



Beyond COVID-19

**Time to explore more
of our own backyard**

How could COVID-19
reshape domestic tourism?

January 2021

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Beyond COVID-19

Time to explore more of our own backyard.

Increased acceptance of flexible working, community focus on supporting small business and easy access to world class tourism options is expected to unlock a spike in domestic tourism in the wake of the pandemic.

The tourism industry in Australia, which was already struggling as a result of the devastating summer bushfires, has been one of the sectors hardest hit by the COVID-19 pandemic. Restrictions on domestic and international air travel, as well as domestic border closures, have resulted in a significant decline in business and leisure travel.

Figures released by the Australian Bureau of Statistics (ABS) show gross value added by the air transport industry fell by 27 per cent, and the accommodation and food services industry fell by 11 per cent from FY19 to FY20¹. More recently, the Tourism and Transport Forum estimated the sector lost \$2.9 billion

of spending on travel, accommodation and tourist activities between December 24 and January 11 due to people being unable or unwilling to travel because of the virus outbreaks and lock-downs in Sydney's northern beaches and Brisbane over the holiday period.²

Increasing the consistency between states on border closures, is the most immediate challenge for the industry. However, the success and speed of the planned vaccine program and the prospect of participating in international travel bubbles are most important for the long term survival of many players in the industry.

The road out of this crisis will likely be just as uncertain as the road in. Some parts of the tourism industry such as travel agents and international aviation have been disproportionately impacted and will struggle to recover until the end of the pandemic. For others, there are opportunities to pivot to make the most of restless Australian would-be travellers.

The good news is that Australians have the desire, the time and the means to fill the gap left by

international tourists and the expected reduction in business travellers, as soon as their confidence to travel returns.

Australians' adventurous spirit could prove to be a lifeline for the industry, with the restrictions on international travel inspiring more Australians to explore their homeland, which could bolster the industry for years to come. However, where, when and how Australians spend their money will differ from the lost international and business travellers.

This shifting of value across the industry is not unique to tourism and travel, we are seeing the same story of winners and losers play out in most industries as consumer behaviour changes. Those players that read the market and act quickly to capture the mid- and post-COVID consumer, have the potential to recover stronger and faster from the effects of the pandemic.

To shape a view on where the opportunities may emerge across the Australian travel and tourism market, we have brought together thinking from our strategy, consumer behaviour and tourism practices.

We've learned that:

Australians' wanderlust will drive domestic tourism

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Australians have both the desire and the flexibility to increase domestic tourism in the wake of COVID-19.

Local tourism could tread water once confidence returns

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Many Australians also have the financial capacity and the time to close the gap left by international tourists and reduced business travel.

The shape of domestic holidays could change

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Recreational travellers could spend 2021 ticking off their backyard bucket list, experimenting with working holidays and romancing with the great Aussie road trip.

The new business traveller

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Winners will adapt to follow the money

