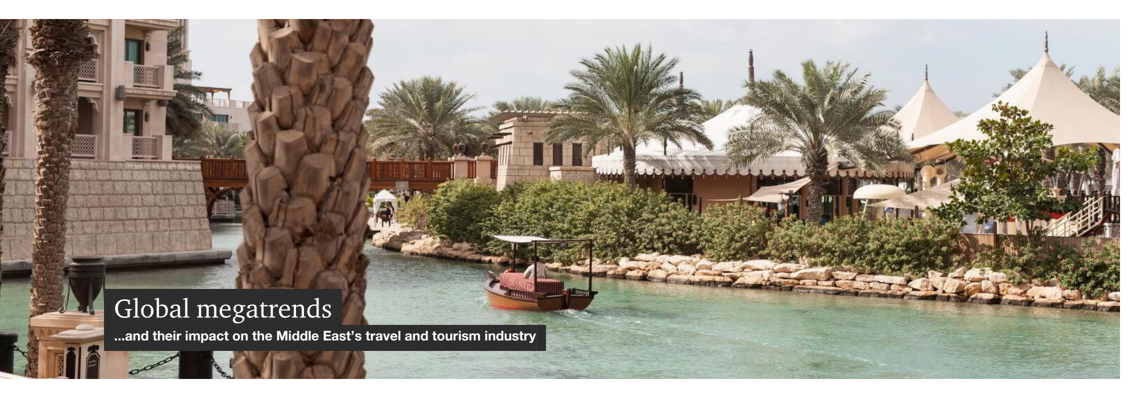


Global megatrends

...and their impact on the Middle East's travel and tourism industry

The world we are living in is experiencing a rapid transformation

Over the past decade, the Middle East has developed into a global hub for tourism and leisure. Visitors are attracted to the region's retail offerings, hotels, beaches, and unique experiences such as a trip to the top of Burj Khalifa, Sheikh Zayed Grand Mosque in the UAE, Museum of Islamic Art in Qatar and the old-fashioned souks in Oman. However, new winds of change will require further transformation within the travel and tourism industry in the region.

PwC has identified 5 relevant fundamental shifts within the global landscape that are influencing a once-in-a-generation transformation within the travel and tourism industry.

Forces such as demographic and social change, a shift in global economic powers, rapid urbanisation, climate change and resource scarcity, and technological breakthroughs are presenting strong opportunities as well as their fair share of challenges to the travel and tourism industry, right now and in the coming future. So, how can the hospitality and tourism industry adapt in order to accommodate?

From changing the way we market our products to completely overhauling traditional concepts, we offer an insight and some solutions in order to thrive within this new normal.

Explore

Demographic and social change
The changing demographic and the aging population

Shift in global economic powers
Handing over the torch – from advanced to emerging economies

Accelerating urbanisation
Our future is set to be urban

Climate change and resource scarcity
Keeping up with the changing climate landscape in the Middle East

Technological breakthroughs
Always connected

Megatrend 1 – Demographic and social change

The changing demographic and the aging population

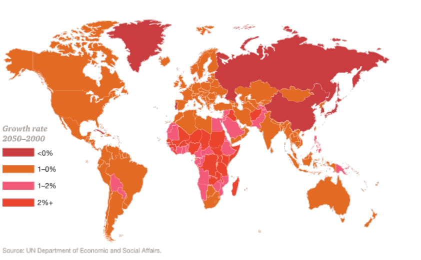
The changing global population: The pace of change will vary substantially across different regions. Africa's population – the fastest growing – is set to double by 2050; Europe's population is projected to shrink. Fertility in Latin America will remain higher than mortality.

> By 2013 the world's population is projected to rise by more than 1 billion
> UN Population Division, World Population Prospects 2015

The average age in Japan in 2050 will be 53 – in Nigeria it will be 23. These developments have profound implications both locally and globally. As emerging economies strengthen, there will be a larger contribution from these countries to the travel and tourism industry.

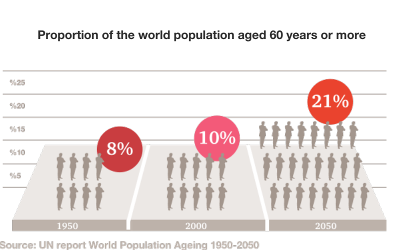
The ageing population: According to the UN, people aged 60 years or more will represent 21% of the entire global population. Although ageing economies will face uphill economic battles, the travel and tourism industry is set to welcome a new entrant: the silver tourist.

Annual population growth rate, 2010 - 2050 (medium variant)



Source: UN Department of Economic and Social Affairs

Proportion of the world population aged 60 years or more



Source: UN report World Population Ageing 1950-2050

From the Gen Z and the Millennial to the Silver Tourist – the polarising demand shifts

The changing faces of demand: The travel and tourism industry today finds itself at the helm of a multi-faceted demand shift driven by generational and demographic changes.

