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Travel, Logistics & Infrastructure Practice

The state of tourism and hospitality 2024

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Executive summary

The state of tourism and hospitality 2024

Tourism and hospitality are set to soar, powered by new travelers, destinations, and trends.

Tourism and hospitality are on a journey of disruption. Shifting source markets and destinations, growing demand for experiential and luxury travel, and innovative business strategies are all combining to dramatically alter the industry landscape. Given this momentous change, it's important for stakeholders to consider and strategize on four major themes:

— *The bulk of travel is close to home.* Although international travel might draw headlines, stakeholders shouldn't neglect the big opportunities in their backyards. Domestic travel still represents the bulk of travel spending, and intraregional tourism is on the rise.

— *Consumers increasingly prioritize travel—when it's on their own terms.* Interest in travel is booming, but travelers are no longer content with a one-size-fits-all experience. Individual personalization might not always be practical, but savvy industry players can use segmentation and hypothesis-driven testing to improve their value propositions. Those that fail to articulate target customer segments and adapt their offerings accordingly risk getting left behind.

— *The face of luxury travel is changing.* Demand for luxury tourism and hospitality is expected to grow faster than any other travel segment today—particularly in Asia. It's crucial to understand that luxury travelers don't make up a monolith. Segmenting by age, nationality, and net worth can reveal varied and evolving preferences and behaviors.

— *As tourism grows, destinations will need to prepare to mitigate overcrowding.* Destinations need to be ready to handle the large tourist flows of tomorrow. Now is the time for stakeholders to plan, develop, and invest in mitigation strategies. Equipped with accurate assessments of carrying capacities and enhanced abilities to gather and analyze data, destinations can improve their transportation and infrastructure, build tourism-ready workforces, and preserve their natural and cultural heritages.

Chapter 1

Now boarding: Faces, places, and trends shaping tourism in 2024

Global travel is back and buzzing. More regional trips, newly emerging travelers, and a fresh set of destinations are powering steady spending.

After falling by 75 percent in 2020, travel is on its way to a full recovery by the end of 2024. Domestic travel is expected to grow 3 percent annually and reach 19 billion lodging nights per year by 2030.[1] Over the same time frame, international travel should likewise ramp up to its historical average of nine billion nights. Spending on travel is expected to follow a similar trajectory, with an estimated $8.6 trillion in traveler outlays in 2024, representing roughly 9 percent of this year's global GDP.

There's no doubt people still love to travel and will continue to seek new experiences in new places. But where will travelers come from, and where will they go? We developed a snapshot of current traveler flows, along with estimates for growth through 2030. For the purposes of this report, we have divided the world into four regions—the Americas, Asia, Europe, and the Middle East and Africa.

Our analysis identifies three major themes for industry stakeholders to consider:

— *The bulk of travel spending is close to home.* Stakeholders should ensure they capture the full potential of domestic travel before shifting their focus to international travelers. And they should start with international travelers who visit nearby countries—as intraregional trips represent the largest travel segment after domestic trips.

— *Source markets are shifting.* Although established source markets continue to anchor global travel, Eastern Europe, India, and Southeast Asia are all becoming fast-growing sources of outbound tourism.

— *The destinations of the future may not be the ones you imagine.* Alongside enduring favorites, places that weren't on many tourists' maps are finding clever ways to lure international travelers and establish themselves as desirable destinations.

The bulk of travel spending is close to home

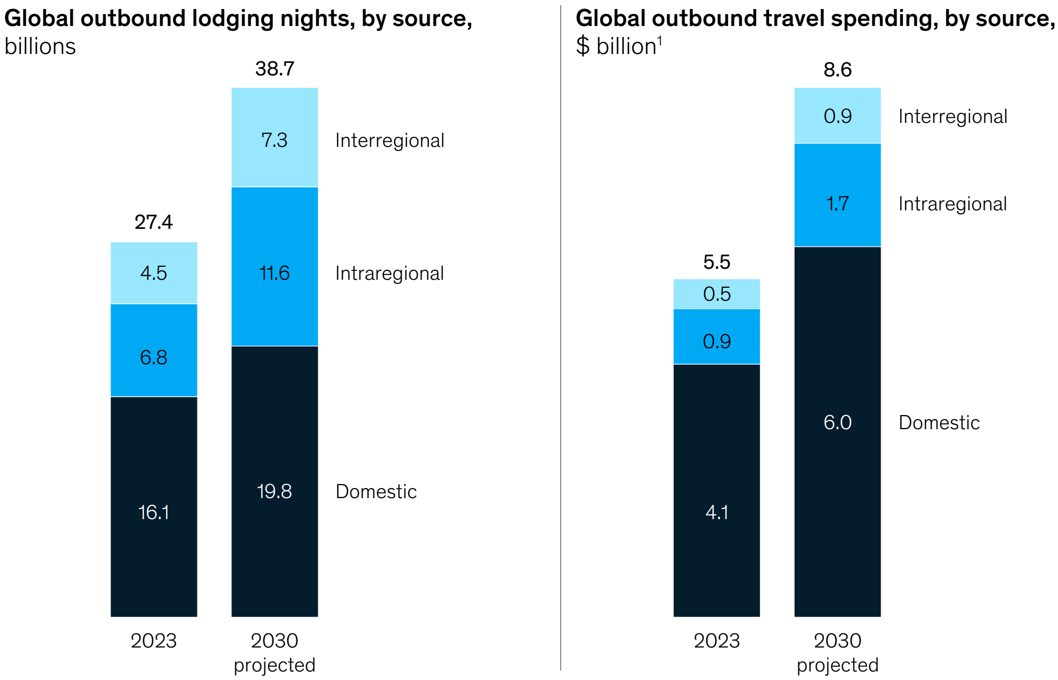
International travel might feel more glamorous, but tourism players should not forget that domestic travel still represents the bulk of the market, accounting for 75 percent of global travel spending (Exhibit 1). Domestic travel recovered from the COVID-19 pandemic faster than international travel, as is typical coming out of downturns. And although there has been a recent boom in "revenge travel," with travelers prioritizing international trips that were delayed by the pandemic, a return to prepandemic norms, in which domestic travel represents 70 percent of spending, is expected by 2030.

The United States is the world's largest domestic travel market at $1 trillion in annual spending. Sixty-eight percent of all trips that start in the United States remain within its borders. Domestic demand has softened slightly, as American travelers return abroad.[2] But tourism players with the right offerings are still thriving: five national parks broke attendance records in 2023 (including

1 Unless otherwise noted, the source for all data and projections is Oxford Economics.
2 Dawit Habtemariam, "Domestic U.S. tourism growth levels off as Americans head overseas," Skift, August 18, 2023.

Exhibit 1

Domestic travel still represents the bulk of the travel market, even as intraregional and interregional travel ramp up growth.



Note: Interregional refers to international travel outside a region; intraregional refers to international travel within a region. Regions for the purposes of this exhibit are Americas, Asia, Europe, and Middle East and Africa.
[1]Based on inflation-adjusted 2024 dollars.
Source: Oxford Economics

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Joshua Tree National Park, which capitalized on growing interest from stargazers indulging in "dark sky" tourism[3]).

China's $744 billion domestic travel market is currently the world's second largest. Chinese travelers spent the pandemic learning to appreciate the diversity of experiences on offer within their own country. Even as borders open back up, Chinese travelers are staying close to home. And domestic destinations are benefiting: for example, Changchun (home to the Changchun Ice and Snow Festival) realized 160 percent year-on-year growth in visitors in 2023.[4] In 2024, domestic travel during Lunar New Year exceeded prepandemic levels by 19 percent.

China's domestic travel market is expected to grow 12 percent annually and overtake the United States' to become the world's largest by 2030. Hotel construction reflects this expectation: 30 percent of the global hotel construction pipeline is currently concentrated in China. The pipeline is heavily skewed toward luxury properties, with more than twice as many luxury hotels under construction in China as in the United States.

India, currently the world's sixth-largest domestic travel market by spending, is another thriving area for domestic travel. With the subcontinent's growing middle class powering travel spending

[3] Scott McConkey, "5 national parks set attendance records in 2023, and the reasons may surprise you," Wealth of Geeks, April 16, 2024.
[4] Shi Xiaoji, "Why don't Chinese people like to travel abroad anymore? The global tourism industry has lost 900 billion yuan. What is the situation?," NetEase, February 12, 2024.

growth of roughly 9 percent per year, India's domestic market could overtake Japan's and Mexico's to become the world's fourth largest by 2030. Domestic air passenger traffic in India is projected to double by 2030,[5] boosted in part by a state-subsidized initiative that aims to connect underserved domestic airports.[6]

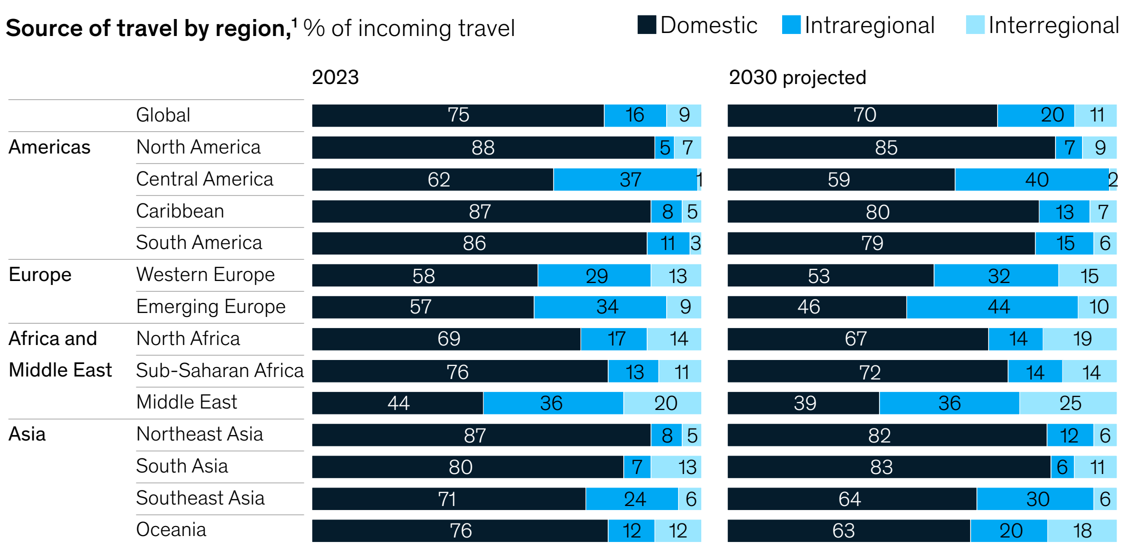
When travelers do go abroad, they often stay close to home (Exhibit 2). Europe and Asia, in particular, demonstrate strong and growing intraregional travel markets. Recognizing this general trend, stakeholders have been funneling investment toward regional tourism destinations. An Emirati wealth fund, for instance, has announced its intent to invest roughly $35 billion into established hospitality properties and development opportunities in Egypt.[7]

Europe has long played host to a high share of intraregional travel. Seventy percent of its travelers' international trips stay within the region. Europe's most popular destinations for intraregional travelers are perennial warm-weather favorites—Spain (18 percent), Italy (10 percent), and France (8 percent)—with limited change to these preferences expected between now and 2030.

Despite longer travel distances between Asian countries, Asia's intraregional travel market is beginning to resemble Europe's. Intraregional travel currently accounts for about 60 percent of international trips in Asia—a share expected to climb to 64 percent by 2030. As in Europe

Exhibit 2

Intraregional travel is the second-largest opportunity, after domestic travel, and is growing.



Note: Interregional refers to international travel outside a region; intraregional refers to international travel within a region. Regions for the purposes of this exhibit are Americas, Asia, Europe, and Middle East and Africa. Figures may not sum to 100%, because of rounding.
[1]Based on inflation-adjusted travel spend.
Source: Oxford Economics

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[5] Murali Krishnan, "Can India's airports cope with rapid passenger growth?," Deutsche Welle, February 7, 2024.
[6] "India is seeing a massive aviation boom," *Economist*, November 23, 2023.
[7] Michael Gunn and Mirette Magdy, "UAE's $35 billion Egypt deal marks Gulf powers' buying spree," Bloomberg, April 27, 2024.

in past decades, Asian intraregional travel is benefiting from diminishing visa barriers and the development of a low-cost, regional flight network.

Thailand is projected to enjoy continued, growing popularity with Asian travelers. Thailand waived visa requirements for Chinese tourists in 2023 and plans to do the same for Indian tourists starting in 2024. It has aggressively targeted the fast-growing Indian traveler segment, launching more than 50 marketing campaigns directed at Indians over the past decade. The investment may be paying off: Bangkok recently overtook Dubai as the most popular city destination for Indian tourists.[8]

A McKinsey ConsumerWise survey on consumer sentiment, conducted in February 2024, suggests that Chinese travelers are also exhibiting high interest in international travel, with 36 percent of survey respondents indicating that they intend to spend more on international travel in the next three months.[9] Much of this interest is directed toward regional destinations such as Southeast Asia and Japan, with interest in travel to Europe down from previous years.[10]

Given travelers' preference for proximity, how can tourism stakeholders further capitalize on domestic and intraregional travel demand? Here are a few strategies:

— *Craft offerings that encourage domestic tourists to rediscover local gems.* Destinations, hotels, and transportation providers can encourage domestic tourists to integrate lesser-known cultural landmarks into their trips to visit friends and relatives. In France, the upscale hotel chain Relais & Châteaux markets historic properties that lie far from classic tourist sights—such as Château Saint-Jean in rural Auvergne—as a welcome escape from the bustle of Paris. In Mexico, the Pueblos Mágicos program has successfully boosted domestic tourist visits to a set of "magical towns" that showcase Mexican heritage.

— *Fold one-off domestic destinations into fuller itineraries.* Route 66 in the United States is a classic road trip pathway, which spurs visits to attractions all along the highway's length. Tourism stakeholders can collaborate to create similar types of domestic itineraries around the world. For instance, Mexico has expanded on its Pueblos Mágicos concept by branding coordinated visits to multiple villages as "magical routes." In France, local tourism boards and vineyards have collaborated to promote bucket list "wine routes" around the country.

— *Make crossing borders into neighboring countries seamless.* Removing logistical barriers to travel can nudge tourists to upgrade a one-off trip to a single attraction into a bucket list journey across multiple, less-trodden destinations. In Africa, for example, Ethiopian Airlines is facilitating cross-border travel to major regional tourist sites through improved air connectivity. In Asia, Thailand has announced its intent to create a joint visa easing travel among Cambodia, Laos, Malaysia, Myanmar, Thailand, and Vietnam.

Source markets are shifting

The United States, Germany, the United Kingdom, China, and France remain the world's five largest sources of travelers, in that order. These countries collectively accounted for 38 percent of international travel spending in 2023 and are expected to remain the top five source markets through 2030. But interest in travel is blossoming in other parts of the world—causing a shift in the balance of outbound travel flows (Exhibit 3).

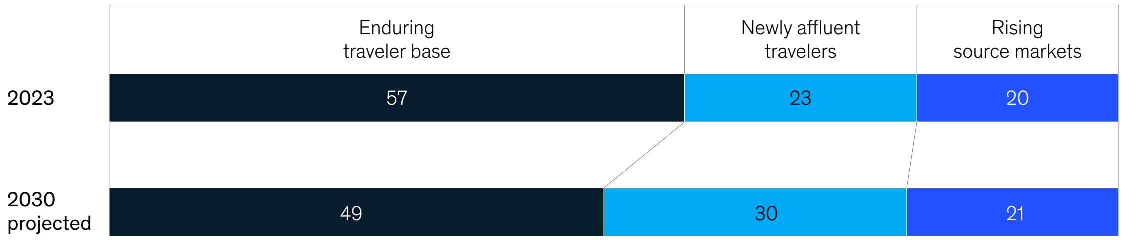
North Americans' travel spending is projected to hold steady at roughly 3 percent annual growth. US consumers voice growing concerns about inflation, and the most cost-constrained traveler segments are reducing travel, which is affecting ultra-low-cost airlines and budget hotels. Most travelers, however, plan to continue traveling: McKinsey research suggests that American consumers rank international and domestic travel as their highest-priority areas for discretionary

[8] "Bangkok overtakes Dubai as top destination for Indians post visa relaxation, reveals Agoda," PR Newswire, January 18, 2024.
[9] Daniel Zipser, "China brief: Consumers are spending again (outside of China)," McKinsey, April 8, 2024.
[10] Guang Chen, Zi Chen, Steve Saxon, and Jackey Yu, "Outlook for China tourism 2023: Light at the end of the tunnel," McKinsey, May 9, 2023.

Exhibit 3

New traveler populations are projected to become a growing share of global travel spending.

Share of global outbound travel spending,[1] %



Note: Enduring traveler base = North America, Oceania, and Western Europe; newly affluent travelers = Middle East and Northeast Asia; rising source markets = Caribbean, Central America, emerging Europe, North Africa, South America, South Asia, and sub-Saharan Africa.
[1]Based on inflation-adjusted travel spending.
Source: Oxford Economics

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spending. Instead of canceling their trips, these consumers are adapting their behavior by traveling during off-peak periods or booking travel further in advance. Travel spending by Europeans paints a slightly rosier picture, with roughly 5 percent projected annual growth. Meanwhile, the projected 12 percent annual growth in Chinese travelers' spending should anchor substantial increases in travel spending across Northeast Asia.

Alongside these enduring traveler segments, new groups of travelers are emerging. Eastern Europe, India, and Southeast Asia are still comparatively small source markets, but they are developing fast-growing pools of first-time tourists (Exhibit 4).

India's breakneck GDP growth of 6 percent year over year is bolstering a new generation of travelers,[11] resulting in a projected annual growth in travel spending of 9 percent between now and 2030. Indian air carriers and lodging companies are making substantial investments to meet projected demand. Budget airline IndiGo placed the largest aircraft order in commercial aviation history in 2023, when it pledged to buy 500 Airbus A320 planes[12]; that same week, Air India nearly equaled IndiGo's order size with purchase agreements for 250 Airbus and 220 Boeing jets. IndiGo later added an order for 30 additional Airbus A350 planes, well suited to serving both domestic and international routes.[13] The Indian Hotels Company Limited is ramping up its hotel pipeline, aiming to open two new hotels per month in the near future. International players are not sitting on the sidelines: seven hotel chains are launching new brands in India in 2024,[14] including Marriott's first Moxy- and Tribute-branded hotels in India and entrants from Hilton's Curio and Tapestry brands.[15] Development focus has shifted away from major metropolises such as Mumbai and Delhi and toward fast-developing, smaller cities such as Chandigarh and Hyderabad.