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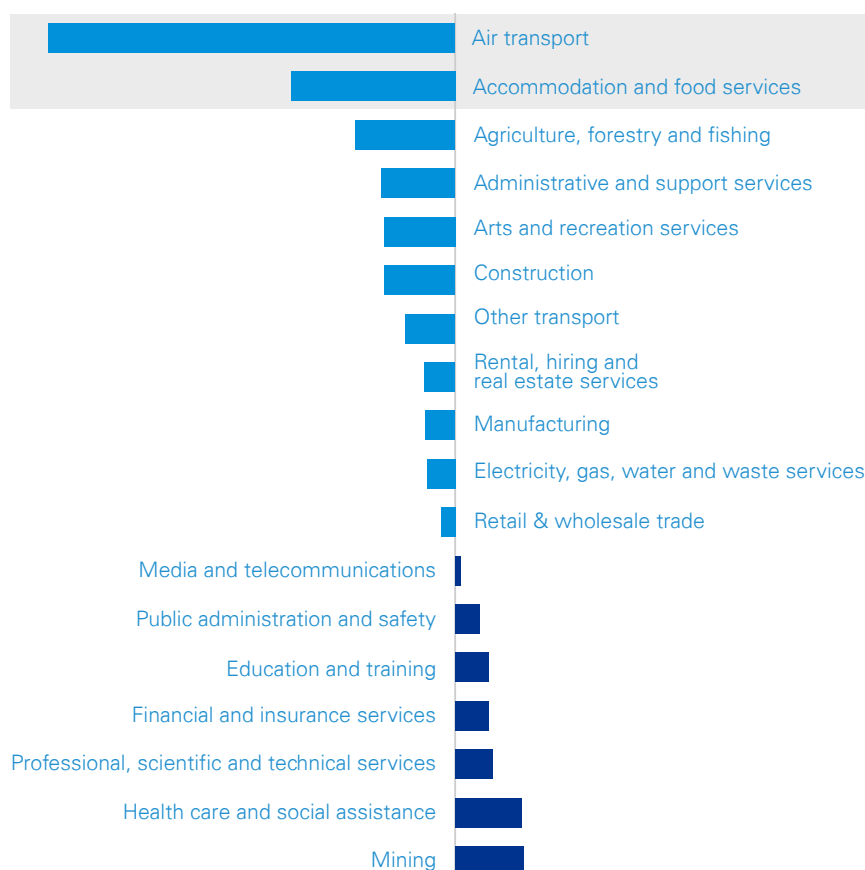
Where the money is spent across the industry will shift and players that adapt to compete in surging sectors have the potential to emerge stronger.

Tourism and travel is the most impacted industry

Gross value added by industry

YOY change (%)

FY20 vs FY19



Source: ABS - 5206.0 Australian National Accounts: National Income, Expenditure and Product – Table 37 (Sept 2020)

Australians' wanderlust will drive domestic tourism

Australians have both the desire and the flexibility to increase domestic tourism in the wake of COVID-19.

Australians are well known for their wanderlust; it's part of our national identity. In fact, Australians' thirst for travel has grown rapidly over the last decade. Australians took 1.7 times more trips in 2019 than they did 10 years ago – that's an increase of 50 million trips or approximately two additional trips per person per year³.

Most of these additional trips have been within Australia – with over 90 per cent³ of total trips by Australians remaining domestic. Although international trips have almost doubled from 6.5 to 11.6³ million in the past decade, domestic trips increased from a much larger base of 67.7 to 112.3³ million according to Austrade research.

Having spent most of 2020 at home, many Australians will be eager to escape their own four walls and taste some relative normality after a long and unusual year. Australia's natural capital makes holidaying accessible even on a tight budget through day trips, camping, caravanning and home stays. We saw elevated demand for domestic accommodation over the summer holidays which we expect to continue, especially around school and public holidays.

In a recent survey conducted by KPMG, 61 per cent of Australian respondents said they were planning on booking a holiday between January and June 2021 and 72 per cent said they would book a holiday between July and December 2021⁴.

Adding to this, many of us have newfound freedoms in how we work as a result of COVID-19. The global working-from-home experiment has made it much more acceptable to work remotely and many workers hope to continue working this way. This makes working from other locations acceptable as well – such as from a holiday destination, creating a new category of working holiday. We are already seeing employees experiment with working for a part of their trip to extend their holidays and long weekends.

Given the strong momentum before the pandemic, the pent-up consumer demand for holidays and the possible emergence of working holidays, there is potential for domestic tourism to accelerate and remain elevated for some time. As Europe, the UK and the US grapple with second and third waves, these changes in consumer behaviour may provide welcome opportunities for tourism operators to capture a greater share of the Australian traveller's wallet.