The industry that has been historically designed to cater to the middle-aged business and leisure tourist from advanced economies is now transforming itself to cater to visitors across all ages from across the globe. This change brings with itself numerous opportunities and challenges mainly because of the polarising requirements of the new demand sources.

Although there is limited knowledge about the travel preferences of the Gen Z tourist, it is predicted that due to higher access to information, and higher education levels, this travel segment will **bring forth a new age of innovation within the travel and tourism industry**.

	Gen Z	Millennials	Silver Tourist
Activities	Adventure/ Gastronomy/ Eco-travel/ Nightlife	Adventure/ Gastronomy/ Eco-travel/ Nightlife	Culture/ heritage/ wellness and cruise tourism
Shared Economies	Highly dependent on shared economies	Prefer the shared Wary of shared economy format	Wary of shared economies
Hospitality Preferences	Non-traditional hotel concepts such as AirBnB	Partial to smaller boutique brands and shared economy structures such as AirBnB	Upscale traditional hotel concepts
Travel periods	Unknown	Travel for shorter spurt trips	Travel for longer periods
Spending characteristics	Unknown	Seeks out value for money	Big spenders
Marketing Concepts	Dependent on connectivity	Influenced by social media	Dependent on traditional marketing concepts
Digitisation	Dependent on connectivity	Prefer to be always connected	Values personalisation

How can the Middle East hotel industry respond?

① Embrace innovation in hotel branding

Move away from compartmentalised marketing to descriptive marketing (e.g. business/leisure hotel vs. lifestyle branding). Create brands that embody the personality of the various travel segments and focus more on design, experience and technology.

② AirBnB vs hotels; proactive vs. reactive

The hotel industry's prized possession - the business traveler - is soon to be targeted by Airbnb. Hoteliers need to take strong proactive action to retain business travelers and attract customers across all ages and demographics. This would require adapting their services to become more consumer-centric in order to create unique guest experiences. Hoteliers also need to invest in creating strong identities for smaller lifestyle chains rather than larger cookiecutter brands. It is important for the hotel industry to be proactive rather than reactive when it comes to locking horns with this disruptor.

③ Overhaul of traditional hotel marketing concepts

The shift from the intermediaries to the influencers is one of the largest marketing shifts the travel and tourism industry has foreseen. The Gen Z and the Millennial tourists are no longer swayed by travel brochures but are more likely to make decisions based on social media influence. Therefore, it is imperative for players in the travel and tourism industry to increase the importance of social media platforms in their marketing strategies.

④ Digitisation

Digitisation is impacting the consumer's everyday life; the travel and tourism industry is no exception. The infiltration of digital products is enabling travelers to gain more control over their actions and be more involved in the process of travel planning at their own pace. From automated bookings and e-itineraries to mobile checkins and bring your own device (BYOD) entertainment platforms, the digital industry is set to have a profound impact on the travel and tourism industry.

Megatrend 2 – Shift in global economic powers

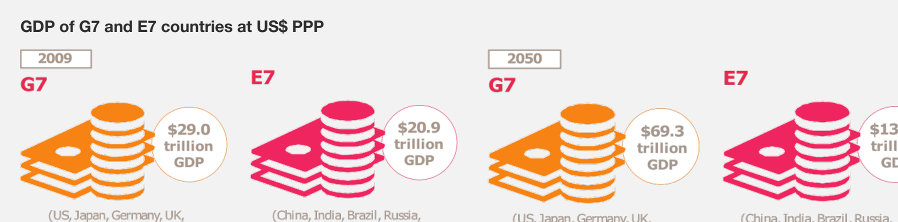
Handing over the torch – from advanced to emerging economies

The global economic power has shifted from advanced to emerging economies - such as Asia, Africa and Latin America - which are now accounting for more than half of the global GDP. This shift has placed the Middle East at the center of many fast growing markets.

The Indian and Chinese economies continue to play a strong role in shaping the future economies, however the latter is unquestionably experiencing slower growth. In contrast, India has picked up speed over the last couple of years due to its status as a net importer of oil and other commodities (and therefore a beneficiary of lower global prices) and due to its newly appointed government (2014) that has started to introduce more business-friendly policies to stimulate economic development and growth.

Dubai is successfully leveraging on this shift in economic power by turning the city into a global hub for aviation, tourism and logistics with a favorable economic relationship with Europe, China, Africa and India.

