



## SPOTLIGHT ON: Luxury Travel



Photo courtesy of Hawaii Tourism Authority (HTA)

# MARKET INSIGHTS UPDATE

United States | November 2019

*A monthly update including relevant information on travel industry trends, consumer and meetings market research, competitive intelligence, and Hawai'i's performance as a destination.*

## In this Issue

Imagine arriving at the airport through an exclusive side entrance and being whisked away to a private terminal, complete with in-house security screening and access to a lounge stocked with seasonal foods, drinks, and amenities. Then your chauffeur drives you across the tarmac directly to your plane, bypassing the lines and crowds that typify today's flying experience. For most, this may seem like the true definition of luxury travel. For a select few, however, this service may be *too* commercial, preferring to fly private instead.

There is an identity crisis facing the luxury travel market – one traveler's luxury is another traveler's ordinary. Given that the definition of luxury is different to each individual,

brands are struggling to find a one-size-fits-all approach to targeting the high-end market.

The luxury travel industry is expected to generate nearly \$1.2 billion by 2022, growing at an annual rate of six percent per year. Increased demand for unique vacation experiences, coupled with growing global wealth, has led to the emergence of new luxury destinations and rising service standards.

In a decidedly segmented marketplace, a blanket-style approach to attracting the luxury traveler is no longer the answer. Learn how motivational drivers and behaviors that go beyond household income are used to attract this highly discerning and high-spending customer in this month's *Market Insights Update*.

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### Industry Update

A recently released report by the World Tourism & Travel Council shows that emergency disaster response time has improved over the last two decades, due to stronger coordination and management efforts. Responsiveness has ensured visitors return sooner in the wake of natural disasters, civil unrest, and security threats.

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## Luxury Travel

Source: HVCB analysis of STR, MMGY Global, Diio Mi, Skift, HTA Visitor Satisfaction & Activity Report, and Visitor Plant Inventory data

### *Targeting the Luxury Traveler*

It is easy to assume a high salary or net worth is the key measure of a luxury consumer. But just because someone passes a certain income threshold does not necessarily mean they prefer designer goods, luxury cars, or private planes. As such, it is important to not conflate the affluent traveler with the high-spending traveler. Within the affluent segment, there are both budget-conscious and luxury travelers.

MMGY Global defines the true luxury travel market as the part of the affluent segment willing to pay top dollar for quality. In 2018, just 36 percent of affluent travelers fell into the luxury category. Defined as having a minimum household income of \$125,000, affluent travelers on average bring home almost a quarter of a million dollars per year.

Luxury travelers are a lucrative market, taking on average 4.7 trips per year, versus 3.2 among the affluent traveler segment. In 2019, 16 percent of luxury travelers expected to take more vacations, compared to just four percent of affluent travelers. Luxury travelers are also twice as likely to use travel agents.

Luxury travelers are driven more by experiential and authentic experiences. In terms of travel motivators, 82 percent seek to explore

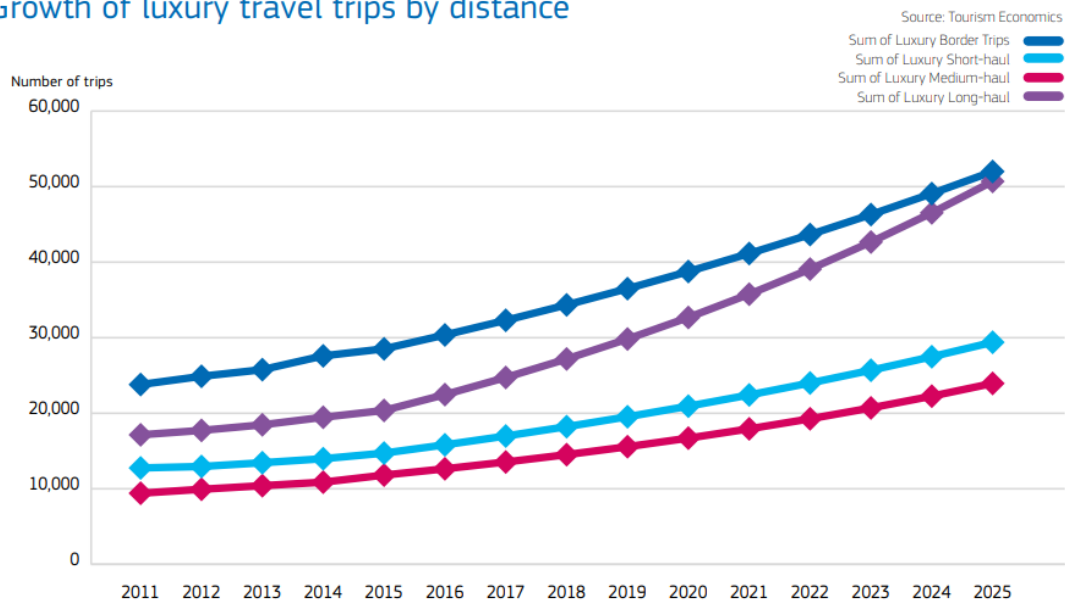
different cultures, compared to just 60 percent of the affluent segment. Similarly, 78 percent travel to try new cuisines, a full 20 percentage points higher than affluent travelers.