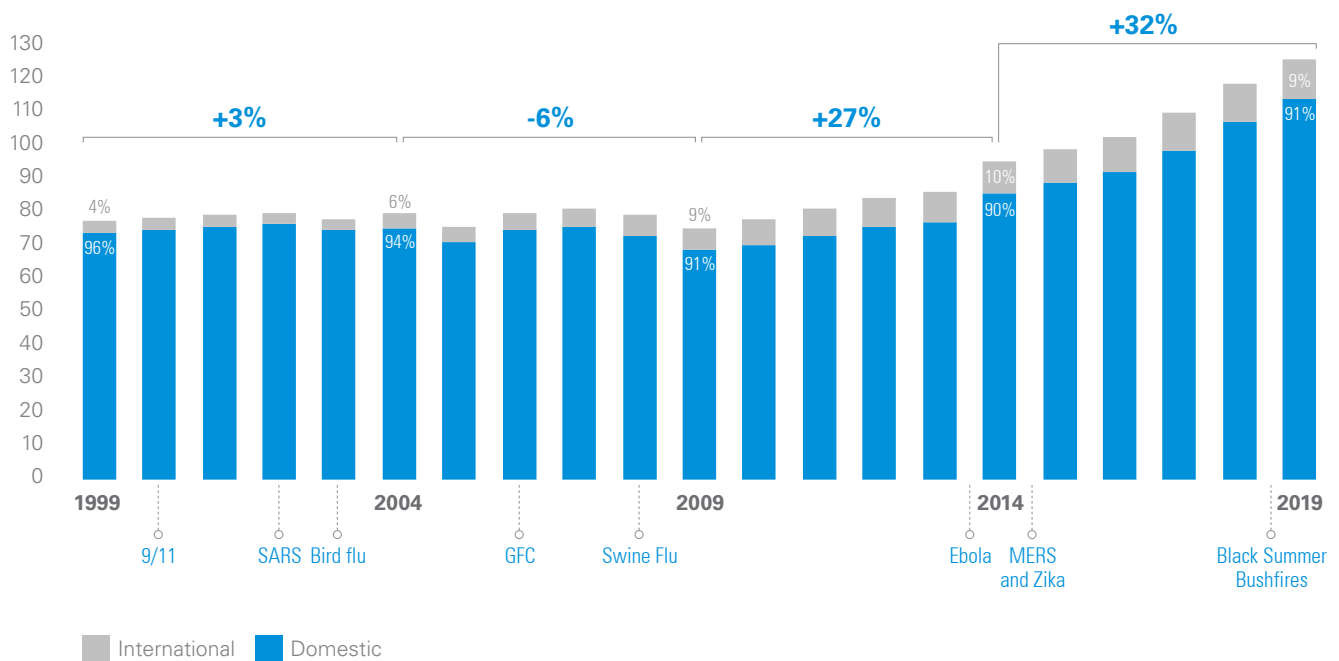


Australians' love of travel has skyrocketed over the last decade

Australian international and domestic trips

trips (m)

2000–2019



Source: Austrade—Tourism Research Australia (Jan 2020)

Local tourism could tread water once confidence returns

Many Australians also have the financial capacity and the time to close the gap left by international tourists and reduced business travel.

Australians have been saving hard through the pandemic – and holidays are likely to be at the top of the treat list.

Despite the financial hardship brought on by the global pandemic, savings rates in households have increased as Australians cut back on retail and discretionary spending. In 2019-2020 household savings as a share of gross disposable income reached a high of 7.9 per cent, compared with 2.7 per cent in the prior year⁶.

Lockdown restrictions have also meant people are likely to have accrued significant leave balances, so many Australians have both the time and money for holidays.

However, to sustain the industry we need Australians to spend more on domestic recreational travel than they have in prior years to offset the lost revenue from international inbound tourists and a likely reduction in business travel. If we expect face to face meetings to reduce, many overnight business trips may no longer be deemed necessary, especially as organisations look to reduce operating costs.

Theoretically, if Australians are prepared to spend their international travel budgets on home soil this year, there is a possibility that the domestic industry could hold steady. Of the \$146 billion spent on domestic tourism in 2019, \$31 billion was from inbound international tourism and \$18 billion was from overnight business travel⁵. The good news is that Australians spent \$57 billion⁵ overseas on international trips in 2019, money that operators could entice them to spend in Australia to at least partially offset other revenues lost.

