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Travel industry economics

A Guide for Financial Analysis

Spending on travel and tourism accounts for well over $1 trillion of the world's total gross domestic product and translates into direct and indirect employment of more than 300 million people, around one-tenth of the global work force. In this path-breaking book Harold L. Vogel examines the business economics of each of the major travel industry segments with coverage of airlines, hotels, cruise lines, railroads, buses, automobiles, casinos, amusement/theme parks, and tourism. The result is a concise, up-to-date reference guide for financial analysts, economists, industry executives, journalists, and teachers and students interested in the economics, finance, production, and marketing of travel-related goods and services in the United States and overseas. Its approach closely parallels the highly successful perspective the author takes in *Entertainment Industry Economics* (Fourth Edition, 1998, Cambridge University Press; Fifth Edition, 2001, forthcoming).

Readers are introduced to the basic economic concepts employed to analyze each of the travel segments, bringing together valuable data from a wide variety of sources. Each chapter also provides a brief historical overview and a systematic discussion of the particular economic, production, financial, and accounting issues related to each segment. A glossary, "time-line" diagrams, and technical appendices enhance the book's appeal as a reference tool. Its fully integrated assessment of the business of travel makes the work unique in the marketplace.

Harold L. Vogel is the author of all four editions of Entertainment Industry Economics: A Guide for Financial Analysis (Cambridge University Press), which Cambridge will publish in a fifth edition in 2001. He was ranked as top entertainment industry analyst for a record ten years by Institutional Investor magazine and served for seventeen years as senior entertainment industry analyst at Merrill Lynch & Co. A chartered financial analyst and member of the New York Society of Securities Analysts, Mr. Vogel formerly served on the New York State Governor's Motion Picture and Television Advisory Board. He is a frequent writer and speaker on investment topics related to leisure, entertainment, and travel, serves as adjunct professor of media economics at Columbia University's Uris Graduate School of Business, and is author of the novel Short Three Thousand (2000). Mr. Vogel currently works as an independent investment manager and venture capitalist in New York City.

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TO MY BEAUTIFUL MOM
– WHOSE LOVE AND SPIRIT KNEW NO BOUNDS

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Preface

We are all born, it seems, with an natural curiosity – with an urge to travel. What normal infant, confined to crib or playpen, doesn't soon want to explore the world beyond? What normal teenager doesn't want to explore a new neighborhood or city or country? And what person hasn't at one time or another dreamt of how it would feel to travel across the boundaries of time or space?

The urge to travel is universal. And this makes travel, as broadly defined, a very big business indeed. In the United States, for example, travel and tourism is estimated to account for approximately 5% of gross domestic product and to be the third largest retail industry after automobile dealers and food stores. Clearly, in getting from here to there and back again, we need lots of goods and services. In fact, including everything, the travel industry turns out to be the world's largest in terms of numbers of people employed and in terms of total direct and indirect revenues generated. Three hundred million people – one of every ten employees world-wide – and more than US$1.5 trillion out of a total world economic output of around US$40 trillion are probably good estimates for those numbers at the start of the twenty-first century.

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With an industry so large, it is difficult to even know where to begin. There are texts relating to hotel or restaurant or casino management policies. There are tomes and stock brokerage house reports and consultants' papers providing forecasts for the various travel-related business segments. Statistics of all types abound.

Yet what seems to be missing is a concise treatment that ties together all the major industry segments from the perspective of a potential investor and financial economist. That is indeed the ambition of the text you currently hold. As such, anyone who analyzes or manages or writes about travel-related investments ought to be interested in this book. Its mission is to broadly cover the financial and economic dynamics of the businesses that service the needs of people who, whether for pleasure (tourism) or commerce, require physical transportation: travel, in other words.

In contrast, the underlying concept of my previous work, *Entertainment Industry Economics: A Guide For Financial Analysis*, involves a different kind of transportation – that of people's emotions. Fortunately, the previous work has been well-enough received to have gone into a fourth edition in 1998 (and soon, a fifth). The style of that work, as well as the chapters providing an economic overview and coverage of casinos and theme parks, has been largely carried over from that volume.

But also, as in that volume, only those industry segments that have clearly defined boundaries and reliable data histories are examined. Accordingly, the topics, following the early economic overview chapter, are broken down into segments aimed at the level of advanced undergraduate or graduate students. Financial analysts, economists, industry executives, managers and consultants, journalists, and general readers would, however, also likely find the material to be of interest and to be user-friendly. The minimum requirement is for the reader to have a degree of familiarity with general economics and financial terminology, although a little knowledge of advanced mathematics would undoubtedly make the selected readings and footnotes somewhat easier to fully grasp. With this in mind, and for convenience, a glossary section has been appended.

Nevertheless, to stay focused, it has been necessary to omit the larger aspects of transportation industries that could, for example, further include studies of airports, urban public transit, trucking, shipping, and cargos and freights. The separate but closely related topic of *tourism* economics, covered in Chapter 7, is also only sketched, as an in-depth analysis would take the text into areas (e.g., trade and regional development) that would only distract from the primary purpose without giving those topics the full treatments they deserve. And, for much the same reason, coverage of subjects that are commonly discussed in transport economics – externalities, infrastructure investment criteria, peak-load pricing, regulation, and social cost-benefit analysis, to name a few – is tangential.

In the preparation of this text, I am indebted to the transportation and travel industry economists upon whose academic shoulders this work rests.

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Particularly noteworthy for making the task of exposition a lot easier than it would have otherwise been are Kenneth Boyer's *Principles of Transportation Economics*, Adrian Bull's *The Economics of Travel and Tourism*, Kenneth Button's *Transport Economics*, Rigas Doganis's airline economics masterpiece, *Flying Off Course*, and J. P. (Pat) Hanlon's *Global Airlines*. Also proving invaluable were Morrell's text on airline finance, Block's on REITs, Dickinson and Vladimir's on cruise ships, Meyer and Oster's on intercity passenger travel, and both Friedman's and Scarne's pioneering work in the casino gaming field.

I would also like to thank Michael Lenz, Director of Investor Relations at American Airlines, for taking time to review a draft of the airline chapter. Similarly, I thank Erin Williams, Manager of Investor Relations at Royal Caribbean, for reviewing the cruise ship section, and Laura Paugh, Vice President for Investor Relations at Marriott International for reviewing the hotel chapter. And I am grateful to Cambridge University Press and especially to Scott Parris, economics editor, for support of this project.

In addition, the book has benefited greatly from data made available by the various industry trade groups including the Airline Transport Associations (ATA and IATA) and the International Civil Aviation Organization (ICAO). Similar benefit was derived from data of the Cruise Lines International Association (CLIA), the World Tourism Organization (WTO), and the International Association of Amusement Parks and Attractions (IAAPA).

Of course, responsibility for any errors that may inadvertently remain is mine alone.

In all, I hope and expect that readers will find *Travel Industry Economics* to be a truly enjoyable and moving experience.

All aboard!

New York City Harold L. Vogel

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