Despite these points of differentiation from the general affluent market, luxury travelers are not a homogeneous group. There are segments within the audience that search out different experiences based on their life stage, motivations, and priorities.

There is the vanity-driven luxury traveler, driven by the omnipresence of social media sharing. This segment is willing to pay more for travel and experiences that capture exclusive luxury moments that will impress others. While many tend to think of millennials as the cash-strapped, industry-killing generation, there is in fact a subset that are willing to shell out for once-in-a-lifetime vacation experiences. More than three-quarters of millennials think it is important that their vacation looks good on social media. As such, there is a growing need to focus on appealing visuals to target this segment, with tailored marketing strategies that showcase eye-catching images and video, and encourage consumers to share their experiences on social media and travel review sites.

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# Growth of luxury travel trips by distance



## Targeting the Luxury Traveler Continued

There is also the ethical luxury travel segment, who spend money to be more green. Eco-tourism may be growing in popularity, but often it is a luxury that only the affluent can afford. This has led to a rise in luxury boutique eco-hotels with sustainability at the core of their operations. Everything from the materials used for the buildings to ethically-sourced linens to local food ingredients are considered when creating an eco-luxury experience – and are front and center in the marketing message with a 'do good, feel good' approach.

Then there is the ultra-luxury travel segment, where transportation, accommodations, and experiences carry a hefty price tag. This segment is more exclusive, based on customer service, loyalty, and word-of-mouth marketing. It is more difficult to reach this segment through traditional marketing methods; it is better accessed through private networks.

## Hawai'i as a Luxury Travel Destination

The Hawaiian Islands already have the reputation of being a destination for well-off travelers. With an average per-person spend of over \$2,400 per trip (including airfare to and from Hawai'i), travel to the islands costs upwards of \$10,000 on average for a family of four. Consequently, 44 percent of U.S. arrivals to Hawai'i have an annual household income of \$125,000 or higher, and 20 percent top the \$200,000 mark. Quite simply, Hawai'i is a destination for affluent travelers.

But what percentage of these are true luxury travelers? While it difficult to quantify the number of arrivals who fall within the luxury category, it is telling that 41 percent of the state's hotel inventory are luxury accommodations, with an Average Daily Rate of over \$500 per night. Nearly two-thirds of available hotel rooms on Maui (61%) fall into the luxury category, compared to 43 percent on Kaua'i, 34 percent on O'ahu, and 30 percent on the Island of Hawai'i.

Luxury hotel properties in Hawai'i maintain a year-round occupancy level of around 75 percent, which is exceptionally strong compared to competitor destinations. The statewide Average Daily Rate for luxury hotels reached \$556 in 2018, up six percent from the prior year. Maui County's luxury accommodations far surpass this, with an average rate of \$643 per night. There is no question that luxury accommodations are profitable for the accommodations industry, with Revenue per Available Room at \$415, nearly double the statewide average.

Hotels are not the only ones capitalizing on the luxury experience. Six percent of air seats flown to the Hawaiian Islands are premium class, accounting for more than 550,000 seats annually. More than half (51%) of these are flown to Honolulu, while one-quarter (26%) go to Kahului, 13 percent fly to Kona, and nine percent fly to Lihue.







## Industry Update

### Sneak Peek at Next Month



Spotlight On:  
Winter 2019/20 Outlook

A recently released report by the World Travel & Tourism Council (WTTC) has found that the economic impact of natural disasters cost \$335 billion in 2017. Natural disasters have increased dramatically in both frequency and magnitude, with the number of disasters quadrupling between 1970 and 2016. The positive news is that WTTC found that the travel and tourism industry is bouncing back from catastrophic events in less than half the time compared to 2001.

WTTC analyzed the impact of 90 crises between 2001 and 2018, specifically looking at time of recovery, lost visitor arrivals, and impact on visitor spending. While a measurable impact was recorded in 92 percent of cases, the data also suggests that the recovery duration has shortened significantly from an average of 26 months down to just 10 months. Given that travel and tourism contributes just over 10 percent to the world's economy and supports one in ten jobs around the globe, there is vested interest in minimizing impact during such

events.

Civil unrest and political instability are by far more damaging to a country's travel and tourism industry, with the longest recovery time (averaging 22 months). Natural disasters and outbreak is in the middle range, with average recovery ranges between 16 to 19 months. Terrorism and security-related incident recovery time is shortest at 12 months on average. Increased crisis preparedness, including preparation, management, and coordination of resources, has worked to decrease recovery times.

The report also notes that perceived safety and security remain key in decision-making factors for travelers when selecting a vacation destination. While the vast majority of incidents are high-probability, low-impact events, such as petty theft or illness, emerging risks such as digital security and resource scarcity will likely become increasingly important in the coming years. Terrorism still remains a key concern for many international travelers, despite the overall odds being lower.

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