Southeast Asian travel spending is projected to grow at roughly 7 percent per year. Pockets of particularly high growth exist in Cambodia, Malaysia, and the Philippines. To capitalize on this blossoming source market, neighboring countries are rolling out attractive visa arrangements:

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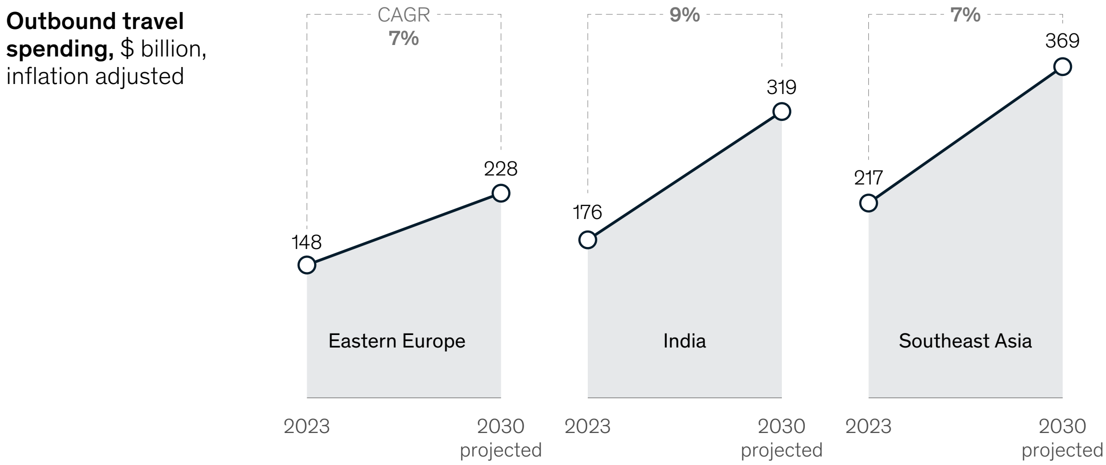
[11] Benjamin Laker, "India will grow to become the world's third-largest economy by 2027," *Forbes*, February 23, 2024.
[12] Anna Cooban, "Biggest plane deal in history: Airbus clinches massive order from India's IndiGo," CNN, June 19, 2023.
[13] "Airbus confirms IndiGo's A350 aircraft order," *Economic Times*, May 6, 2024.
[14] Peden Doma Bhutia, "Indian Hotels expansion plans: 2 new brands launching, 2 hotels opening every month," Skift, February 2, 2024.
[15] Forum Gandhi, "Check-in frenzy: International hotel giants unleash fresh brands in India's booming hospitality landscape," *Hindu Businessline*, February 13, 2024.

Exhibit 4

Rising source markets are adding new travelers to the global mix.



Source: Oxford Economics

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for example, China has agreed to reciprocal visa waivers for short-term travelers from Malaysia, Singapore, and Thailand.[16]

Travel spending by Eastern Europeans is expected to grow at 7 percent per year until 2030—two percentage points higher than spending by Western Europeans. Areas of especially high growth include the Czech Republic, Hungary, and Poland, where middle-class travelers are increasingly venturing farther afield. Major tourism players, including the TUI Group, have tapped into these new source markets by offering charter flights to warm-weather destinations such as Egypt.[17]

Although the number of travelers from these new source markets is growing, their purchasing power remains relatively limited. Compared with Western European travelers (who average $159 per night in total travel spending), South Asians spend 20 percent less, Eastern Europeans spend 40 percent less, and Southeast Asians spend 55 percent less. Only 3 percent of the current Asian hotel construction pipeline caters to economy travelers, suggesting a potential supply gap of rooms that could appeal to budget-constrained tourists.

While acknowledging that historical source markets will continue to constitute the bulk of travel spending, tourism players can consider actions such as these to capitalize on growing travel demand from newer markets:

— *Reduce obstacles to travel.* Countries can look for ways to strategically invest in simplifying travel for visitors from growing source markets. In 2017, for example, Azerbaijan introduced express processing of electronic visas for Indian visitors; annual arrivals from India increased fivefold in two years. Requirements regarding passport photocopies or in-person check-ins can similarly be assessed with an eye toward reducing red tape for travelers.

— *Use culturally relevant marketing channels to reach new demographics.* Unique, thoughtful marketing strategies can help destinations place themselves on first-time travelers' bucket lists. For example, after the release of *Zindagi Na Milegi Dobara*, a popular Bollywood movie

[16] Julienna Law, "China launches 'visa-free era' with Southeast Asia. Will travel retail boom?," *Jing Daily*, January 30, 2024.
[17] Hildbrandt von Klaus, "TUI develops Czech Republic as a new source market," FVW, December 22, 2023.

shot in Spain with support from the Spanish Ministry of Tourism, Indian tourism to Spain increased by 65 percent.[18]

— *Give new travelers the tech they expect.* Travelers from newer source markets often have access to tech-forward travel offerings. For example, Indian travelers can travel anywhere within their country without physical identification, thanks to the Digi Yatra app. The Southeast Asian rideshare app Grab has several helpful travel features that competitors lack, such as automated menu translation and currency conversion. Tourism stakeholders should consider how to adapt to the tech expectations of newer travelers, integrating relevant offerings that ease journeys.

— *Create vibrant experiences tailored to different price points.* Crafting lower-budget offerings for more cost-constrained travelers doesn't need to result in giving them a subpar experience. Capsule hotels, in which guests sleep in small cubbies, began as a response to the high cost of accommodations in Japan, but they have become an attraction in their own right—appearing on many must-do lists.[19]

The places you'll go: The destinations of the future may not be the ones you imagine

The world's top ten destination countries (the United States, Spain, China, France, Saudi Arabia, Türkiye, Italy, Thailand, Japan, and India, in that order) currently receive 45 percent of all travel spending, including for domestic travel. But some new locales are gaining traction (Exhibit 5).

A significant number of travelers are expanding their horizons, booking journeys to less visited countries that are near to old standbys. For instance, Laos and Malaysia, which both border Thailand—an established destination that is home to Bangkok, the world's most visited city[20]—

Exhibit 5

New travel destinations are gaining traction, while established favorites see continued demand.

Destination ranking based on total travel spend (domestic and international), select countries[1]

	2023 rank	2030 projected rank
Thailand	8	5
India	11	11
Philippines	35	32
Vietnam	37	35
Peru	77	68
Rwanda	140	134

[1]Based on inflation-adjusted travel spending.
Source: Oxford Economics

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[18] "*Zindagi Na Milegi Dobara* part of syllabus in Spain colleges," *India Today*, June 6, 2004.
[19] Philip Tang, "24 of the best experiences in Japan," Lonely Planet, March 23, 2024.
[20] Katherine LaGrave, "This is the world's most visited city," *AFAR*, January 31, 2024.

The world's top ten destination countries currently receive 45 percent of all travel spending, including domestic-travel spending. But some new locales are gaining traction.

are up a respective 20 percent and 17 percent, respectively, in year-over-year international travel spending.

Several other countries that have crafted thoughtful tourism demand generation strategies—such as Peru, the Philippines, Rwanda, and Vietnam—are also expected to reap benefits in the coming years. Vietnam logged a remarkable 40 percent increase in tourism spending in the five years before the pandemic. Postpandemic, it has rebounded in part by waiving visa requirements for European travelers (while indicating intent to offer similar exemptions in the future for Chinese and Indian travelers).[21] The Philippines has made a concerted effort to shift its sun-and-beach branding toward a more well-rounded image, replacing its long-standing "It's more fun in the Philippines" tourism slogan with "Love the Philippines." Peru is highlighting less visited archeological sites while also marketing itself as a top-notch culinary destination through the promotion of Peruvian restaurants abroad. Rwanda is investing in infrastructure to become a major African transit hub, facilitated by Qatar Airways' purchase of a 60 percent stake in the country's major airport.[22] Rwanda has also successfully capitalized on sustainable tourism: by charging $1,500 per gorilla trekking permit, for instance, it has maximized revenue while reducing environmental impact.

Tourism players might consider taking some of these actions to lure tourists to less familiar destinations:

— *Collaborate across the tourism ecosystem.* Promotion is not solely the domain of destination marketing organizations. Accommodation, transportation, and experience providers can also play important roles. In Singapore, for instance, the luxury resort Marina Bay Sands partners extensively with Singapore Airlines and the Singapore Tourism Board to offer compelling tourism offerings. Past collaborations have included flight and stay packages built around culinary festivals.[23]

— *Use infrastructure linkage to promote new destinations.* By extending route options, transportation providers can encourage visitors to create itineraries that combine familiar destinations with new attractions. In Asia, Thailand's tourism authority has attempted to nudge visitors away from the most heavily trafficked parts of the country, such as Bangkok and Phuket, and toward less popular destinations.

— *Deploy social media to reach different demographics.* Innovative social media campaigns can help put a destination on the map. Australia launched its "Ruby the kangaroo" campaign in China to coincide with the return of postpandemic air capacity between the two places. A video adapted for Chinese context (with appropriate gestures and a hashtag in Mandarin) garnered more than 20 million views in a single day on one of China's largest social media platforms.[24]

— *Embrace unknown status.* "Off the beaten path" messaging can appeal to widely traveled tourists seeking fresh experiences. Saudi Arabia's "#WhereInTheWorld" campaign promoted the country's tourist spots by acknowledging that they are less familiar to travelers, using a series of images that compared these spots with better-known destinations.

As tourism stakeholders look to the future, they can take steps to ensure that they continue to delight existing travelers while also embracing new ones. Domestic and intraregional tourism remain major opportunities—catering to local tourists' preferences while building infrastructure that makes travel more seamless within a region could help capture them. Creative collaboration among tourism stakeholders can help put lesser-known destinations on the map. Travel tides are shifting. Expertly navigating these currents could yield rich rewards.

[21] Ashvita Singh, "Vietnam looks to offer visa-free entry to Indians: India report," Skift, November 20, 2023.
[22] Dylan Cresswell, "Rwanda plots ambitious tourism recovery," *African Business*, July 28, 2022.
[23] "Singapore Tourism Board, Marina Bay Sands & UOB partner to enliven Marina Bay precinct," Singapore Tourism Board news release, January 25, 2024.
[24] Nicole Gong, "Can Ruby the kangaroo bring Chinese tourists hopping back to Australia?," SBS, June 5, 2023.

Chapter 2

The way we travel now

A survey of travelers reveals disparate desires, generational divides, and a newly emerging set of traveler archetypes.

What sorts of journeys do today's travelers dream about? Where would they like to go? What do they hope to do when they get there? How much are they willing to spend on it all? And what should industry stakeholders do to adapt to the traveler psychology of the moment?

To gauge what's on the minds of current-day travelers, we surveyed more than 5,000 of them in February and March of this year.[1] Our universe of respondents included travelers from five major, representative source markets: China, Germany, the United Arab Emirates, the United Kingdom, and the United States. All respondents took at least one leisure trip in the past two years. We asked them more than 50 questions about their motivations, behavior, and expectations.

Results from this survey, supplemented with findings from focus groups and other additional research, suggest six vital trends that are shaping traveler sentiment now.

Travel has become a top priority, especially for younger generations

Sixty-six percent of the travelers we surveyed say they're more interested in travel now than they were before the COVID-19 pandemic. This pattern holds across all surveyed age groups and nationalities. Respondents also indicate that they're planning more trips in 2024 than they did in 2023.

Travel isn't merely an interest these days. It's become a priority—even amid uncertain economic conditions that can make budgeting a challenge. Travel continues to be one of the fastest-growing consumer spending areas, rising 6 percent over a recent 12-month period in the United States, even when adjusted for inflation. Only 15 percent of our survey respondents say they're trying to save money by reducing the number of trips they go on. And in the February 2024 McKinsey ConsumerWise Global Sentiment Survey of more than 4,000 participants, 33 percent of consumers said they planned to splurge on travel, ranking it the third-most-popular splurge category—trailing only eating at home and eating out at restaurants.[2]

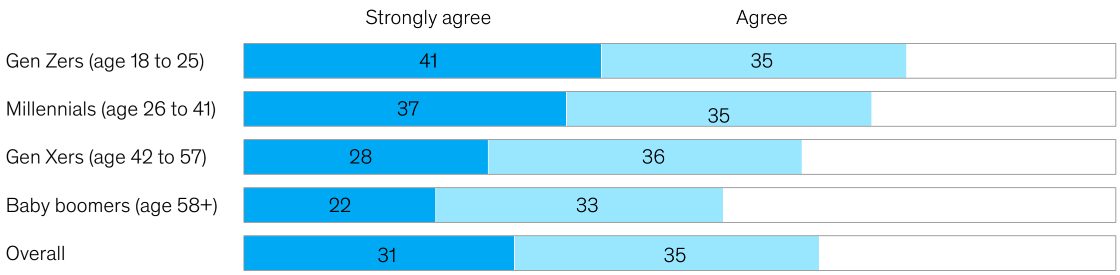
Younger generations appear to propel much of the rising interest in travel (Exhibit 1). In 2023, millennials and Gen Zers took, on average, nearly five trips, versus less than four for Gen Xers and baby boomers. Millennials and Gen Zers also say they devote, on average, 29 percent of their incomes to travel, compared with 26 percent for Gen Zers and 25 percent for baby boomers.

1 Unless otherwise noted, the source for all data and projections is McKinsey State of Travel Survey, 5,061 participants, February 27 to March 11, 2024.
2 Christina Adams, Kari Alldredge, Lily Highman, and Sajal Kohli, "An update on US consumer sentiment: Consumers see a brighter future ahead," McKinsey, February 29, 2024.

Exhibit 1

Younger generations show significant, growing interest in travel.

Share of respondents reporting increased interest in travel, %[1]



[1]Question: Do you agree or disagree with the following statement: "I am more interested in travel than I used to be"? Respondents who answered "neither agree nor disagree," "disagree," "strongly disagree," or "don't know/no answer" not shown. Gen Zers, n = 396; millennials, n = 2,037; Gen Xers, n = 1,660; and baby boomers, n = 968.
Source: McKinsey State of Travel Survey, Feb 27–Mar 11, 2024 (n = 5,061)

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Younger travelers are the most keen to venture abroad

Younger travelers are particularly excited about international travel. Gen Zers and millennials who responded to our survey are planning a nearly equal number of international and domestic trips in 2024, no matter their country of origin, whereas older generations are planning to take roughly twice as many domestic trips (Exhibit 2).

Younger travelers' thirst for novelty might be motivating their urge to cross borders. Gen Zers say their number-one consideration when selecting a destination is their desire to experience someplace new. For Gen Xers, visiting a new place comes in at number eight, behind factors such as cost, ease of getting around, and quality of accommodation.

There might be a mindset shift under way, with international travel feeling more within reach for younger travelers—in terms of both cost and convenience. Younger travelers have become adept at spotting international destinations that feature more affordable prices or comparatively weak currencies. Low-cost airlines have proliferated, carrying 35 percent of the world's booked seats over a recent 12-month period.[3] Meanwhile, translation software is lowering language barriers, mobile connectivity overseas is becoming cheaper and more hassle free, and recent visa initiatives in various regions have made passport-related obstacles easier to overcome.

It remains to be seen whether this mindset shift will endure as younger generations get older. But early evidence from millennials suggests that they've retained their interest in international travel even as they've begun to age and form families. It could be that this is a lasting attitude adjustment, influenced as much by the changing dynamics of travel as it is by youth.

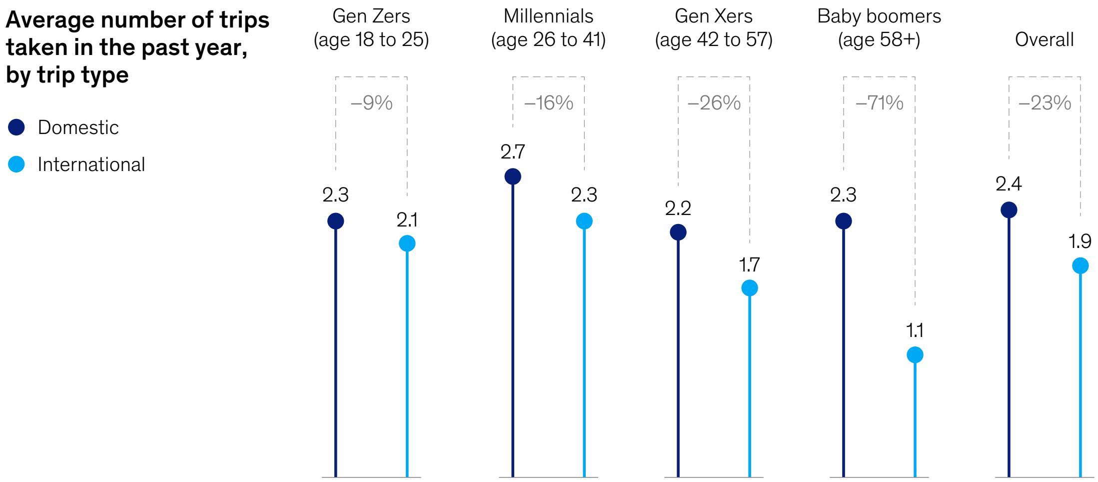
Baby boomers are willing to spend if they see value

Baby boomers are selective about their travel choices and travel spending. Enjoying time with family and friends is their number-one motivation for taking a trip. Experiencing a new destination is less important to them—by as much as 15 percentage points—than to any other demographic.

[3] "Low-cost carriers in the aviation industry: What are they?," OAG Aviation Worldwide, September 13, 2023.

Exhibit 2

Younger generations take nearly as many international trips as domestic trips.



Note: Gen Zers, n = 396; millennials, n = 2,037; Gen Xers, n = 1,660; and baby boomers, n = 968.
Source: McKinsey State of Travel Survey, Feb 27–Mar 11, 2024 (n = 5,061)

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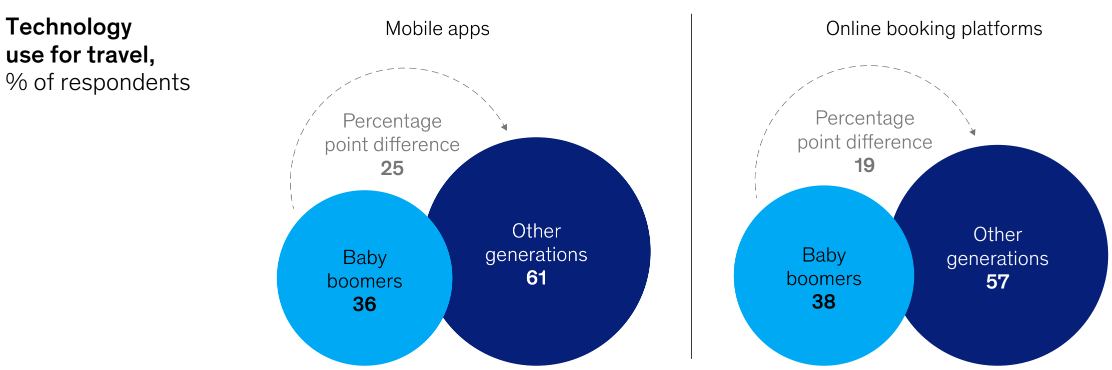
Although older travelers appreciate the convenience that technology can offer, they prefer human contact in many contexts (Exhibit 3). For example, 44 percent of baby boomers—versus only 30 percent of other respondents—say they value having a travel agent book an entire travel experience for them. And only 42 percent of baby boomers have used a mobile app to book transportation, versus 71 percent of other respondents.

Exhibit 3

Baby boomers are less comfortable using technology for travel than other generations.



Note: Baby boomers defined as those aged 58+. Baby boomers, n = 968, and other generations, n = 4,093.
Source: McKinsey State of Travel Survey, Feb 27–Mar 11, 2024 (n = 5,061)

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While this generation typically has more accumulated savings than other generations, they remain thoughtful about how they choose to spend. Their top two cited reasons for not traveling more are “travel is becoming too expensive” and “not having enough money to travel.” They make up the demographic most willing to visit a destination out of season, with 62 percent saying they’re open to off-peak travel to bring costs down.

Baby boomers might be willing to spend strategically, in ways that make travel more convenient and less burdensome. For example, whereas 37 percent of Gen Zers are willing to take a cheaper flight to lower their travel costs—even if it means flying at inconvenient times or with a stopover—only 22 percent of baby boomers say they’ll do the same. But these older travelers don’t splurge indiscriminately: only 7 percent describe their attitude toward spending as “I go out all the way when I travel.” They’re much more willing to forgo experiences to save money, identifying this as the first area where they cut spending. Gen Zers, on the other hand, will cut all other expense categories before they trim experiences.