GDP of G7 and E7 countries at US$ PPP



Source: PwC Analysis

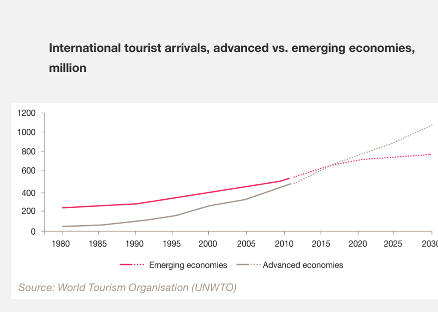
Handing over the torch – from advanced to emerging economies

Emerging economies are expected to surpass advanced economies

In terms of international tourist arrivals - with Asian and Pacific countries gaining most arrivals by 2030. While most of the countries are gearing up to attract and retain the Asian traveler (i.e. Indians and Chinese), destinations within the Middle East (particularly Dubai) have already put the wheels in motion by undertaking the following steps:

- Introducing direct flights from India and China to the Middle East
- Easing the visa procedures
- Focusing on the introduction of a variety of activities especially in the family and cultural realms (e.g. theme parks, museums, etc.)
- Providing a world-class retail offering
- Offering hotels across all categories
- Leveraging celebrity-endorsement and other traditional marketing tools to promote a destination in the hosting country
- Encouraging hotels to gain a Chinese-friendly certification

International tourist arrivals, advanced vs. emerging economies, million



Source: World Tourism Organisation (UNWTO)

Megatrend 3 – Accelerating urbanisation

Our future is set to be urban

Currently, around 50% of the world's population live in cities, however, by 2030 the UN projects that 4.9 billion people could be urban dwellers(the population to be reached to count as megacity). Eventually, by 2025, there may be up to 40 megacities. The GCC, is leading the urbanisation game with 85% of the population living in cities today, and this is expected to rise to 90% by 2050.

> 1.5 million people are added to the global urban population every week
> United Nations, Department of Economic and Social Affairs, Population Division (2012)

Urbanisation and tourism go hand in hand as it increases connectivity between destinations and, in turn, increases awareness. However, uncontrolled rapid urbanisation presents acute challenges for national and local governments such as constrained capacity and finance for infrastructure delivery, investment in service provision, proper planning and resource scarcity. Unplanned and poorly managed urbanisation can give rise to inequity, pollution and costly sprawling development patterns.

> Cities consume 75% of the world's natural resources and account for 80% of global greenhouse gas emissions
> United Nations, 2015

Therefore, it is important for the Middle East to make wise choices with regards to its rapid urbanisation in order to enhance and maintain the livability, sustainability and productivity of its cities.

How has urbanisation helped the GCC tourism landscape?

However, the downside of urban tourism is the negative effect it has on the environment including, air pollution, noise pollution and over utilisation of resources. With water scarcity looming in the far horizon, it is important for the region to develop policies around sustainability within the tourism industry.

> There are over $4 trillion worth of projects planned or under construction in the Middle East and North Africa
> Rise in project

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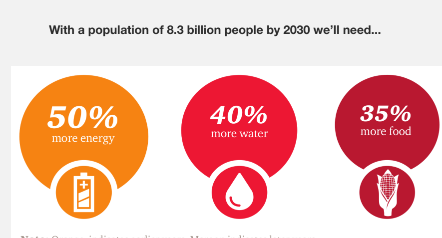
Megatrend 4 – Climate change and resource scarcity

Keeping up with the changing climate landscape in the Middle East

Although climate change and its impact have been the center of various debates over the past decade, one thing is for sure: **the planet is unable to support current models of production and consumption.** A growing population requires around 35% more food, 40% more water and 50% more energy while we are already at the brink of resource scarcity.

With a population of 8.3 billion people by 2030 we'll need...

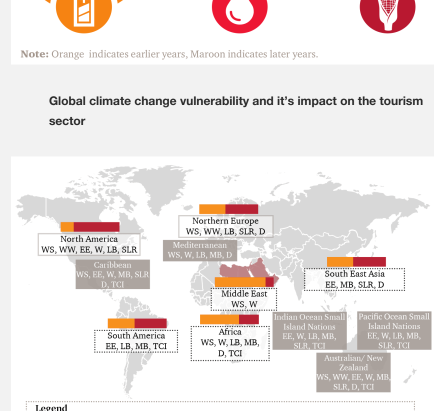


Note: Orange indicates earlier years, Maroon indicates later years.

Water will become a significant challenge in the coming decade. GCC countries are among the world's highest users of energy and water per capita. Since we are burning both oil and gas to produce power and desalinated water, we also have the worst carbon footprint. Our economies rely heavily on revenues from fossil fuels and our rain and groundwater resources are depleting.

> Only 3% of all water in the world is fresh water and only 25% can be accessed.
> PwC analysis (based on data from Pidwimy, M)

Global climate change vulnerability and it's impact on the tourism sector



Source: World Tourism Organisation (UNWTO), OECD; Dan Hammer, Center for Global Development

It is important for countries to think beyond profits and urbanisation and take a closer look at preserving our resources and building frameworks to enhance sustainability for the next generation.

