantify, compare and forecast the economic impact of Travel & Tourism on 181 economies around the world. It also publishes a World report highlighting global trends.

To download one-page summaries, the full reports or spreadsheets, visit www.wttc.org



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Tel: +44 (0) 1865 268900; email: jrgaster@oxfordeconomics.com

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1-2 QUEEN VICTORIA TERRACE
SOVEREIGN COURT
LONDON E1W 3HA, UK

TEL: +44 (0) 20 7481 8007
FAX: +44 (0) 20 7488 1008
EMAIL: enquiries@wttc.org

www.wttc.org