Whatever baby boomers’ stated feelings and preferences, they still account for a substantial share of travel spending. And they still spend more than younger generations—three times more per traveler than Gen Zers in 2023, for example.

The adventure starts before the trip begins

Travelers are delighting in crafting their own trips. Only 17 percent of survey respondents say they used a travel agent to book a trip in the past year. When asked why, respondents’ top-cited reason is that they want full control over their itineraries. Their second-most-cited reason? They simply enjoy the planning process. In fact, studies have shown that the anticipation of a journey can lead to higher levels of happiness than the journey itself.[4]

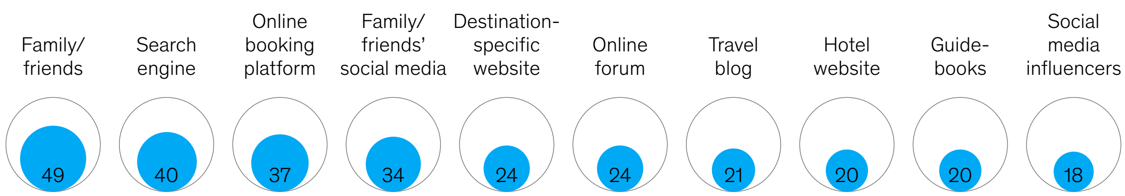
When seeking inspiration during the planning process, respondents are most likely to turn to friends and family—either directly or on social media (Exhibit 4). Advice from other travelers is also sought after. Fewer and fewer travelers rely on travel guidebooks for inspiration.

Today’s travelers tend to view the planning process, in part, as a treasure hunt. Seventy-seven percent of respondents describe the research phase as an effort to ensure that they’re finding

Exhibit 4

Travelers cite many sources of inspiration for trip planning, but most common is a recommendation from family or friends.

Sources of travel inspiration, % of respondents selecting option[1]



[1]Respondents could select multiple options.
Source: McKinsey State of Travel Survey, Feb 27–Mar 11, 2024 (n = 5,061)

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[4] Jeroen Nawijn et al., “Vacationers happier, but most not happier after a holiday,” *Applied Research in Quality of Life*, March 2010, Volume 5, Number 1.

good deals or saving money. And all demographics describe “value for money” as the most important factor when choosing a booking channel.

Unexpected traveler archetypes are emerging

When we analyzed our survey results, we identified seven clusters of travelers who express shared attitudes and motivations toward travel. While the distribution of these archetypes varies across source markets, respondents within each archetype exhibit strong similarities:

— *Sun and beach travelers (23 percent of respondents).* These vacationers travel rarely and spend frugally, preferring sun and beach destinations that are easy to get to. They like to relax and visit with family. They’re relatively more likely to place significant value on nonstop flights (72 percent, versus 54 percent overall) and less interested in authentic and immersive experiences (only 13 percent say these are main reasons why they travel).

— *Culture and authenticity seekers (18 percent).* These are active and high-budget travelers who typically spend more than $150 per day on holiday, love to sightsee, are willing to spend on experiences, and don’t want to settle for typical bucket-list destinations. Only 6 percent prioritize familiarity when choosing where to go—the lowest percentage of any traveler segment. This segment is also least likely (at 17 percent) to say they would shorten a holiday to save money.

— *Strategic spenders (14 percent).* These travelers are open to selectively splurging on authentic, carefully curated experiences. But they keep a watchful eye on total spending. They’re willing to sacrifice some conveniences, such as nonstop flights, in the interest of cost savings.

— *Trend-conscious jet-setters (14 percent).* Travelers in this high-budget group (they spend more than $150 per day when traveling) turn first to friends and family (79 percent) and then to social media (62 percent) when scouting destinations. Seventy-six percent say the popularity of a destination is an important factor, compared with 63 percent overall. And 75 percent say they focus on hotel brands when selecting accommodations.

— *Cost-conscious travelers (11 percent).* This travel segment is made up of predominantly older travelers who travel rarely and frequently return to the same destinations and activities. They’re relatively more likely to care about the familiarity of a destination (54 percent, versus 35 percent overall) and the cost of the trip (76 percent, versus 65 percent overall).

— *Premium travelers (12 percent).* This segment expects high-quality trappings when they travel, and only 20 percent say that cost is an important factor. These frequent travelers are especially selective about accommodation—they, on average, are more likely than travelers overall to care about brand, prestige, exclusivity, design, decor, amenities, and sustainability. Similarly to trend-conscious jet-setters, this traveler segment is, on average, more likely than travelers overall (at 27 percent, versus 18 percent) to be swayed by celebrities and influencers when choosing travel destinations.

— *Adventure seekers (8 percent).* This younger segment enjoys active holidays that present opportunities to encounter like-minded travelers. Nineteen percent say they’re motivated by adventure and physical activities, and 15 percent say meeting new people is a major reason why they travel. They aren’t after large-group events; instead, they prefer small-group adventures. This segment prizes remoteness, privacy, and sustainability.

What travelers want depends on where they’re from

When asked what trips survey respondents are planning next, 69 percent of Chinese respondents say they plan to visit a famous site—a marked difference from the 20 percent of North American and European travelers who say the same. Chinese travelers are particularly motivated by sightseeing: 50 percent cite visiting attractions as their main reason for traveling, versus an average of 33 percent for those from other countries.

Seven clusters of travelers express shared attitudes and motivations toward travel. Each archetype's distribution varies across source markets, but the travelers within them exhibit strong similarities.

Emirati travelers, like their Chinese counterparts, favor iconic destinations, with 43 percent saying they plan to visit a famous site. They also have a penchant for shopping and outdoor activities. Fifty-six percent of respondents from the United Arab Emirates describe the range of available shopping options as an important factor when selecting a destination—a far higher proportion than the 35 percent of other respondents. And respondents from the United Arab Emirates report going on a greater number of active vacations (involving, for instance, hiking or biking) than any other nationality.

Travelers from Europe and North America are especially keen to escape their daily routines. Respondents from Germany (45 percent), the United States (40 percent), and the United Kingdom (38 percent) place importance on "getting away from it all." Only 17 percent of respondents from China and the Middle East feel the same way. European travelers are particularly fond of beach getaways: respondents from the United Kingdom and Germany cite "soaking in the sun" at twice the rate of American respondents as a main reason they travel.

Travel is a collective story, with destinations as the backdrop

Younger generations are prioritizing experiences over possessions. Fifty-two percent of Gen Zers in our survey say they splurge on experiences, compared with only 29 percent of baby boomers (Exhibit 5). Gen Z travelers will try to save money on flights, local transportation, shopping, and food before they'll look to trim their spending on experiences. Even terminology used by younger generations to describe travel is experience oriented: "Never stop exploring" is tagged to nearly 30 million posts on Instagram.

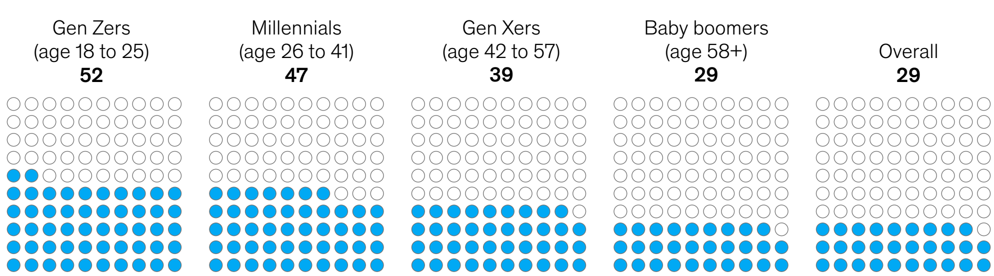
The value of experiences is often realized in the stories people tell about them. Books and films have spurred tourists to flock to specific destinations (for instance, when droves of *Eat, Pray, Love: One Woman's Search for Everything across Italy, India and Indonesia* [Viking Penguin, 2006] readers visited Bali). And travel has always been a word-of-mouth business, in which travelers' stories—crafted from their experiences—can inspire other travelers to follow in their footsteps.

Social media is the latest link in this chain: a technology-driven, collective storytelling platform. Ninety-two percent of younger travelers in our survey say their last trip was motivated in some way by social media. Their major sources of social inspiration, however, aren't necessarily

Exhibit 5

Younger generations are more willing than other generations to devote significant spending toward travel experiences.

Share of respondents reporting splurging on experiences while traveling, %[1]



[1]Gen Zers, n = 396; millennials, n = 2,037; Gen Xers, n = 1,660; and baby boomers, n = 968.
Source: McKinsey State of Travel Survey, Feb 27–Mar 11, 2024 (n = 5,061)

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influencers or celebrities (30 percent) but rather friends and family (42 percent). Consumers' real-life social networks are filled with extremely effective microinfluencers.

Posting vacation selfies is a popular way to share the story of a journey. But a growing number of social media users are searching for ways to present their travel narratives in a more detailed and more enduring fashion, and new apps and platforms are emerging to help them do so. The microblogging app Polarsteps, which more than nine million people have downloaded, helps travelers plan, track, and then share their travels—allowing journeys to be captured in hardcover books that document routes, travel statistics, and musings.

Giving today's travelers what they need and want

From our survey findings, important takeaways emerge that can help tourism industry players engage with today's travelers.

Know customer segments inside and out

Serving up a one-size-fits-all experience is no longer sufficient. Using data to segment customers by behavior can help tourism players identify opportunities to tailor their approaches more narrowly.

Cutting-edge data strategies aren't always necessary to get started. Look-alike analysis and hypothesis-driven testing can go a long way. Even without having data about a specific family's previous travel patterns, for example, an airline might be able to hypothesize that a family of four traveling from New York to Denver on a long weekend in February is going skiing—and therefore might be interested in a discounted offer that lets them check an additional piece of luggage.

The same philosophy applies to personalization, which doesn't necessarily need to be focused on a single individual. Merely having a clearer sense of the specific segments that a provider is targeting can help it craft a more compelling offer. Instead of simply creating an offer geared toward families, for instance, providers might build an offer tailored to families who are likely to visit in the spring and will be primarily interested in outdoor activities. And instead of relying on standard tourist activities, providers might find ways to cater to more specific traveler interests—for example, facilitating a home-cooked meal with locals instead of serving up a fine-dining experience.

Help travelers share their journeys

Today's travelers want to share their travel stories. And friends and family back home are more likely to be influenced by these stories than by anything else they see or hear. Providers should consider ways to tap into this underexploited marketing channel.

Hotels can install a photo booth that enables guests to share pictures from their journeys. Guests can be given small souvenirs to take home to their friends and family. Hotels might also send guests photos on the anniversary of a trip to help jog happy memories and prompt a future booking.

Given the right incentives, customers can act as a distributed team of marketers. Reposting guests' social media photos and videos, for example, or spurring engagement with contests and shareable promo codes can encourage travelers to become evangelists across an array of different channels.

Recognize younger generations' unquenchable thirst for travel

Younger travelers' remarkable desire for experiences isn't always in line with their budgets—or with providers' standard offerings. A new generation of customers is ripe to be cultivated if providers can effectively meet their needs:

- Travel companies can better match lower-budget accommodations with younger travelers' preferences by incorporating modern design into rooms and facilities, curating on-site social events, and locating properties in trendy neighborhoods.

— More affordable alternatives to classic tourist activities (for example, outdoor fitness classes instead of spas or street food crawls instead of fine dining) can be integrated into targeted packages.

— Familiar destinations can be reinvented for younger travelers by focusing on experiences (for instance, a street art tour of Paris) instead of more traditional attractions (such as the Eiffel Tower).

Cater to older travelers by using a human touch and featuring family-oriented activities
Older generations remain a major source of travel spending. Providers can look for ways to keep these travelers coming back by meeting their unique needs:

— While older travelers are growing more comfortable with technology, they continue to favor human interaction. Stakeholders can cater to this preference by maintaining in-person visitor centers and other touchpoints that emphasize a human touch.

— Older travelers are generally fond of returning to familiar destinations. Providers can look to maximize repeat business by keeping track of guest information that aids personalization (such as favorite meals or wedding anniversary dates). Identifying historical behavior patterns (for example, parents repeatedly visiting children in the same city) can help providers make targeted offers that could maximize spending (for example, a museum subscription in that city).

— The off-seasonal travel patterns that older travelers often exhibit might open opportunities for providers to create appealing experiences scheduled for lower-occupancy periods—for example, an autumn wellness retreat at a popular summer destination.

— Older travelers' propensity to visit family and friends opens the door to offerings that appeal to a range of generations, such as small-group trips pairing activities for grandparents and grandchildren.

Travelers are more interested in travel—and more willing to spend on it—than ever before. But the familiar, one-size-fits-all tourism offerings of the past have grown outdated. Today's travelers want to indulge in creative experiences that are tailored to their priorities and personal narratives. The good news for providers: new technology and new approaches, coupled with tried-and-true strengths such as managerial stamina and careful attention to service, are making it easier than ever to shape personalized offerings that can satisfy a traveler's unique needs.

Chapter 3

Updating perceptions about today's luxury traveler

Some widely held notions about luxury travelers—such as how much money they have or how old they are—could be due for reexamination.

Demand for luxury tourism and hospitality is expected to grow faster than for any other industry segment. This growth is being powered in part by a sharp rise in the number of individuals globally with net worths between $1 million and $30 million. But it's also resulting from a large and expanding base of aspiring luxury travelers with net worths between $100,000 and $1 million, many of whom are younger and increasingly willing to spend larger shares of their wealth on upscale travel options (Exhibit 1).

We dug deeper into this ongoing evolution by surveying luxury travelers (defined here as those who spend, on average, $500 or more per night on lodging) to inquire about their preferences, plans, and expectations. Our survey of more than 5,000 luxury travelers was in the field in February and March of this year.[1] The respondent pool included travelers from five major, representative source markets: China, Germany, the United Arab Emirates, the United Kingdom, and the United States. All respondents took at least one leisure trip in the past two years.

Findings from this survey, coupled with input from industry experts, suggest that some commonly held perceptions about luxury travelers might be due for reassessment.

Perception one: All luxury travelers are very wealthy

The image that luxury travel conjures is one of vacationers with millions of dollars to their names. In fact, 35 percent of the luxury-travel market is now composed of travelers with net worths of between $100,000 and $1 million.

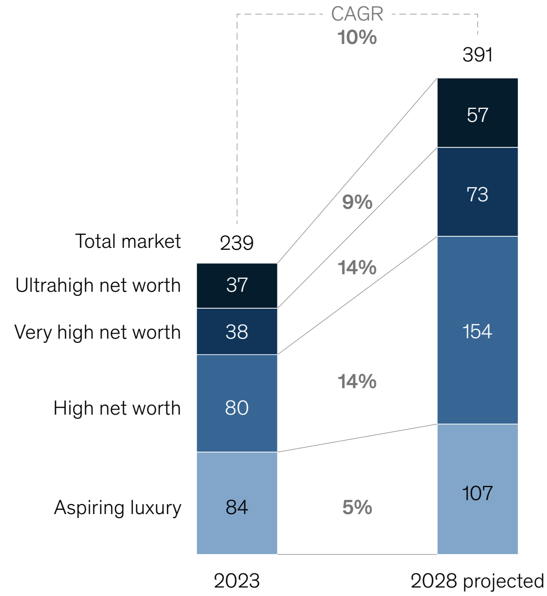
Luxury means different things to travelers at different wealth levels. High-net-worth individuals (HNWIs), with assets ranging between $1 million and $5 million, tend to trust boutique travel agents, seek privacy and exclusivity, and favor exotic destinations. Very-high-net-worth individuals (VHNWIs), with assets ranging between $5 million and $30 million, are relatively more likely to book large suites to preserve intimacy and tranquility, prefer end-to-end experiences steeped in local ambiance, and may be less focused on hotel brand names. Ultrahigh-net-worth individuals (UHNWIs), with more than $30 million in assets, prefer quiet luxury with personalized service—targeting remote, private destinations, accessible via private airports or helipads, that feature tailored experiences available nowhere else.

[1] Unless otherwise noted, the source for all data and projections is McKinsey State of Travel Survey, 5,061 travelers, February 27 to March 11, 2024.

Exhibit 1

The luxury-hospitality market is large, and some segments are growing quickly.

Global spending on luxury leisure hospitality, by wealth segment,[1] $ billion



[1]As defined by Knight Frank, aspiring luxury traveler has $100,000–$1 million net worth, high-net-worth traveler has $1 million–$5 million net worth, very-high-net-worth traveler has $5 million–$30 million net worth, and ultrahigh-net-worth traveler has >$30 million net worth.
Source: Capgemini; Credit Suisse; Knight Frank; Wealth-X; McKinsey analysis

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Aspiring luxury travelers have their own set of preferences (Exhibit 2). They might splurge on special occasions, prefer visibly branded luxury, demand value for their money, and pay close attention to loyalty program points and benefits. They might be willing to spend big on individual components of their travel—such as a helicopter tour or fine-dining experience—but not on every aspect of a trip.

It's crucial to understand this nonmillionaire segment for two reasons. First, it's comparatively large. Second, its forays into select prestige elements present opportunities for brands that hope to attract its enduring loyalty—especially as some of its members graduate into higher tiers of income and wealth.

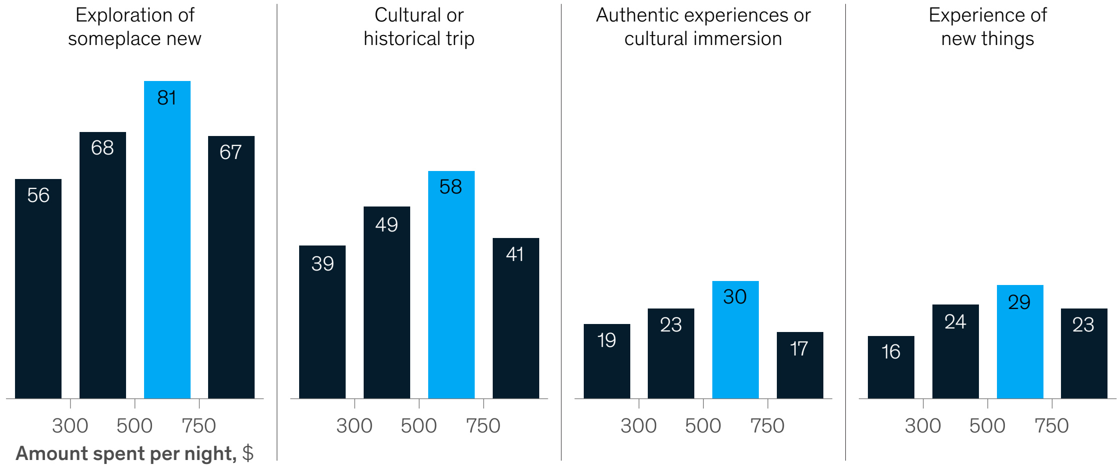
Aspiring luxury travelers often rely on branding to validate their sense that an experience is luxurious. Strong luxury-hospitality brands can explore creating entry-level offerings to engage with this segment. (Indeed, many luxury hotels are already targeting aspirational travelers by offering more affordable standard rooms alongside pricey ultraluxury suites.)

Existing luxury brands can also cross categories to capitalize on this segment. For instance, Bulgari entered the hotel space as part of a collaboration with the Ritz-Carlton Hotel—the luxury watchmaker is expected to have a dozen collaboration-driven properties by 2026. Elle, the global lifestyle brand, has announced it will launch two hospitality ventures: Maison Elle and Elle Hotel. And high-end shoemaker Christian Louboutin opened a boutique hotel on Portugal's coast.