According to the UNWTO, the Middle East is vulnerable to warmer summers and water scarcity. Additionally, the impact of this climate change in the tourism landscape is estimated to be strongly negative as it will compromise visitor numbers if the GCC summers get hotter.

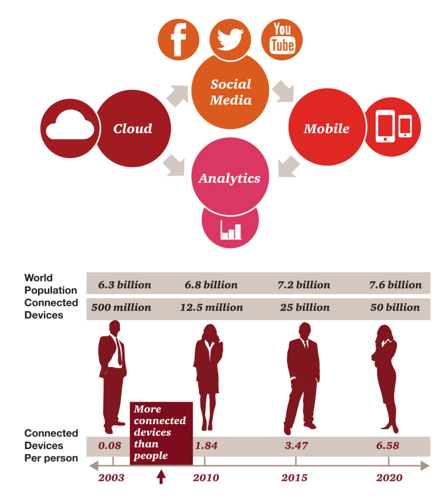
As the threat of climate change looms upon GCC and it's tourism landscape, there are important control measures to be implemented in the form of a sustainability roadmap with clear targets and mitigation strategies. There also needs to be a strong contribution from key players across the tourism value chain (i.e. government authorities, meteorological departments, developers, hotel operators and the tourists). On a macro level, it is of utmost importance that we educate and raise awareness for this extremely important and pertinent issue.

Megatrend 5 – Technological breakthroughs

Always connected

For many years, corporate technology was far more advanced than anything available to the consumer. But two key dates – 2007 and 2010 (the launches of the iPhone and the iPad respectively) – decisively shifted this imbalance in favor of the consumer.

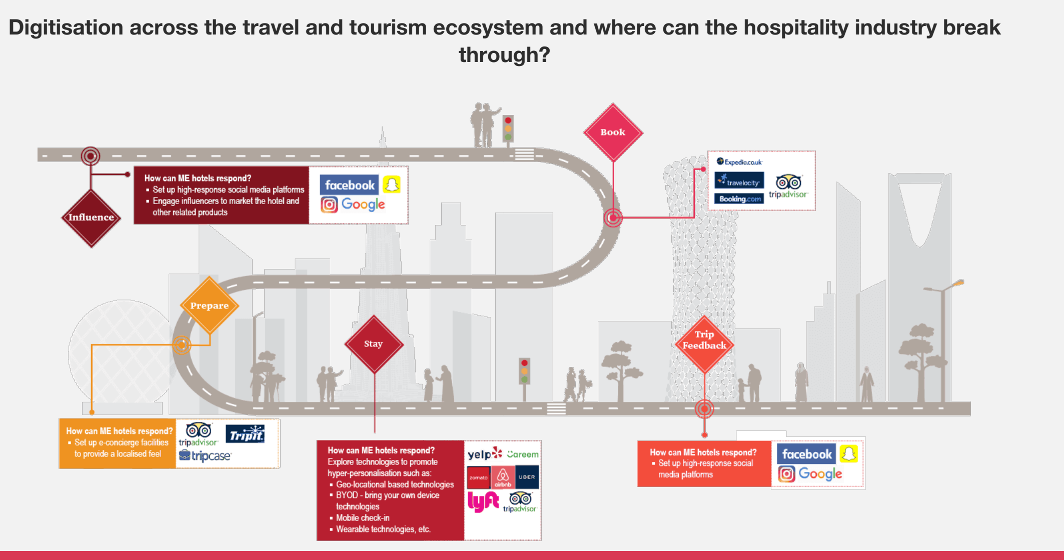
It took 76 years for the telephone to penetrate half of all US households. The smartphone has achieved the same in less than a decade. Now, the ubiquity of smart devices means that most corporate technology tends to disappoint or frustrate its users. Employees as consumers now have a very high benchmark for the experiences that they expect from their everyday use of digital apps and platforms.



The smartphone penetration for the GCC markets is among the highest in the world, reaching 78% in the UAE and 77% in Saudi Arabia. Therefore there lies a great opportunity for GCC to leverage on digitisation.

The travel and tourism industry has witnessed the infiltration of digitisation across the entire value chain. From influencing the decision to travel to receiving feedback after the travel is complete, everything can be conducted on a digital platform, i.e. the smartphone.

Digitisation across the travel and tourism ecosystem and where can the hospitality industry break through?



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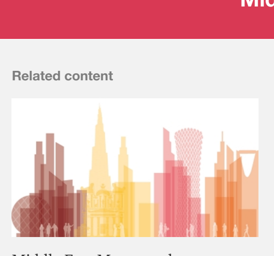

Middle East Megatrends
Understanding the impact of global trends on the Middle East, and how governments and businesses can succeed in a very different world.

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