Exhibit 2

The aspiring luxury traveler has distinct motivations from other travelers: they prioritize novelty, culture and history, and authentic experiences.

Motivations for leisure travel, by amount spent per night, % of respondents



Note: Aspiring luxury traveler spends $500–$749 per night.
Source: McKinsey State of Tourism Survey, 5,061 travelers, Feb 27–Mar 11, 2024

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Perception two: Luxury travelers come from Europe and the United States

The geographical balance of wealth is shifting. Although North America is still home to the most millionaires, it could be overtaken by Asia by the mid-2030s—largely as a result of growing wealth in China.

The rapid growth of wealth in Asia is spurring a boom in regional hotel construction (Exhibit 3). A 2023 assessment of the global luxury-hotel pipeline found that 41 percent of hotel rooms in the pipeline are in Asia, with 43 percent of those in China. The luxury-hotel supply in Asia, both existing and in the pipeline, leans heavily toward larger properties, chains, and franchises, reflecting the industry landscape in Asia as well as a preference among Asian travelers for luxury brands they know and trust.

Domestic travel is consistently the largest share of travel, so luxury demand in places where HNWI and UHNWI populations are large and expanding will likely be high. Providers in these regions may want to consider how to meet the specific needs and desires of increasingly affluent populations (see sidebar “The chair of Shangri-La on the unique preferences of Chinese luxury travelers”).

Perception three: Luxury travelers are old

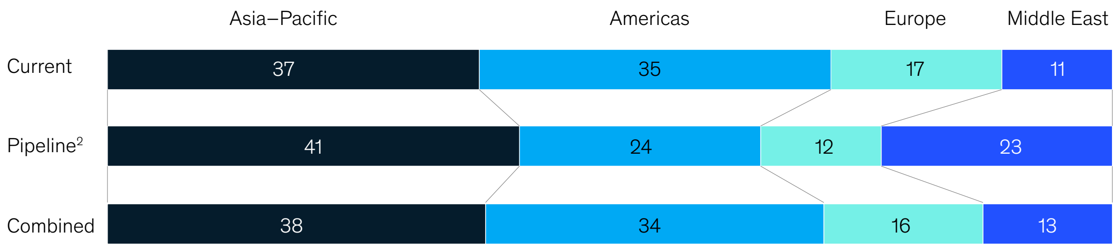
While baby boomers do represent a significant portion of luxury spending, 80 percent of the luxury leisure market is in fact made up of people below the age of 60 (Exhibit 4). Spending on travel peaks between the ages of 40 and 60, and younger travelers show an increasing willingness and ability to spend at luxury levels.

Based on the current shape of the market, luxury providers should look for ways to cater to a middle-aged population, which will likely include a high proportion of families with adolescent

Exhibit 3

Asia has become the epicenter of luxury lodging, with momentum building.

Global supply of luxury leisure lodging,[1] by region, % of units



Note: Figures may not sum to 100%, because of rounding.
[1]Includes suites, serviced apartments, and villas.
[2]Confirmed and publicly announced luxury-hotel projects.
Source: STR

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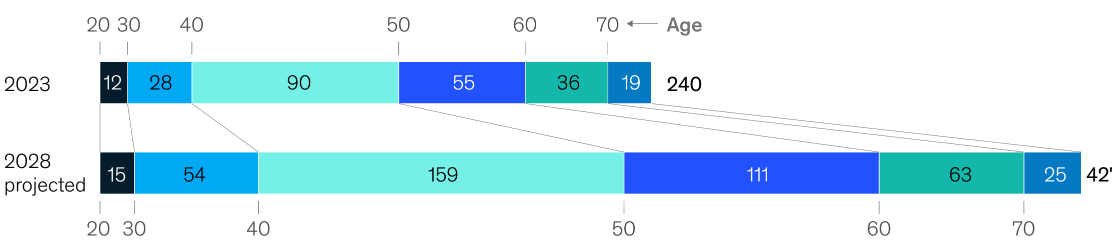
Exhibit 4

Individuals under the age of 60 account for most luxury-travel spending.

Global spending on luxury leisure hospitality, by age, $ billion



Source: Capgemini; Credit Suisse; Knight Frank; Wealth-X; McKinsey analysis

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children. Luxury players might consider devising offerings that can appeal to both parents and teens. Multigenerational luxury travel involving grandparents, parents, and kids is a growing trend, and these families often prefer to book villas that offer privacy and space for large groups.

People in their 20s make up a smaller share of the luxury market, but acquiring customers in this segment is still important. Their lifetime value can be significant, given the many years of luxury travel that likely lie ahead of them. Offerings for younger populations should be tailored to their interests, which tend to cluster around social experiences, authenticity, sustainability, and digital connectedness.

Perception four: Luxury travelers all crave exotic experiences

It's true that luxury travelers are comparatively more likely to go on exotic and adventure-focused vacations, such as yachting trips or safaris. This is unsurprising, given the higher costs of these types of outings.

However, the largest share of luxury travelers still want to do the same kinds of things that other travelers do. Sixty-five percent of them express intent to go on sunny beach vacations, and 55 percent say they're planning to book relaxing getaways (Exhibit 5).

These travelers might not necessarily want a new kind of vacation, but they still want novelty. Seventy-two percent of luxury travelers place importance on visiting a new destination, compared with 44 percent of other travelers. Luxury travelers also travel substantially more than mass travelers—which means that unfamiliar destinations can quickly become familiar ones.

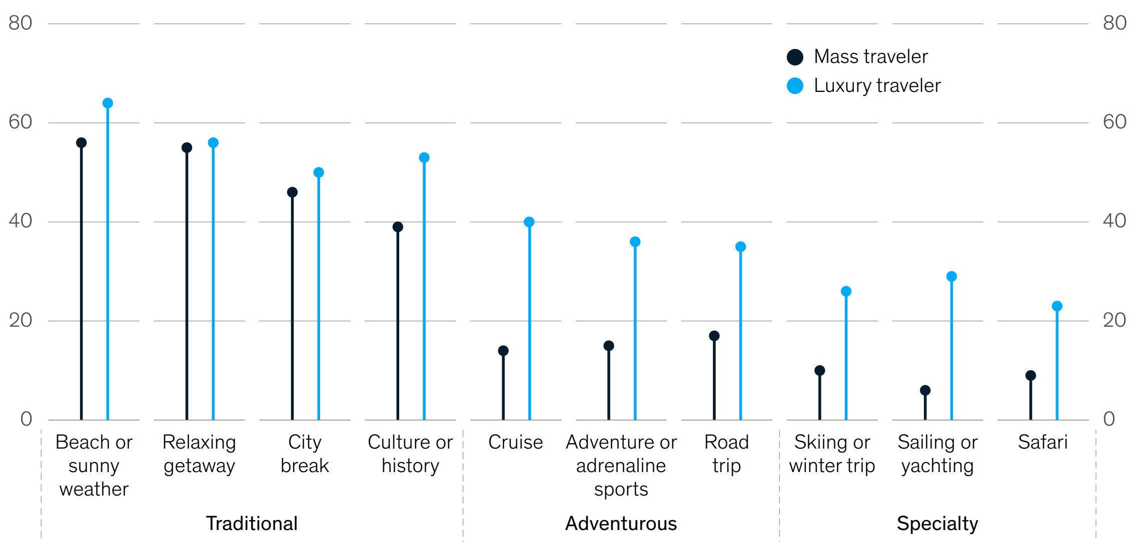
Sun and beach vacations remain the most preferred trips for luxury travelers, yet hotels in the associated locations constitute a relatively low share of luxury-hotel supply (Exhibit 6). Business travel, which skews supply toward cities, may account for some but not all of this discrepancy.

Taken together, these findings suggest that there could be opportunity to develop new luxury destinations that focus on offering traditional types of leisure or to refresh traditional destinations with revamped offerings that make them feel new even to frequent visitors. Upgrading accommodations (by, for instance, adding villas) or curating experiences (such as unique scuba dives or sailing journeys) could help lure past visitors to book another sunny beach stay.

Exhibit 5

Luxury travelers still predominantly take traditional types of trips, but they are more likely than mass travelers to go on specialty trips.

Share of travelers planning trip type in coming year, by traveler type,[1] % of respondents



[1]On average, luxury traveler spends ≥$500/night, premium traveler (not shown) spends $300–$499/night, and mass traveler spends <$300/night.
Source: McKinsey State of Tourism Survey, 5,061 travelers, Feb 27–Mar 11, 2024

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The chair of Shangri-La on the unique preferences of Chinese luxury travelers

Kuok Hui Kwong is chair of Shangri-La, which has more than 100 hotels in 78 destinations. McKinsey spoke with her about what Chinese luxury travelers want, the strength of the Chinese domestic tourism market, the value of catering to intergenerational travelers, and the importance of giving talent good opportunities. The following is an edited version of the conversation.

McKinsey: Shangri-La is a global group, but it's very rooted in Asian hospitality, and it attracts many Chinese consumers. Are you seeing different behaviors for luxury travelers from China? Are they beginning to travel more domestically?

Kuok Hui Kwong: During the COVID-19 pandemic, a lot of wealthy Chinese customers who would have chosen to travel abroad instead spent three years traveling domestically. Now the borders have opened up and international travel is much easier, but I think the habit of consuming travel experiences domestically is a trend that's here to stay. China has truly diverse tourism options, whether you want scenery or culture.

Although we serve a global luxury audience, we're particularly strong in Asia and have a deep understanding of Chinese consumers. Chinese consumers are increasingly discerning, sophisticated, and confident. While they do buy into bigger brands, I think they're more and more looking for products and experiences that meet their particular needs and that celebrate and reflect their cultural identity. You can see this in the choices they make as they increasingly seek domestic brands, domestic makers, and domestic stay options.

A lot of Chinese luxury travelers are looking for immersive experiences that connect with Chinese culture. They have strong preferences for Chinese food. They're very concerned about safety and hygiene. They have payment options and ride-hailing options that they prefer. Traveling domestically solves for a lot of these issues. It's also become much easier for travelers to reach destinations in China that were previously less accessible, with new flight networks and affordable and efficient high-speed rail connections. So we expect that domestic-experience consumption will continue to be strong.

Because it's such a huge market, fortunes can surge based on the customer's domestic preferences. But it also means that the market is extremely competitive. It changes very fast. And consumers' needs are constantly evolving. It also means it's a market that can accept and looks for a lot of innovation.

McKinsey: What sort of innovation is this discerning group of travelers looking for? What are you doing to innovate at Shangri-La?

Kuok Hui Kwong: For us at Shangri-La, we're seeing a lot of domestic leisure trips in China that are built around school holidays—with more and more parents taking their children on holiday to experience different parts of the country. So one of the main areas we're very focused on is the family experience. In the China context, when we talk about experience seeking, a lot of times it's multigenerational. It's parents with their children, or it's grandparents and parents and children all together.

Because Chinese families are becoming smaller, their ability and willingness to spend on family experiences has gotten larger. The perception that Chinese luxury travelers only want to go overseas to buy high-end brands is no longer true. A new generation of luxury consumers wants to share experiences and quality moments with their families.

Dialing into the family experience is definitely something we've been working on, even before the pandemic. A lot of hotels are eyeing this market as well. We own a lot of our underlying assets. So rather than just putting a kid's tent in a room, for example, we can create an end-to-end, integrated, holistic experience that can be delightful.

In Singapore, we launched our first family experience urban hotel in 2016, when we created a several-hundred-square-meter play zone. We repurposed two tennis courts to turn them into an outdoor splash and play water zone. And then we created a whole floor of family rooms and suites with differently themed rooms that would appeal to children. We continued this in Hong Kong and in Beijing, where we opened during the pandemic, and have plans to grow this in other destinations.

Another area where we see a lot of innovation is food and beverage. That can mean regional cuisine, menu items, concepts, design and décor of restaurants, and the pairing of food with wine or *baijiu* [a clear liquor], along with the use of local Chinese products and Chinese cuisine with international accents.

McKinsey: One big issue in the industry is talent retention—especially talent at the level where you have to train for not just general service but also your own brand standards and unique Asian hospitality touches. What do you do to attract and retain that talent and help them grow in the industry?

The chair of Shangri-La on the unique preferences of Chinese luxury travelers (continued)

Kuok Hui Kwong: I think that has to be part of your way of doing business and your corporate culture. What I personally love about Shangri-La is that it's in our DNA to really care for our colleagues. We really lived this during the pandemic. In most of our markets, we were the very last to consider reducing our frontline workforce, and even when we did, it was minimal. This wasn't a decision I made on my own—this is part of our culture, which I am very proud of. It also enabled us to ramp up much quicker postpandemic.

It's also about giving opportunities to some of our colleagues to move out of their home markets and develop their careers in a global setting. We're one of the few Asian-headquartered companies that can afford to give a local Asian workforce global opportunities. And I think we can do even more of that going forward.

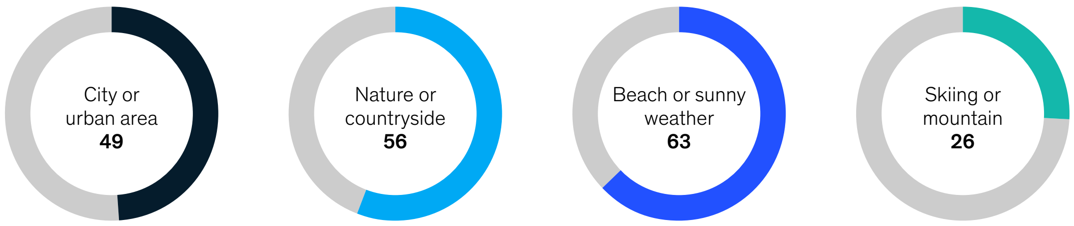
Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

Exhibit 6

The luxury-hotel supply may not be meeting the demand for sun and beach travel or for mountain and skiing travel.

Global supply of luxury leisure lodging,[1] by trip type, % of units

Share of travelers planning trip type in 2024, % of respondents



[1]Includes suites, serviced apartments, and villas.
Source: STR; McKinsey State of Tourism Survey, 5,061 travelers, Feb 27–Mar 11, 2024

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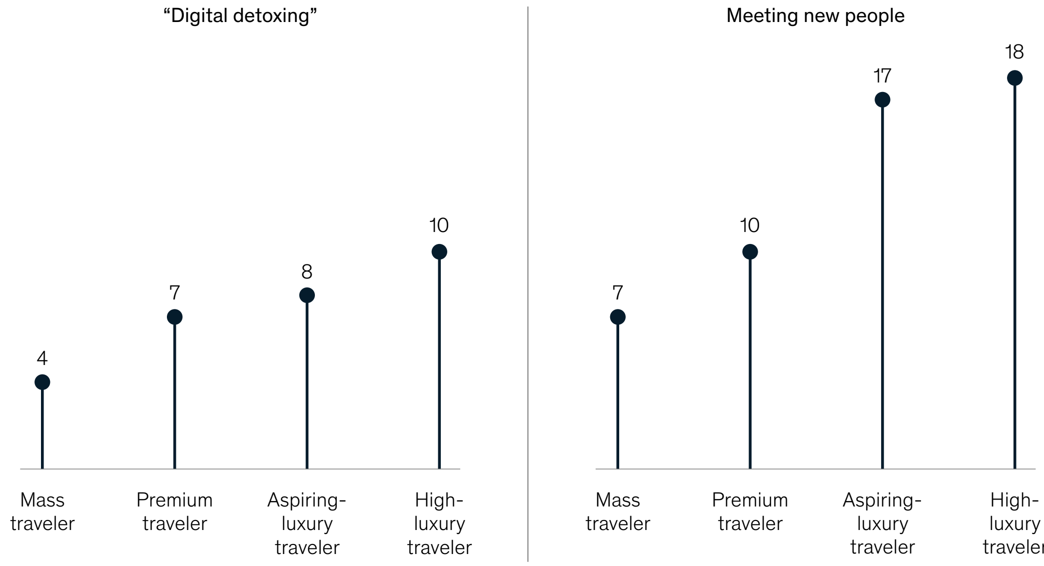
Perception five: Luxury travelers want 24/7 digital connection

It might seem intuitive that high earners who are likely to spend much of their working time communicating via phones and laptops would demand continued connectivity while away from home. But luxury travelers who responded to our survey are two to three times more likely than mass travelers to say their main reasons for traveling are to meet new people and to disconnect from digital devices (Exhibit 7).

Exhibit 7

Luxury travelers are more likely than others to cite ‘digital detoxing’ and meeting new people as reasons to travel.

Motivation for leisure traveling, by traveler type,[1] % of respondents



[1]On average, mass traveler spends <$300/night, premium traveler spends $300–$499/night, aspiring-luxury traveler spends $500–$749/night, and high-luxury traveler spends ≥$750/night.
Source: McKinsey State of Tourism Survey, 5,061 travelers, Feb 27–Mar 11, 2024

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Small-group travel—for example, small luxury-cruise expeditions—is currently in high demand. On cruises, luxury travelers do want assurance that they will be digitally connected. But they also want to feel that they’re getting away from it all, being present in the moment, and meeting new people. Although resorts that are explicitly framed as “digital detox” destinations remain a highly niche accommodation choice, digital detoxing is an important theme both in marketing luxury lodging and in developing on-site offerings. Providers should consider finding ways to create inviting spaces for digital disconnection, such as common eating areas and shared tables.

Perception six: Luxury travelers don’t care about loyalty programs

Are luxury travelers above caring about hotel loyalty points and perks? Not quite. Sixty-eight percent of luxury travelers—compared with only 41 percent of mass travelers—say loyalty programs are an important factor when choosing accommodations.

That said, many luxury travelers look for a different kind of reward from loyalty programs. They’re less focused on accumulating points and redeeming them for free stays. They’re more attuned to the recognition that comes with being a valued loyalty customer and with the attentive service, foreknowledge of preferences, and exclusive privileges (such as access to hotel leadership) it can entail.

Luxury travelers are similarly more likely than mass travelers to care about hotel brands (77 percent versus 53 percent) and government-assigned star rankings (84 percent versus 66 percent). In general, luxury travelers want to trust that the places they choose will feature world-class aesthetics and robust amenity offerings. Brands, stars, and loyalty programs can all help communicate the reputation and perceived quality of an accommodation.

In comparing luxury travelers across regions, it's clear that consideration of star rankings is uniformly high. But travelers from China and the United Arab Emirates are more likely than others to place a high value on brands and loyalty programs (Exhibit 8).

This finding could be influenced in part by the existing lodging supply in those countries. In China, for instance, branded hotels with loyalty programs are the dominant form of luxury accommodation. As Chinese domestic hotel supply develops—and is increasingly dominated by chains rather than independent players—it could further elevate the importance of branding and loyalty.

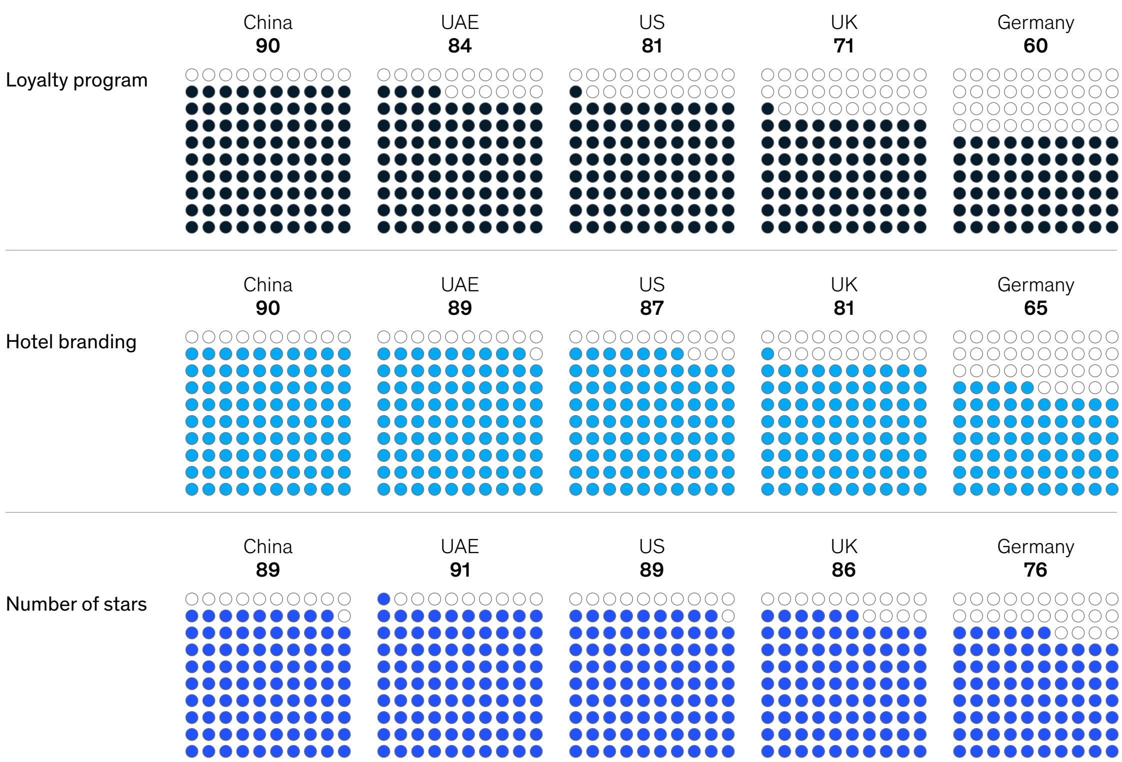
Perception seven: Luxury tourists are done with resorts

All-inclusive resorts—replete with buffets, standardized drinks, and family-targeted activities—may not seem as if they would appeal to luxury travelers. The truth is that luxury travelers do still turn to all-inclusives for the ease, convenience, and wide variety of instantly accessible activities they can provide. But luxury travelers want these accommodations to feature exclusive offerings and personalization.

Exhibit 8

Chinese and UAE travelers particularly value loyalty programs, hotel branding, and star rankings.

Factor seen as important when selecting travel destination, by country, % of respondents



Source: McKinsey State of Tourism Survey, 5,061 travelers, Feb 27–Mar 11, 2024

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To court luxury travelers, resorts might consider offering dedicated concierge desks willing to go the extra mile in booking unique activities and difficult-to-get reservations. Customized dining options, such as chefs willing to cook any meal on demand, can also appeal to this group. In addition, resorts might offer adventurous experiences such as scuba diving, sailing lessons, or guided hikes as part of the all-inclusive package.

Resorts should look for opportunities to use data and research to enable deeply personalized touches. This could include keeping track of dietary preferences (from stay to stay and across properties) or even inscribing guests' nicknames on their slippers.

Perception eight: Luxury and scale don't mix

Historically, the luxury segment and the exclusivity it entails have been associated with independently owned, landmark hotels. But there are brands that have successfully scaled luxury accommodation, and there are many elements of scale that luxury players can benefit from.

A few major brands, including Four Seasons Hotels and Mandarin Oriental Hotel, have managed to establish themselves as icons of luxury hospitality. And some groups, such as Leading Hotels of the World and Relais & Châteaux, have been able to unite a disparate set of independent and family-owned luxury hotels under a single, recognizable banner—serving as a trusted indicator of luxury quality at scale and granting smaller organizations strength in numbers.

A global footprint can ease the expansion of brands into new geographies, and it can serve as a hedge against regionally specific risks. A large luxury-hospitality brand can also broaden its focus beyond its core product, expanding across the value chain to become a more holistic experience provider—for example, the ultraluxury brand Aman has branched out into cruise expeditions and jet journeys. And finally, scale creates economies of, well, scale: with more rooms to offer, scaled brands lower their cost per room and increase their efficiency as they centralize functions such as staffing, training, technology, procurement, and operations.

Today, 70 percent of luxury-hotel properties are independent. But the supply pipeline is flipped, with chain and franchise properties accounting for 78 percent of planned hotels. New branded hotels coming online are also getting larger, in terms of total rooms. As luxury-hotel brands get bigger, they must ensure that they can still offer personalized, high-touch service. Achieving scale without sacrificing exclusivity—by, for instance, introducing luxury villas that are adjacent to a larger property—could be critical to success.

Perception nine: The traditional travel agent is dead

It's true that inspiration for the luxury segment has become deeply tied to social networks instead of travel agents. This doesn't mean, however, that there is no role left for travel agents to play. Luxury travelers continue to use travel agents instead of online platforms, in part because they simply want someone else to take care of the transactional booking details. Meanwhile, today's luxury travel agents—who prefer to call themselves travel advisors—are superpowered by technology and data that enable both a personalized touch and a robust, responsive level of back-end service (see sidebar "The founder of Virtuoso on the evolution of the luxury-travel advisor").

The founder of Virtuoso on the evolution of the luxury-travel advisor

Matthew D. Upchurch is founder, chairman, and CEO of the luxury-travel-advising network Virtuoso. McKinsey spoke with Upchurch about his definition of luxury, his sense of what today's luxury consumers are looking for, and his view on the evolution of the luxury-travel advisor. The following is an edited version of the conversation.

McKinsey: We'll start with a question that seems simple but isn't—how do you define the luxury-travel segment?

Matthew Upchurch: "Luxury" is an overused word, and not just in travel. People might try to quantify it and define it according to spending amounts. But to me, it's more nuanced than that.

Start with the traveler. We now have five generations of people all traveling at the same time. And each luxury traveler may have many distinct personas, which change based on their stage of life and what kind of trip they're taking. Are they traveling in a group, with family, on a "bleisure" trip? Then there are the hotel properties. As more commoditized segments get better at things like hyperpersonalization, and their hardware and design get better, it sometimes becomes harder to differentiate them from the luxury segment. We need to look at things more holistically.

The real differentiator is how the customer feels. A luxury experience often means finding someone who will truly listen to what you want and then deliver beyond expectations. When it comes to helping a customer plan travel, good travel advisors differentiate by asking, "How do you want to feel on this trip? How do you want to feel when it's over?" Determining this desired outcome is what helps deliver a truly modern luxury experience tailored specifically to the client.

When this happens over multiple planning cycles, the advisor becomes a specialist in you, the client. Advisors can't possibly know every part of the world—they have a global network at their disposal for that. But having someone who specializes in you, who knows your likes and dislikes and exactly how you want to travel without you having to explain it every time you plan a trip—that's luxury.

Perhaps, though, the simplest definition of luxury from the customer's point of view is: "Of course I could do it myself. I don't want to. And if I can have someone in my life who provides incredible experiences and is a fun collaborator, takes my input, has great connections, and can watch my back and do things for me, why would I want to do it myself?"

McKinsey: What kind of fundamental changes are you seeing in terms of destination picks or product picks among your luxury travelers?

Matthew Upchurch: With luxury experiential travelers, the fundamental creative tension is between the familiar and the unfamiliar. There's often the desire to go back to places they love and have built relationships with over time—to show them to family and friends and see them through new eyes. But people want to know before they return to a familiar destination: Is there a new story happening there? I've been to Madrid many times in my life, so is there a new story in Madrid? Is there a new story in London? Has the destination itself transformed so that it's familiar but still feels new?

We're also seeing a strong desire to explore. That's one of the reasons expedition cruising is doing incredibly well. Expedition cruising is high end, not mass, and it's absolutely bringing new luxury travelers to cruising.

Because we're starting to see a recurring issue with overcrowding at some destinations, we're also seeing a lot of our sophisticated travelers increasingly taking trips during what was once called the "shoulder season." They don't want to be caught in an overcrowded major city in Europe in the summer, so either they'll visit in September or October, or they'll focus on secondary or tertiary cities instead. We're even seeing some travelers going to Europe in November, December, and January. We call it the "cultural season." I used to sell it by saying, "Why don't you go there when the citizens are happy instead of annoyed with everybody that's overwhelming their cities?"

McKinsey: You have a rich repository of feedback from your clients. If you had to give one message to luxury-accommodation providers, what would it be?

Matthew Upchurch: First, they need to get really good at being able to measure what's not easily measurable. Because those are the things that make it luxury.

Second, focus on staff culture. It's crucial to engage with your employees and understand them. We need to make sure the people delivering the experiences feel fulfilled. I absolutely believe that those hospitality players that really focus on their employees, their culture, their service levels—those properties where you can truly feel the presence of the general manager—are the ones that will excel.

Average daily room rates have been rising quickly. And the properties that don't effectively focus on the experiences of both their employees and their customers will have trouble maintaining those high rates. Because lately we hear a lot of our customers saying, "I have never paid this much before. I used to pay $900 a night for a hotel in Miami, now it's $2,000 for the same hotel, and frankly, the value isn't there." When price and value don't align, it's a huge danger for the property, and it will come back to haunt them.

McKinsey: What kind of evolution have you seen in the way luxury travelers engage with travel advisors?

Matthew Upchurch: If you go back to the middle of the 20th century, more people booked directly with the actual providers than they do today. International flights were a high-end product. Walking into Pan Am airline's office on Fifth Avenue in 1950 was like walking into Bergdorf Goodman. There was pleasure in it. There was also very little pricing complexity because there were essentially just four fare classes—day coach, night coach, day first class, and night first class.

So why would people use a travel advisor if a lot of providers had fabulous service and there was no price complexity? They did it for the same core reasons that they do it today. One is community knowledge: travel advisors have the collective knowledge of the community that they serve. They know what's on the minds of other high-net-worth individuals that the customer respects. Another is the value of relationships: the customer might have heard of a certain luxury property, but the travel advisor might have a personal relationship with the general manager of the property.

Things changed in the 1970s, when airfare classes got more complicated, and many travel agents made money by basically becoming human interfaces to the airline reservation systems. Things changed again in the late 1990s with the arrival of the online travel agencies like Expedia and Travelocity. The idea then was the consumer could do it themselves, and it would be cheaper than paying for the travel agent's labor. That did cause a large exit of agents from the industry.

But the true travel advisors, who were consultative and not transactional, continued to thrive by building on community knowledge and relationships. At Virtuoso, we never believed that all the baby boomers—who invented the personal chef, personal shopper, personal everything—would suddenly start doing travel DIY.

What's happened generally in the profession is that the successful luxury-travel advisor needs more of a right-brain attitude, asking the customer open-ended questions. In a world where there are an endless number of answers, what really impresses a well-educated, sophisticated customer isn't that you have answers; it's that you ask great questions. The minute you ask a question they hadn't thought about, it stops them in their tracks.

Any good travel advisor today will add value in three separate areas: before the trip, during the trip, and after the trip. The number-one thing that high-net-worth consumers tell us differentiates a trusted travel advisor from a transactional travel agent is the quality and consistency of post-trip debriefs. That debrief is when it becomes a learning relationship.

If customers can see that those debriefs add value to the next trip, and the one after that, it makes them very "sticky." A lot of our sophisticated travelers are planning big milestone trips three, four, or five years in advance. And a lot of our advisors are saying, "Let's not work at one trip at a time. Let's have a strategy."

Why would you have a professional collaborator who helps you make a proactive, conscious plan to optimize your financial assets but not have a professional collaborator who helps you plan how to optimize your most valuable, nonrenewable asset—your free leisure time? If you lose money, you can make it back. If you lose time, you'll never get it back. Motivating the customer to think that way can drive a huge amount of value.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

Many luxury travelers now want 24/7 concierges who will maintain a relationship with them across their journeys. These travelers want the benefits of large online networks when making travel arrangements, but they also want agents who respond quickly, know their names, and understand how they like to travel. Subscription-based travel clubs that meet all these needs by giving paying members access to an exclusive, carefully curated selection of properties, activities, and agency services have become an attractive solution, especially for younger luxury travelers.

Perception ten: The luxury market has mastered wellness

The traditional image of luxury is heavy on indulgence: sumptuous dining, an atmosphere of ease, and copious opportunities to splurge. In fact, many luxury travelers are interested in a slightly different vibe. Wellness is a major, ongoing, global trend, and luxury tourists are increasingly looking for ways to put their health—both mental and physical—at the center of their travels.

Mainstream luxury providers still mostly seem to think that wellness equals spas. In fact, luxury consumers now expect a much more holistic array of offerings—including fitness classes (88 percent of our survey respondents say fitness is important on leisure trips), health-focused menus, on-site antiaging doctors, mindfulness programming, and more. Luxury travelers also want to learn about the health and wellness practices that are specific to the places they're visiting, whether it's a Mediterranean diet in Italy or Ayurvedic medicine in India. For these travelers, wellness means a healthy holiday they return from feeling fresher and fully rejuvenated. It doesn't mean one massage scheduled at an odd time because of a packed travel schedule and limited spa staff.

A new crop of wellness hotels is emerging to meet the new shape of demand. For example, the SHA Wellness Clinic, which has locations in Spain and Mexico, offers programming that addresses guests' health goals—such as longevity, detoxing, weight management, and rebalancing. Guests can book private consultations for personalized food plans and targeted brain-health treatments. In Hawaii, 1 Hotel Hanalei Bay is a property entirely focused on transformative wellness, offering multiday retreats, custom itineraries, medical treatments, an 18,000-square-foot wellness spa, and a 10,000-square-foot fitness space.

The new generation of wellness hotels is likely just scratching the surface in terms of meeting demand volume. Luxury hotels might have a "white space" opportunity to engage with the new type of wellness traveler by making them feel that wellness is integrated into every part of a stay. Meanwhile, many hotels could likely step up their game even when it comes to traditional spa experiences. Spa booking should be easy, availability should be rampant, and flexibility should be constant if the visitor is to feel a true sense of relaxation.

The luxury-traveler population is evolving. Travel players should ensure they have a full and accurate understanding of today's luxury traveler by critically reexamining long-standing assumptions.

Chapter 4

Destination readiness: Preparing for the tourist flows of tomorrow

As global tourism grows, it's crucial for destinations to be ready. How can the tourism ecosystem prepare to host unprecedented volumes of visitors—while also managing the challenges?

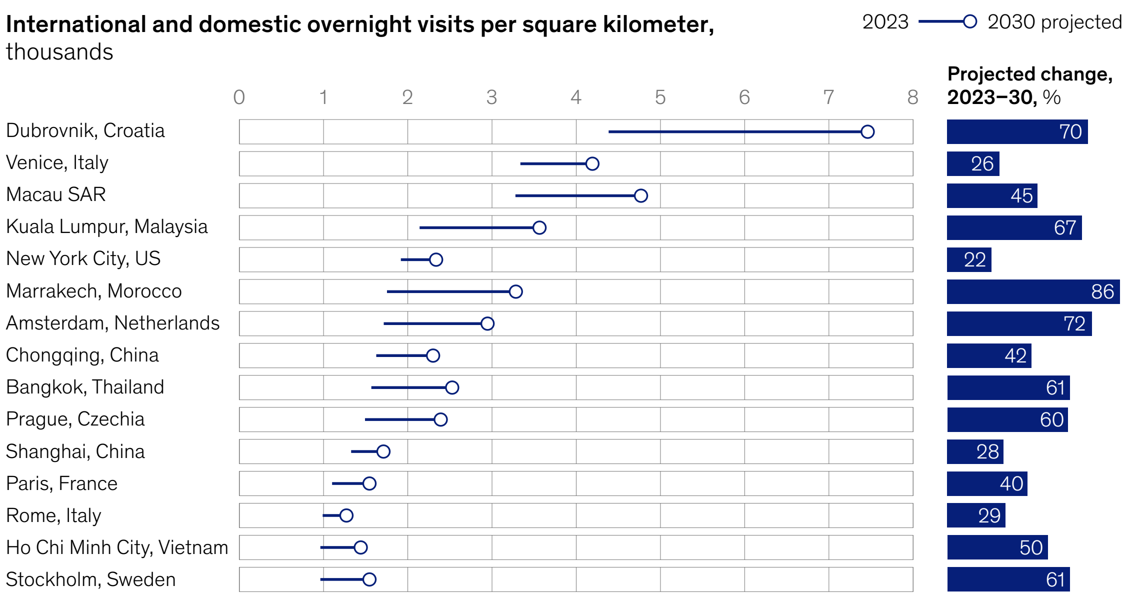
Tourism can help build a more connected, more vibrant world. But as tourism grows rapidly, the most visited destinations are experiencing more concentrated flows (Exhibit 1). Recent satellite data suggests that 80 percent of travelers visit just 10 percent of the world's tourist destinations. The number of travelers and the frequency of their trips are only set to increase.

A large flow of tourists, if not carefully channeled, can encumber infrastructure, harm natural and cultural attractions, and frustrate locals and visitors alike. Today's tech-enabled travel landscape can exacerbate this issue: one eye-catching photo on a social media network can make a little-known attraction go viral.

Against this backdrop, now is the time for tourism stakeholders to combine their thinking and resources to look for better ways to handle the visitor flows of today—while properly preparing themselves for the visitor flows of tomorrow. We offer a diagnostic that destinations can use to spot early-warning signs about tourism concentration, followed by suggestions for funding

Exhibit 1

Many global destinations face a growing concentration of traveler arrivals.



Source: Oxford Economics; McKinsey analysis

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mechanisms and strategies to help maximize the benefits of tourism while minimizing its negative impacts.

Carrying capacity and its impact on destination readiness

Carrying capacity refers to the maximum number of visitors that a destination can accommodate without causing harm to its physical, economic, and sociocultural environment or compromising the quality of visitors' experiences. To effectively manage carrying capacity, destinations must first understand their specific limits—then actively work to stay within them.

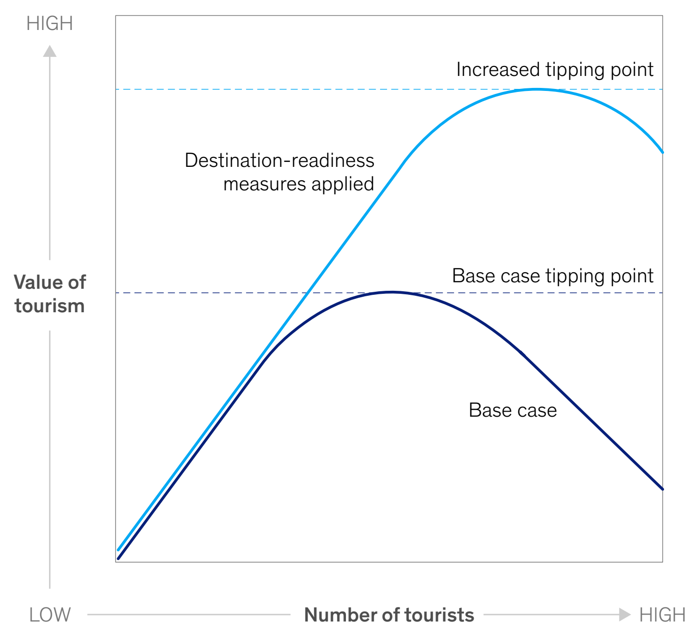
When a destination exceeds its carrying capacity, the negative effects of tourism may begin to outweigh the benefits (Exhibit 2). Shutting down tourism isn't always feasible or sustainable. Instead, destinations should focus on increasing their carrying capacity to enable more growth. By adopting early-detection mechanisms and attentively managing carrying capacity, destinations can strike a balance between welcoming visitors and preserving natural and cultural assets and quality of life for residents.

In 2017, leveraging the growing availability of data about travelers, McKinsey, in collaboration with the World Travel & Tourism Council, developed a diagnostic tool to help spot early-warning signals that a destination is under stress from tourism.[1] This year, we have updated this tool to address the evolving nature of the challenge and the accessibility of more nuanced and precise data (see sidebar "Methodology for assessing destination readiness").

Exhibit 2

Increasing a destination's carrying capacity can boost the value created by tourism.

Carrying capacity, illustrative



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[1] "Coping with success: Managing overcrowding in tourism destinations," McKinsey, December 14, 2017.

Methodology for assessing destination readiness

Utilizing information from vendors, publicly available databases, and press searches, we measured airline traffic, accommodation booking activity, and traveler sentiment.[1] We also incorporated analysis of data sets obtained from travel-focused groups such as the UN World Tourism Organization and the World Travel & Tourism Council.

Our intent was to identify metrics that indicate the potential effects of concentrated tourism. We examined metrics affecting the following six categories:

— *Local economy:* measuring the potential risk of dependence on tourism based on the speed of tourism growth over the past five years and tourism's contribution to direct employment and GDP.

— *Local community:* measuring the concentration of tourism in city centers based on inbound arrivals, nights stayed, and tourism accommodations per square kilometer.

— *Tourist experience:* measuring overall tourist sentiment based on reviews of top 20 attractions and guest satisfaction regarding accommodations.

— *Infrastructure:* measuring potential overloading risks caused by tourism based on the seasonal intensity and geographic concentration of visitor arrivals.

— *Nature and the environment:* measuring risks to nature based on carbon emissions generated by travel and sustainability commitments pledged by local hotels.

— *Culture and heritage:* measuring potential threats to cultural sites based on the concentration of visitors at these sites.

[1] Diio Mi; International Air Transport Association; Mabrian Technologies; Oxford Economics; Tripadvisor; UN World Tourism Organization; World Travel & Tourism Council.

Starting with a list of 65 major, representative cities, we've separated locations into quintiles indicating levels of potential risk and negative impact stemming from tourism flows (Exhibit 3). While this data is focused on metropolitan areas, the approach can be replicated for all sorts of popular destinations—from beach towns to mountain villages to religious sites.

Destinations can be grouped into the four following archetypes, based on whether they are struggling with visitor flow and whether they have developed tools to manage it:

— *Seasonally overloaded* destinations pair high visitor concentrations with limited tourist-flow-management capabilities. These cities may have room to expand their visitor management tool kits to enhance the experiences of both locals and tourists. Representative examples include Cancún, Dubrovnik, and Marrakech.

— *Increasingly stressed* destinations currently receive limited numbers of visitors but exhibit signs of stressed infrastructure resulting from limited tourism flow management. These cities could both boost their visitor numbers and improve their visitor infrastructure. Representative examples include Los Angeles, Manila, and Mumbai.

— *Actively managed* destinations receive high concentrations of visitors and have developed robust visitor management flows in response. Continuous monitoring and innovation could help these cities continue to adequately manage carrying capacity. Representative examples include Amsterdam, Bangkok, and Dubai.

— *Balanced-capacity* destinations receive relatively fewer visitors but have already implemented sophisticated tourism-flow-management systems. These cities can focus on boosting their visitor numbers while actively monitoring the impact of this growth. Representative examples include Abu Dhabi, Lima, and Singapore.

Seasonally overloaded: Dubrovnik

Dubrovnik is an intensely seasonal destination, with roughly 20 times more inbound airline seats made available for sale during its peak season (July and August) than during low season (January and February). The density of vacation rentals can reach about 90 postings per square kilometer in summer. The city is a popular stop for Mediterranean cruises, and its small, history-laden center can experience concentrated tourist footfalls when a ship is in port.

Dubrovnik falls in the top quintile of risk in four of our six categories, although it has begun taking significant steps to combat overcrowding. The city recently banned new private-rental permits in its historic Old Town neighborhood to counter rising rent costs for locals,[2] and it's also reorganizing cruise schedules to better stagger visitor flows.

Increasingly stressed: Mumbai

Mumbai is well positioned to capitalize on booming Indian tourism, but the city could benefit from building out its visitor-management-flow systems. Mumbai has the lowest tourism density relative to its population of all cities in our data set, yet visitors report some of the same concerns seen in more popular tourism hot spots, including long waits for entrance to attractions and a plethora of guides and vendors competing for attention. Road traffic is a major detriment to the visitor experience, with tourists in 2023 experiencing an average travel time of 20 minutes to cover ten kilometers.

The city has ambitious plans to reduce congestion with new metro and highway systems that could benefit both locals and tourists. It might have additional room to increase carrying capacity by addressing current visitor pain points—for example, by installing modernized metal detectors to smooth entry into major attractions or by creating centralized guide booths at attractions to help visitors find licensed guides.

Actively managed: Amsterdam

Given Amsterdam's small geographic footprint, its extreme concentration of visitors puts significant pressure on local infrastructure—affecting the daily experiences of both tourists and residents. It has tried to actively manage tourism through measures such as its recently announced moratorium on hotel development[3] and a ban on public smoking of cannabis in its red-light district.[4] It has also used marketing to promote less-well-known areas in an effort to channel some visitors away from the most crowded neighborhoods. Amsterdam uses data gleaned from social media and behavior tracked on its tourist-friendly city card to analyze tourist flows and spot areas under stress.

Balanced capacity: Singapore

Renowned for an automated metro train line, futuristic downtown core, and cutting-edge innovation, Singapore has the infrastructure, resources, and practices in place to grow and support larger tourism flows. It currently ranks 56th out of the 65 cities we analyzed in terms of inbound visits per square kilometer.

Singapore's limited land mass does tend to concentrate visitor flows at top attractions, which could affect experiences at these sites for both tourists and residents. Recent development projects have expanded the depth and breadth of tourist offerings, creating new attractions that could help increase the city's carrying capacity and keep it primed for future growth.

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2 Sanjana Shenoy, "Croatia: Historic city Dubrovnik bans new rental permits to curb overtourism & help locals," Curly Tales, March 15, 2024.

3 Charlotte Van Campenhout, "Amsterdam bans new hotels in fight against mass tourism," Reuters, April 17, 2024.

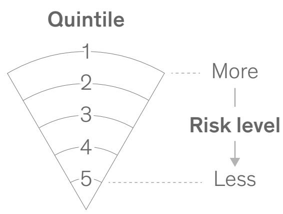
4 "Amsterdam to ban cannabis outdoors in red-light district," Reuters, February 10, 2023.

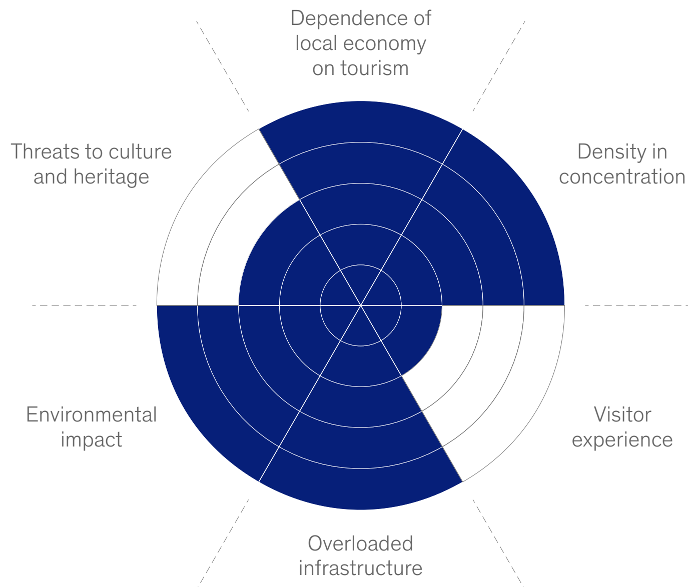
Exhibit 3

Destinations can assess tourism preparedness across six dimensions.

Risk from concentrated tourism, quintile by metric

Dubrovnik, Croatia





Mumbai, India

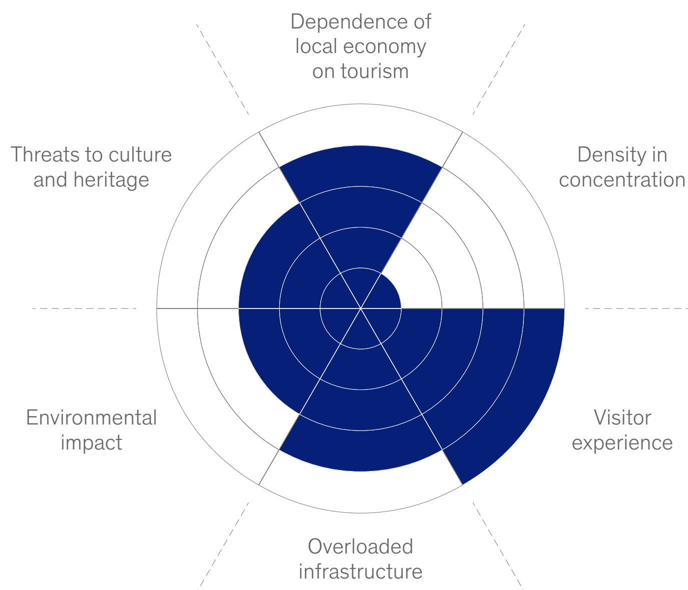


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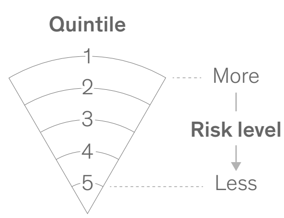
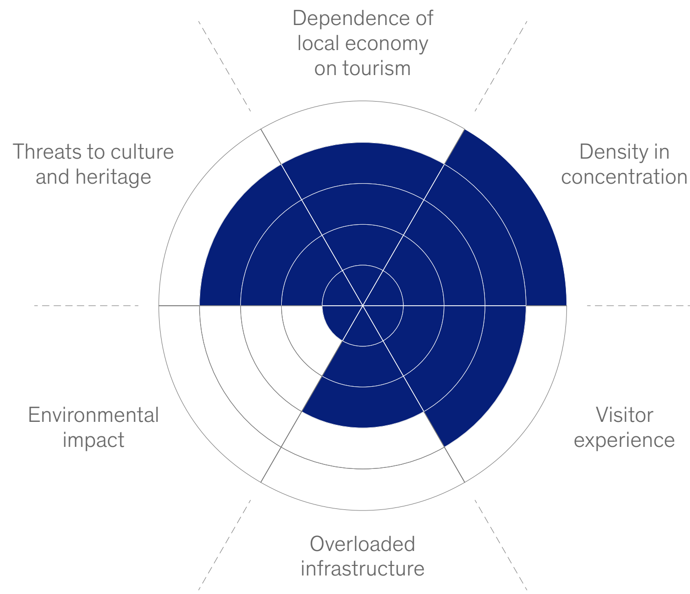
Exhibit 3 (continued)

Destinations can assess tourism preparedness across six dimensions.

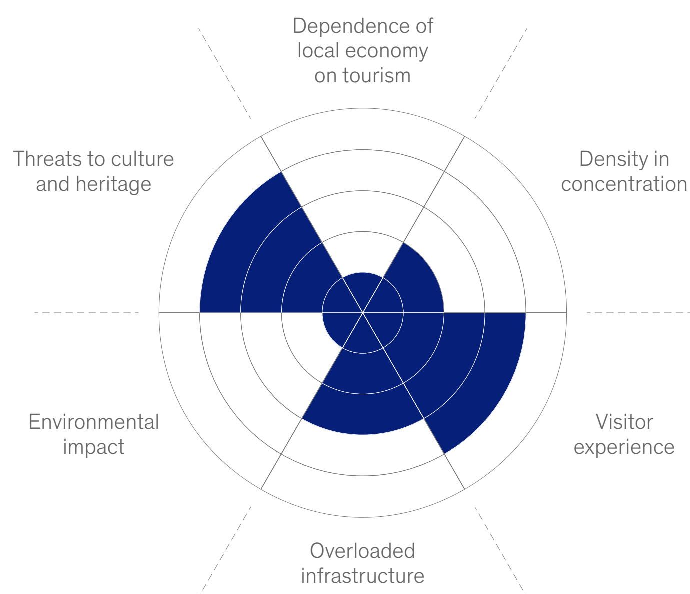
Risk from concentrated tourism, quintile by metric

Amsterdam, Netherlands





Singapore



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Funding destination readiness

Once the need for destination readiness has been identified, questions turn to funding. Destinations should carefully consider which sources and mechanisms to use to generate the revenue needed to address the impacts of tourism—and ensure that the burdens don't fall disproportionately.

Devise permit systems for individual attractions

Requiring visitors to obtain a paid permit before viewing an attraction can generate revenue while simultaneously helping to manage capacity. Permitting systems are most effective in places where demand frequently exceeds capacity and, if left unchecked, could risk causing harm to ecologically or culturally sensitive locales. Galapagos National Park in Ecuador, for instance, uses a strict permitting system with entrance fees that are applied directly toward preservation efforts.

A potential downside of permit requirements is the financial barrier for tourists who have less ability to pay. Many destinations have instituted lotteries that govern the opportunity to purchase an affordable permit, though this also reduces the funding generated by this strategy. It's worth noting that there can be limits to the effectiveness of permitting systems: Mount Everest's sky-high fees haven't reduced demand from climbers.

Capitalize on major, one-off events

The city of Vancouver was able to use the planning process for the 2010 Winter Olympic Games as a catalyst to unlock government funding for long-desired infrastructure development—including road and train projects that had been stalled for more than a decade.[5] While there's risk that any given future mega-event won't lead to sustained tourism demand, it can lead to lasting infrastructure improvements that benefit locals for years to come.

Explore public–private partnerships

Destinations can pursue public–private partnerships to accelerate development and spread out risk. Common examples of this approach include cofunded or cobuilt event centers or museums. Exclusive concessions established and granted by destinations can provide revenue-generating opportunities to operators or leaseholders in exchange for financial returns and other commitments, such as pledges to sustainably develop and maintain a location or to support local education, infrastructure, and healthcare.

Ensure proceeds from tourism are invested where they are needed

Cities shouldn't underestimate the strain on waste, water, and road infrastructure that tourism can create. In places where visitors significantly exceed local populations, tourism tax revenue can be budgeted into core municipal expenses, such as road maintenance and waste management, so that repairing wear and tear caused by visitors doesn't fall entirely on locals. Tourism taxes and entry fees can be redistributed to local communities or used for preservation or restoration projects.

Managing capacity and mitigating negative impacts from growing tourist flows

After risks and funding sources have been identified, there are several promising strategies that the tourism ecosystem can employ to prepare for growing tourist volumes. They are most effective when coordinated across a broad set of stakeholders, including city governments, destination management organizations, hospitality companies, experience providers, transportation authorities, and airlines:

— Build and equip a tourism-ready workforce.

— Use data to manage and forecast visitor flows.

[5] Nelson Bennett, "Path to 2010 Olympics built from asphalt, steel," *Vancouver Is Awesome*, February 11, 2020.

- Be deliberate about which tourist segments to attract.
- Distribute visitor footfall over space.
- Distribute visitor footfall over time.
- Be prepared for sudden, unexpected fluctuations.
- Preserve cultural and natural heritage.

Build and equip a tourism-ready workforce

Preparing a tourism workforce goes well beyond making sure that staff at a reception desk are polite. Tourism stakeholders should strive to ensure sufficient labor supply by fostering interest in the tourism sector, training entry-level workers in soft skills, and providing ample opportunities for career advancement. Training can be a collaborative effort by the public and private sectors.

Africa's not-for-profit Female Guide program partners with leading safari providers to sponsor, train, and employ African women who are interested in conducting safari tours.[6] The alcoholic-beverage company Diageo hosts training for hospitality students near Da Nang, a tourism hot spot in Vietnam, covering bar knowledge, teamwork, and customer service skills.

Regulating and credentialing locals who are part of informal tourism economies can help raise service standards and create more positive tourist experiences. For example, Singapore's efforts to formalize and regulate its street-vending centers have led to UNESCO recognition of its street hawker culture as intangible cultural heritage.[7]

Use data to manage visitor flows

Destinations can build and continuously improve holistic data monitoring and forecasting systems. Data can be gathered from governments (visa tracking), businesses (accommodation bookings and event ticket purchases), social media platforms (user behavior), and other sources. Crowd monitoring tools can provide real-time data about the location of mobile phones to help forecast and manage visitor flows.

Some destinations provide value in exchange for data. For instance, the I amsterdam City Card offers tourists access and discounts to attractions while tracking where the card is used (see sidebar "How Amsterdam handles its tourist flows").

Be deliberate about which tourist segments to attract

Different tourists arrive with different kinds of baggage—literally and metaphorically. Destinations can be strategic in identifying the types of tourism they want to encourage. Some destinations might welcome (and be able to handle) party crowds, while others might be more interested in attracting families or older travelers. Destinations should work to understand the demographics, preferences, and behaviors of their target customers before tailoring offerings and communications that will appeal to them.

Bhutan requires a sustainable development fee of $100 per day from visitors. This requirement serves to limit the number of visitors and their impact on the small nation while simultaneously creating a sense of exclusivity that spurs increased interest from international travelers.

Distribute visitor footfall over space

Nudging tourists to visit less trafficked areas can help ease congestion at the most famous and popular attractions. This can work at a neighborhood level: pop-up experiences and off-the-beaten-path tours hosted by local guides can entice tourists to explore farther afield. It can also work on a wider geographic scale: TikTok's "destination dupe" trend surfaces less expensive, less crowded locales that offer many of the same experiences as more crowded destinations (for instance, Taipei instead of Seoul).

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[6] Sandra MacGregor, "I went on a safari in Botswana with a female guide—here's why it made all the difference," *Travel + Leisure*, December 23, 2023.

[7] "Hawker culture in Singapore," National Heritage Board, accessed May 2024.

How Amsterdam handles its tourist flows

Geerte Udo was CEO of Amsterdam & Partners until earlier this year, when she stepped down after 17 years. Amsterdam & Partners is a public–private foundation that focuses, in part, on managing tourism in the Amsterdam metropolitan area. McKinsey spoke with Udo about Amsterdam's efforts to handle its large tourist flows. The following is an edited version of the conversation.

McKinsey: How does Amsterdam balance the positive aspects of tourism with some of the challenges that hosting large numbers of visitors can create?

Geerte Udo: We're very lucky in that we have a beautiful city that sells itself. People want to come here. And the visitor economy has a lot of benefits. It creates jobs, it pays taxes, and 30 percent of our public transport is financed by visitors. Our residents love the cultural infrastructure we have here, and we couldn't support it by ourselves. We love the diversity and quality of our restaurants and bars, which are also supported by visitors. We need our visitors because they raise the quality of life for our residents.

But there are elements of the visitor economy that can harm the quality of life in the city. We're seeing more and more visitors because the general income of people across the world is rising, and everybody wants to travel. Like other European cities that are old harbor cities with narrow streets, we have moments where we deal with overcrowding. This is mostly in the old city center, on a few narrow streets, at certain days and times. But the public space there isn't well organized and can't handle the number of people who want to go there.

Another issue we have is nuisance. Our city has a reputation: if you want to have a party, come to Amsterdam. It can be very annoying for residents in certain neighborhoods when visitors come to party from Thursday through Sunday evening. It makes it hard for people to live there.

There's also an issue with managing the amount of waste in the city. Because we have more guests, there's more waste in the street. And there's a separate issue with private, short-term rental properties, which can sometimes crowd out housing that's built for residents.

McKinsey: Are you able to gather data and use it to get insights that can help you handle tourist flows?

Geerte Udo: We have a lot of sources of data. At a European level, we share data with 110 European cities to see what the latest traveler trends are. We can learn from one another and understand, for instance, if a trend is only happening in the northern part of Europe or also in the southern part. More locally, we have a national data center that can tell us how many people visit the city, how long they stay, which countries they come from, their ages, and other factual information.

Our organization also does its own research on visitor behavior. For instance, we sell an I amsterdam City Card. It gives visitors free access to public transport, museums, and various attractions. We sell about 150,000 to 200,000 cards a year, and because people need to check in with our card at the locations, we can see their movement patterns. Over time, we're able to anticipate when and where people will go. For instance, many people visit museums in the morning and then go on a canal boat ride in the afternoon. We can advise first-time visitors to reverse that order because they're likely to have better, less crowded experiences that way.

But nudging people only works if you can connect to their needs. We wouldn't tell a first-time visitor to venture out to a neighborhood that's not well-known—we understand that if they're here for the first time, they really want to see the highlights. Whereas if you're here for the third time, and we know what you've been doing and a little bit about your preferences, we can guide you to other neighborhoods and areas we think you'll enjoy.

We know from data that there's a trend in behavior where, after 2.4 days, people are often ready to explore beyond the city. This number is similar in other cities, as well. After 2.4 days, people start to ask, "Can you show me where I can get some fresh air for a half day?" And we can then offer them guidance on visiting beaches, windmills, and so forth.

McKinsey: What are some mitigation strategies that you've tried or considered?

Geerte Udo: One thing we've put effort into is branding and marketing concepts. If people come to our city thinking that everything is in the canal district, it's hard to guide them to other areas. So we've tried to build our image into much more than the canal district, expanding interest into other areas that all have different identities and different flavors.

There have been years of discussions about gating certain areas and charging fees to enter them. That might help generate revenue that the city can spend on cleaning streets and improving the subways, which would be beneficial for the tourism industry. But in my opinion, charging fees or raising tourist taxes won't reduce visitor numbers at all.

We've spent a lot of time with city hall looking into the best ways to organize

How Amsterdam handles its tourist flows (continued)

public spaces. For a long time, urban planning didn't even take visitors into account when thinking about how to arrange public space. To truly manage visitor flows, there needs to be a bigger-picture, integrated approach to how a city is organized.

None of this will reduce the number of travelers because travel is growing so fast. But we can guide visitors to disperse them across time and space, minimize overcrowding, and put less pressure on the old city center. I think guiding and spreading tourism really can work if we manage to match supply and demand.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

Marketing campaigns can frame a destination as a place where visitors chart their own paths. The "I amsterdam" campaign, for example, encourages tourists to create their own personalized versions of the city. AI-powered tools can help craft bespoke itineraries based on visitors' preferences and interests, matching travelers with unexpected neighborhoods, accommodations, and restaurants that will appeal to their individual tastes.

Developing accommodations and attractions in less dense areas by repurposing assets can also help distribute footfall. Istanbul helped facilitate the restoration of a 1930s tobacco factory and warehouse that became a hotel. The Maboneng Precinct in Johannesburg was a run-down cluster of warehouses before being repurposed to create art galleries, restaurants, and retail spaces.

Distribute visitor footfall over time

Seasonal concentration of tourist activities can cause inefficient use of infrastructure and overload destinations' ecological, social, and cultural systems. Forty-three percent of travelers already choose to travel off-season to avoid overcrowding.[8] Stakeholders can take steps to encourage even more shifting of visits to off-peak periods. Iceland, for instance, has heavily promoted winter visits to see the Northern Lights, drawing on collaboration across the entire tourism ecosystem—from tour operators developing ice cave excursions to airlines promoting reduced winter airfares.

Distributing visitors across hours is another powerful strategy. The Hanauma Bay Nature Preserve in Hawaii has timed reservations, which smooth visitor numbers across the day and enable a better experience for all. The Petra archaeological site in Jordan has taken a different approach: by creating an evening light and sound show, this popular attraction has expanded the breadth of attractive visitation times.

Because domestic travel represents the bulk of trips, governments might be able to help distribute visitors by carefully managing holiday schedules. For example, the French government has split school holidays so that different regions are on break at different times, which helps mitigate overcrowding during ski season.

Be prepared for sudden, unexpected fluctuations

A viral social media post can send travelers flocking to a destination that might not be prepared for the influx. One beautiful block in Brooklyn's Dumbo neighborhood earned the nickname

[8] "How we travel: A look at sustainable travel habits," Booking.com, October 3, 2023.

"selfie street" when visitors—having seen other tourists' picturesque selfies on social media—flooded it with phones in hand. Footfall data shows that Dumbo saw an 86 percent increase in visits from 2022 to 2023.

In some instances, this type of behavior can cause significant harm. Access to the secluded Burney Falls waterfall in Northern California was shut down this year in part because of trail damage caused by heavy visitor flows. Data shows that interest in this photogenic spot took off on social media during the COVID-19 pandemic, with peak season in 2023 seeing three to four times as many weekly visitors as in 2019.

Destinations should keep tabs on social media activity and cultural trends that pertain to them. They might consider developing playbooks in advance with planned procedures for handling viral surges. Local tourism stakeholders can attempt to anticipate this type of sudden interest and actively channel it in ways that will mitigate negative impacts. It's important to be mindful that virality can have different levels of staying power—ranging from a brief phenomenon to an enduring trend.

Preserve cultural and natural heritage

Destinations need to weigh considerations of both accessibility and preservation as they manage tourists' engagement with natural and cultural attractions. One option is to designate culturally or ecologically significant land and then engage locals in finding ways to strike this balance. Legally protecting lands is a long-standing conservation practice, and governments have increasingly turned to Indigenous populations to better understand cultural sensitivities around specific sites. For example, Indigenous Tourism Alberta partners with Indigenous groups to offer tourists authentic experiences—such as fishing, jewelry making, and hiking—while minimizing negative impacts on nature and culture.

Although tourists often prefer to roam freely around natural sites, limiting access—either geographically or temporally—can be critical to preservation. Creating specific pathways (with showcases for educational material along the way) can allow guests to safely and efficiently walk through a site without causing damage or disturbing wildlife habitats. Sometimes a digital substitute can be an effective solution: Digital Giza lets tourists experience a re-creation of the Egyptian tombs without needing to actually enter them.

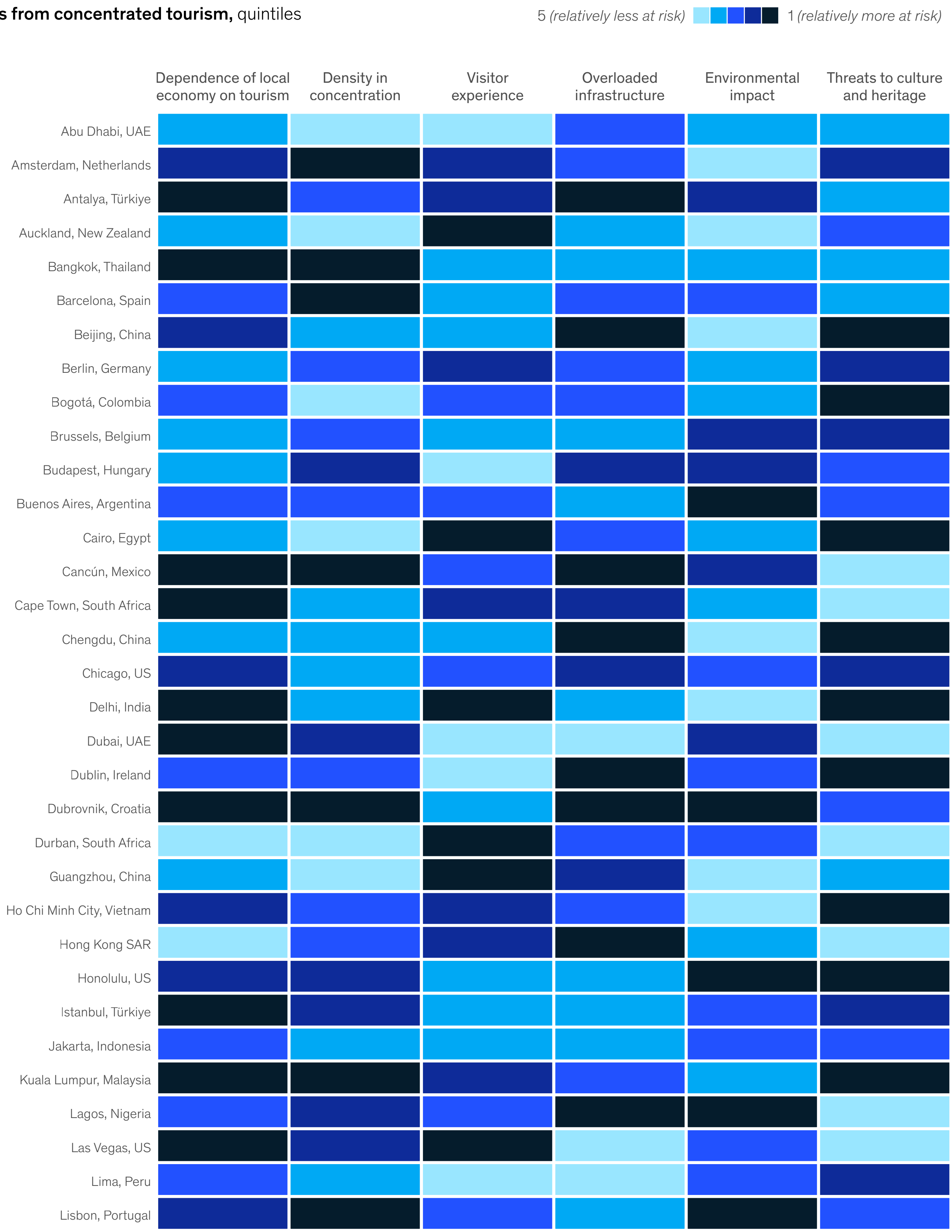
Sensitive areas can be closed for predetermined time periods to allow for rejuvenation and sustainable development. And naturally seasonal sites can take advantage of off-peak downtime to fully close and refresh attractions. For example, the Inca Trail in Peru shuts for one month every year during the rainy season to allow nature to recuperate from heavy footfall on the trail. Ideally, these downtimes should be established preventatively and communicated to tourists well in advance, but in some instances, they may need to be prescribed on short notice to prevent imminent damage or rectify harm already done.

As global travel continues to grow, it's crucial for stakeholders in the tourism ecosystem to be ready for the challenges that could arrive alongside increased visitor flows. By understanding the risks and opportunities, implementing funding strategies, and collaborating across sectors, popular destinations can take steps to preserve their cultural, economic, and environmental assets.

Destination readiness index

Destination preparedness was assessed across six dimensions.

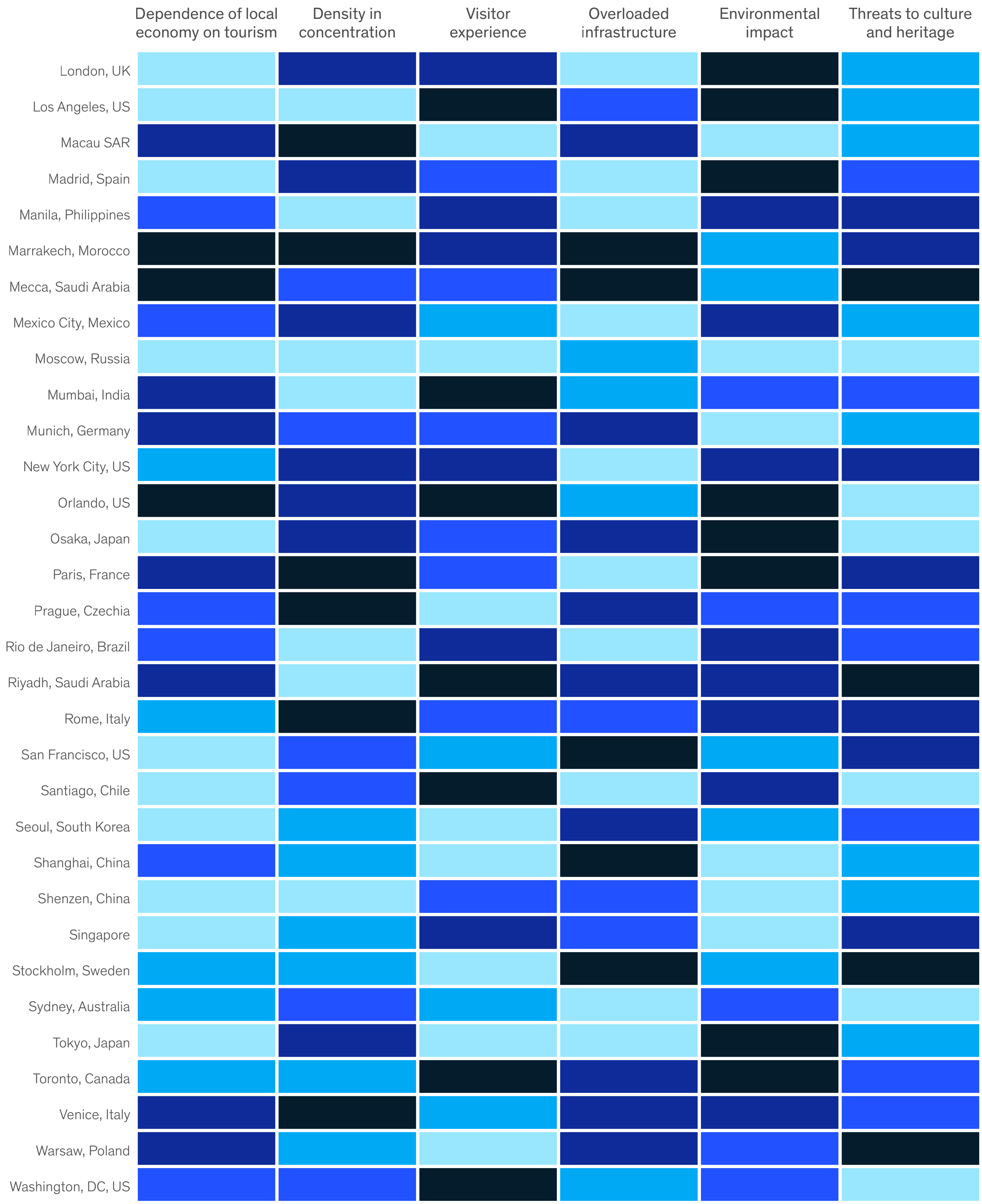
Risks from concentrated tourism, quintiles



Destination readiness index (continued)

Risks from concentrated tourism, quintiles

5 *(relatively less at risk)* 1 *(relatively more at risk)*



Chapter 5

Six trends shaping new business models in tourism and hospitality

Tourism and hospitality companies have transformed over the past decade. Here's a look at trends related to accommodations and experiences and an outlook on the future.

As destinations and source markets have changed, tourism and hospitality companies have evolved too. Six key trends have shaped business models in this sector over the past decade.

In accommodation, asset-light models like franchising and management have proliferated, though luxury and small-scale brands are opting out. Consolidation has driven economies of scale. Hotels are looking to reclaim their relationship with guests, and almost two decades in, home sharing is charting its own course.

In the experiences space, reinvention is the name of the game. Cruises and theme parks have both focused on attracting new demographics while fine-tuning their revenue management strategies. Experiences remains a highly fragmented, legacy sector, creating massive opportunity for those able to crack the code on aggregation.

By considering the six trends, tourism and hospitality companies can gain insights on business practices for today—and on areas of future opportunity.

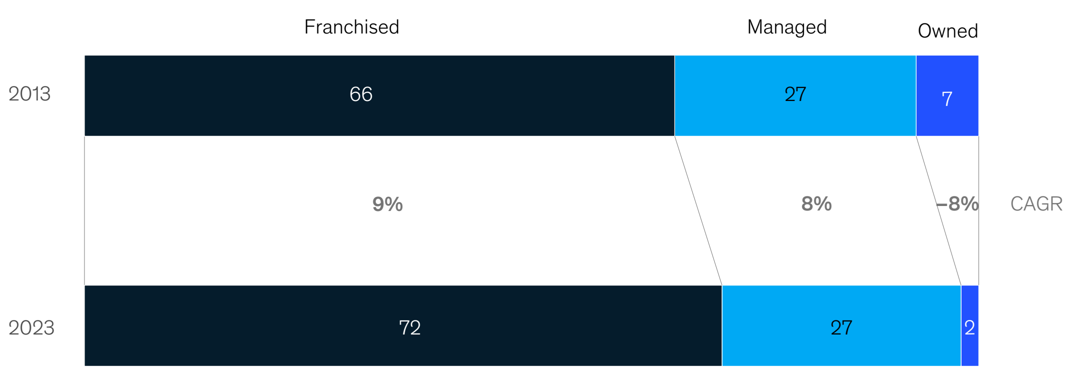
Accommodation: New models and value propositions

Large hotel brands have increasingly turned away from hotel ownership, scaling their business through franchising and management instead (Exhibit 1). The move is paying off. We find there is a 0.84 correlation between a hotel company's share of franchised properties and its net profit margin.

Exhibit 1

Accommodation is betting on asset-light models, but they don't suit everyone.

Distribution of property types for top publicly owned hotel companies,[1] %



Note: Figures may not sum to 100%, because of rounding.
[1]Data for the top 6 hotel operators, by 2023 revenue, that publicly disclose the percentage of franchised and managed properties.

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Large hotel brands have increasingly turned away from hotel ownership, scaling their business through franchising and management instead.

Not all of hospitality is embracing the asset-light model, however. Luxury hotel chains have resisted the trend, largely retaining in-house ownership to control standards. And smaller brands may find that they cannot reach the economies of scale that make the math of a franchise business work—focusing instead on creating distinctive experiences on a smaller scale.

Consolidation set the stage for the past decade (Exhibit 2). Several hotel brands quickly grew their foothold in key geographies and customer segments through strategic acquisitions, achieving economies of scale along the way.

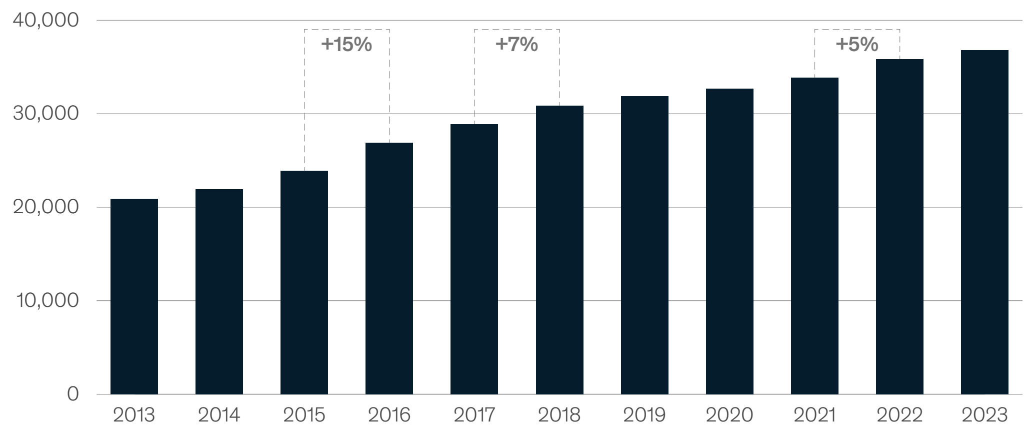
As major hotels take a breather from a series of substantial acquisitions, further mergers between large hotel brands seem unlikely. However, "tuck in" acquisitions to target key growth demographics, like the luxury and youth categories, are likely to continue.

Another trend on the horizon is direct booking. Long reliant on online travel agencies, hotels are looking to reclaim their relationships with customers—both to cut down on intermediary booking fees and to learn more about their guests. Hotels are encouraging direct bookings through a variety of levers, ranging from best-rate guarantees to higher reward-earning rates and improved mobile applications.[1]

Exhibit 2

Consolidation has been a significant trend that may taper off.

Number of properties across top publicly owned hotel companies[1]



[1]Data for the top 6 hotel operators, by 2023 revenue, that publicly disclose breakdown of properties.

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[1] For example, Hyatt offers a best-rate guarantee for booking on hyatt.com and Marriott International is growing direct bookings. For more, see "Marriott sees record direct bookings at its hotels," Skift, May 4, 2022.

Home sharing is here to stay (Exhibit 3). The segment has grown from 10 to 14 percent of booking value between 2017 and 2023, experiencing ups and downs in profitability along the way.

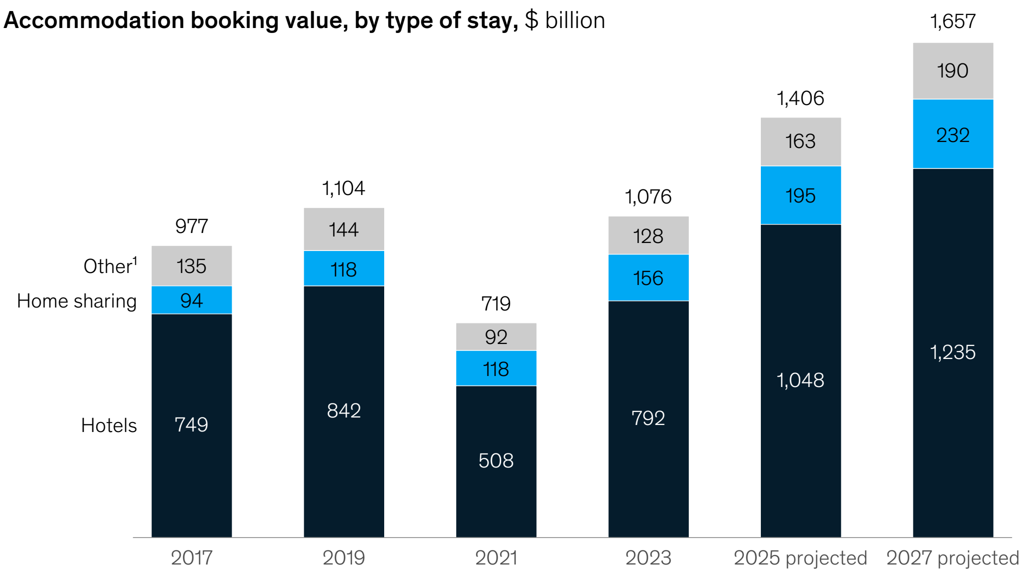
Recently, home sharing has positioned itself as more than a stand-in for traditional hotels. Airbnb's recent advertising campaign "Get an Airbnb" leaned into the differences of home sharing from other hospitality offerings, emphasizing the space and privacy that renting a house can offer.[2]

Home-sharing companies have also become a key distribution channel for smaller hotels, as they can offer more control over inventory and lower fees than other channels. In 2019, Airbnb reported a 152 percent increase in the number of rooms available for booking through its platform in boutique hotels, bed and breakfasts, and resorts.[3]

Exhibit 3

Home sharing is here to stay.

Accommodation booking value, by type of stay, $ billion



Note: Figures may not sum to listed totals, because of rounding.
[1]Resorts, timeshares, and other forms of accommodation.
Source: Oxford Economics

McKinsey & Company

[2] Samantha Shankman, "'Get an Airbnb' campaign challenges hotels," Skift, August 30, 2023.
[3] "More hotels are using Airbnb," Airbnb news release, January 16, 2019.

Experience providers: New segments and revenue streams

Cruises may only account for 2 percent of the overall travel and tourism market, but they have achieved 6 percent yearly revenue growth in the past decade.[4] Attracting new travelers and providing new experiences have been key growth strategies.

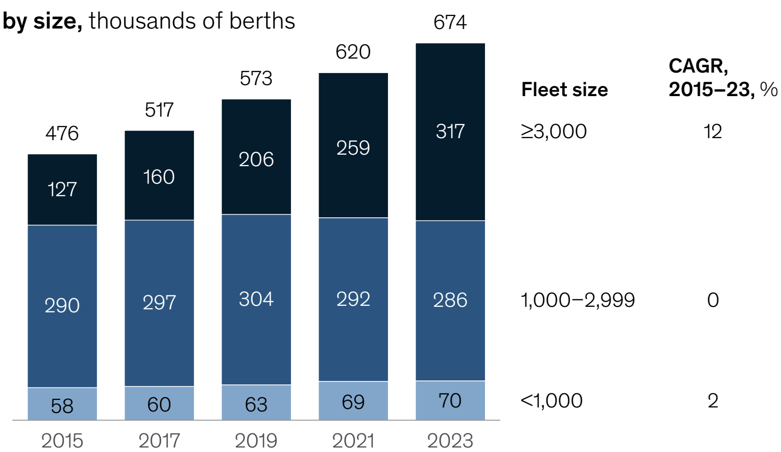
Luxury hotels are capturing the new-to-cruising segment with the launch of yacht brands, purposefully positioned as a distinct experience from traditional cruises. Meanwhile, millennials are challenging stereotypes about cruising: of all cruise passengers, they are the demographic most likely to say they plan to cruise again (88 percent).[5]

In parallel, cruises have fine-tuned their profitability through economies of scale and new revenue streams. Megaships have become the new normal, as ships with over 3,000 berths have grown from 27 to 47 percent of the global cruise fleet since 2015 (Exhibit 4). Ancillary purchases such as onshore excursions and onboard casinos have also become a major source of growth, now accounting for 30 percent of revenue on average.[6]

Exhibit 4

Cruises are preparing to accommodate more passengers.

Global cruise fleet, by size, thousands of berths



Note: Figures may not sum to listed totals, because of rounding.
Source: Clarkson Research

McKinsey & Company

[4] McKinsey analysis of publicly listed tourism and hospitality companies' Form 10-Ks.
[5] *State of the cruise industry 2023: September 2023 update,* CLIA, September 2023.
[6] Calculated using the weighted average based on 2023 Form 10-Ks of publicly listed cruise companies.

Theme park attendance has grown 3 percent a year over the past decade, as theme park providers capitalize on new demographics and refine their revenue management strategies.[7]

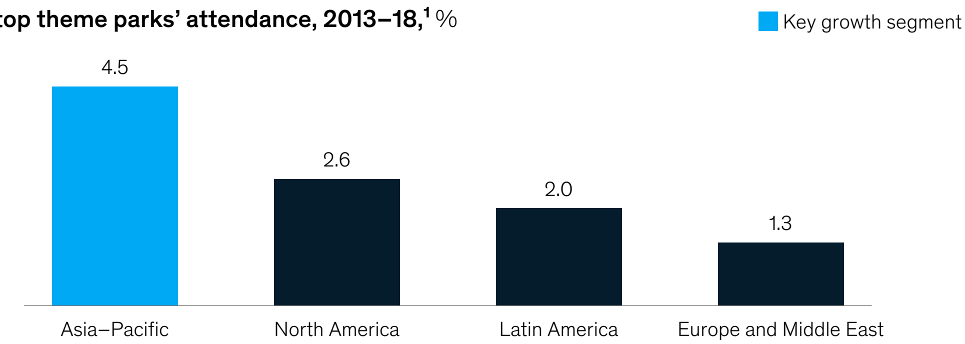
Two new groups of visitors in particular are powering growth (Exhibit 5). First, the Asia–Pacific region accounted for much of the growth in theme park attendance in the past decade: of the total number of new visitors between 2013 and 2018, 57 percent were from Asia. Second, millennials are heading to parks in greater numbers, and not just for their children. A similar proportion of millennial parents (78%) and millennial nonparents (75%) say they are interested in going to a theme park.[8]

To increase value from growing attendance, theme parks have become increasingly sophisticated in the field of revenue management. Demand-based pricing, tiered annual passes, and skip-the-line fees are all poised to go from pioneering to widespread practices.

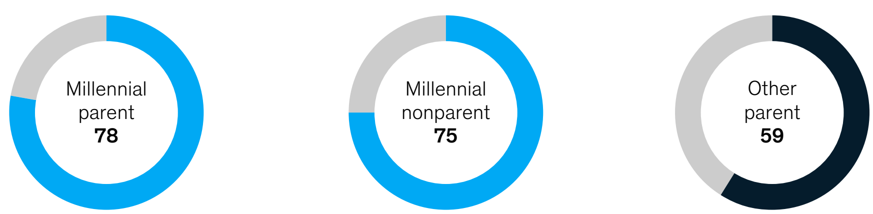
Exhibit 5

Theme parks are targeting new regions and demographics.

CAGR of top theme parks' attendance, 2013–18,[1] %



Share of demographic interested in going to a theme park, 2019, %



[1]Top 20 non–water parks by attendance in Europe, Middle East, and Africa and in North America, top 15 in Asia–Pacific, and top 10 in Latin America.
Source: *Global attraction attendance report*, joint report from AECOM and Themed Entertainment Association, 2019

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[7] *Global attraction attendance report*, joint report from AECOM and Themed Entertainment Association, 2019.
[8] Morning Consult survey, 2,201 participants, June 14–19, 2018.

Experiences are increasingly important to travelers, but the segment remains a highly fragmented space (Exhibit 6). Operators of activities ranging from walking tours to snorkeling outings tend to be small businesses with a limited digital presence.

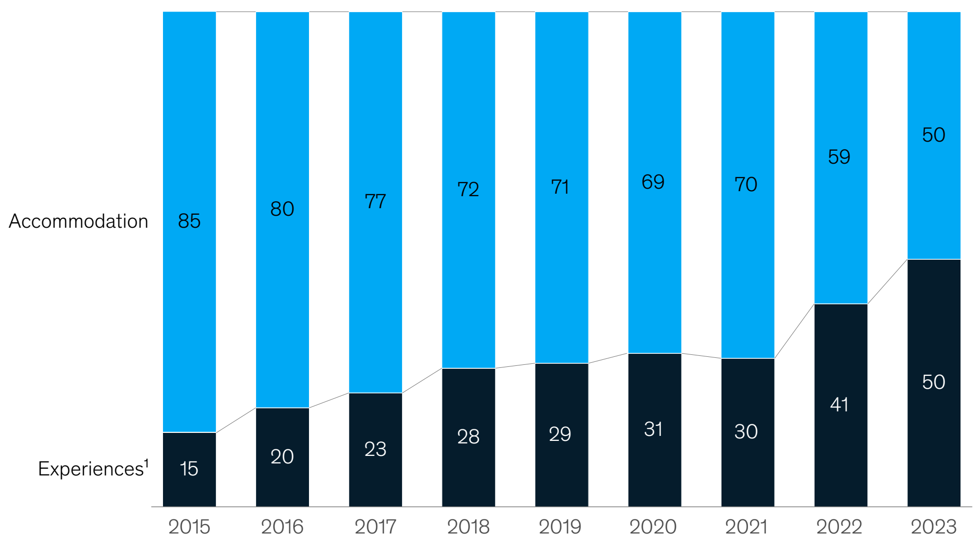
This has created an opportunity for tech-forward companies to help travelers discover and book experiences. Destination marketing organizations have long played a role in this. For instance, VisitScotland helps visitors discover interesting activities like attending Harry Potter filming locations and whiskey tastings.

Several private companies that offer online discovery and booking platforms for travel activities, like Viator, GetYourGuide, and Klook, have achieved considerable growth in the US, European, and Asian markets.[9] GetYourGuide grew its revenue fourfold between 2022 and 2023, Viator revenue was up 49 percent for the same time period, and Klook reported twice as many new customers in 2023 as in 2019.[10]

Exhibit 6

There is opportunity in the fragmented experiences space.

Share of booking agency revenue, %



[1]Changes in revenue classification over time in Form 10-Ks have been grouped as either accommodation or experiences for consistency. The experiences group includes 2015–17 nonhotel revenue, 2018–20 experiences and dining revenue, and 2021–23 TheFork and Viator revenue.

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9 Yeoh Siew Hoon, "GetYourGuide gets into pole position to win in $250b experiences market," WIT, September 20, 2023.

10 "Klook completes US$210 million funding, embarks on a new era of profitable growth," Klook news release, December 6, 2023; Mitra Sorrells, "With speculation of a sale in the air, Tripadvisor reports record revenue driven—again—by Viator," Phocus Wire, February 14, 2024.

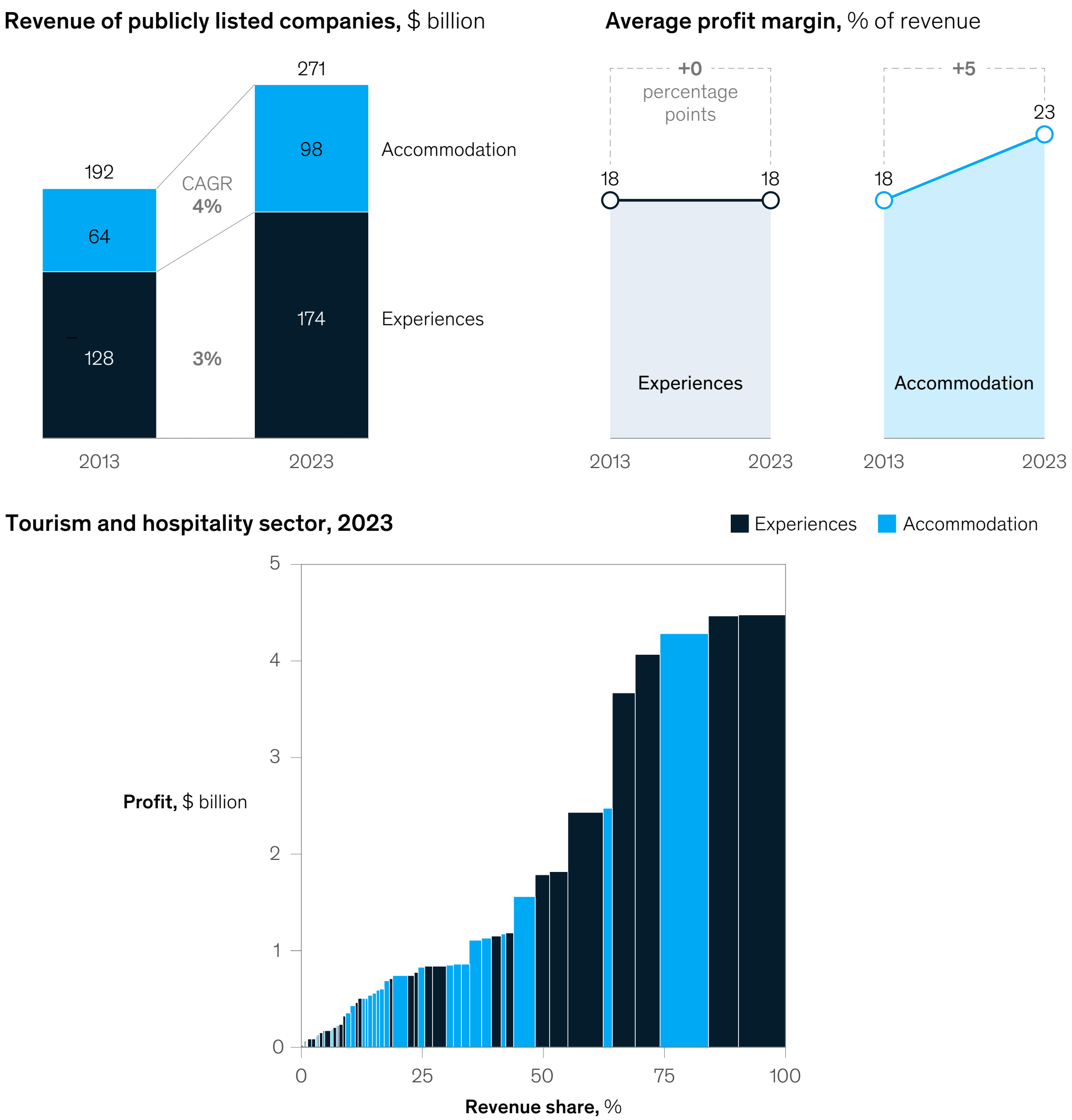
Looking forward: Strategies to stay ahead of the curve

Where does this leave tourism and hospitality companies? Companies in any given sector tend to follow a power law curve: a small share of companies account for an outsize portion of both profits and losses. The tourism and hospitality sector is no different.

Over the past decade, publicly listed accommodation and experience providers grew revenue at 3 percent and 4 percent, respectively, roughly in line with global GDP growth. Accommodation providers increased their profits by five percentage points, while experience providers remained at an 18 percent average profit margin (Exhibit 7).

Exhibit 7

Accommodation has pulled ahead in revenue and profit.



Note: Figures may not sum to listed totals, because of rounding.

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Companies in any given sector tend to follow a curve: a small share of companies account for an outsize portion of profits and losses. The tourism and hospitality sector is no different.

As stakeholders gear up for the next decade, there are things that businesses across the sector can do to sustain their hard-won growth—and profits. Moving forward, three strategies in particular can help tourism and hospitality companies stay on the leading edge of innovation.

Unbundle offerings

Hotel and experience providers can take a page from the airline playbook by unbundling rates and letting consumers pay for the exact experience they want. For example, at the time of booking, hotels can present guests with an individually priced bundle for a room on a higher floor, including breakfast and free parking—features that the guest's past behavior suggests they would particularly value. Ensuring that guests can find their ideal room can lead both to increased revenue and increased satisfaction. A major hotel brand reported that guests chose to spend an additional $22 per night, on average, to customize their hotel room to their liking.[11]

Cross-sell exclusive experiences

For accommodation and transportation companies, partnering with experience providers to cross-sell a full journey provides an opportunity to tap into a growing area of traveler spending—and a chance to deepen the relationship with customers as a vacation creator. For example, airlines can partner with museums to offer discounted rates if booked at the time of the flight, or hotels can partner with a historical site nearby to offer early-hours admission. For uptake rates to become significant, the partnership needs to add value beyond mere cross-selling. Offering features like insurance or an option to buy now and pay later is one way to add value; creating a distinctive experience like a combined train and historic hotel journey is another.

Embrace a data-powered strategy

Tourism and hospitality entities individually hold a treasure trove of untapped data. Take Paris: hotels may see a surge in bookings for the "shoulder season." Experience aggregator platforms might see that street food tours have attracted rising interest. Social media might reveal that a particular neighborhood is exploding in popularity. What special guest experiences could be created by combining these insights? Stakeholders can unlock new revenue streams by thinking through what data they hold that can be of value to others. More broadly speaking, combining multiple sources of data can help guide a strategy of unbundling and cross-selling to create more gratifying and pertinent experiences for travelers around the world. Embracing data isn't just smart—it's the future of travel.

[11] "IHG Hotels & Resorts revolutionizes booking experience through next-gen cloud solutions," InterContinental Hotels news release, September 12, 2023.

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