However, Australians are unlikely to spend as much on a domestic holiday as they are on an international holiday, particularly in an uncertain economic environment. For example, when Australians travel overnight domestically, the average trip length is about four nights and costs just under \$700 (or \$194 per night). On the other hand, a typical overseas trip for an Australian spans 18 nights and costs \$6,500 (\$361 per night)⁵. Domestic travellers are likely to spend less per day and go for shorter trips than when they are overseas but will hopefully consider spending their savings on more trips in Australia in 2021, especially if they can have working holidays.



So, what would we need to believe for the domestic industry to tread water in 2021? Depending on assumptions regarding the opening of international borders and the reduction of business travel, this changes substantially.

One scenario to consider is that international borders do not open in 2021 and business travel drops 30 per cent compared to 2019. To tread water, the domestic tourism industry would need to convince Australians to spend ~70 per cent of what they spent overseas in 2019 on domestic trips instead. Not an easy task for the industry overall, but individual operators may succeed through bold and forward-thinking strategies that recognise and cater to the changing consumer.

The challenge for the industry is to persuade Australians to spend at least some of their international travel budgets at home. With the pandemic, in relative terms, under control in Australia and consumer confidence bouncing back faster than expected, people will be increasingly prepared to release the purse-strings on items and experiences that they value most – and for Australians this means travel.

For longer term sustainability, the industry also needs to work together to ensure Australia is at the top of the list for international tourists when borders open, and to find ways to secure and rebuild the business travel market.

We hope that our relative success at containing the pandemic makes Australia an even more attractive destination for global travellers, and that business travel evolves to become a critical tool to bring teams physically together for regular intensive co-working events.

Bridging the gap in domestic tourism spend

If international borders remain closed and business travel spend drops 30%, what would you need to believe to close the gap?

\$bn based on full year run rate

2019 Tourism spend in Australia				
\$89	\$18	\$31	\$8	= \$146
Domestic leisure travellers	Domestic business travellers	International travellers to Australia	International travellers from Australia (Domestic spend)	

2021 worst case scenario – borders remain closed				
\$89	\$12	–	–	= \$101
Maintain domestic leisure travellers	Domestic business travel drops by 30%	No International travellers to Australia	No international travellers from Australia (Domestic spend)	

2021 tread water scenario – borders remain closed				
\$89	\$12	–	\$6 \$39	= \$146
Maintain domestic leisure travellers	Domestic business travel drops by 30%	No International travellers to Australia	(Domestic spend) (International spend)	
Australian's spend 70% of international travel budget in Australia				

The shape of domestic holidays could change

Recreational travellers could spend 2021 ticking off their backyard bucket list, experimenting with working holidays and romancing with the great Aussie road trip.

Our research has uncovered several key trends relevant to the domestic tourism industry, all of which will continue to evolve in response to the global health crisis. If we assume that Australia continues its positive trajectory in managing the pandemic, opens state borders but limits international travel, we believe recreational travellers will be driven by three key mindsets over the next 12-24 months:

Ticking off the backyard bucket list

There is a tendency among young Australians to travel overseas in their younger years and wait until they have a family or even until retirement before taking the time to really explore Australia. The pandemic may force this trend to be reversed. While we may feel confined to our domestic borders, the reality is Australia is an enormous country with so many places to explore. There are many opinions on the best Australian bucket list. The top three from Qantas' *100 Australian Bucket-List Travel Experiences* are swimming in an outback waterhole, walking on Whitehaven beach, and driving the Great Ocean Road. Destinations and operators should think of creative ways to get to onto the bucket list for customer segments they may not have invested in prior to the pandemic.

Experimenting with the working holiday

The increased trend towards working from home will prove good news for domestic tourism operators, but flexibility will be key. In 2019, overnight domestic trips taken by Australians tended to be four nights. A significant number of these trips are what we call 'VFR' or Visiting Friends and Relatives and aligned to public holidays⁴. However, the recent prevalence of flexible working brought about by the pandemic and made possible by technological developments is providing an opportunity to travel for more nights and not be constrained by annual leave or public holidays. To meet this trend, domestic operators should look to provide and market access to high speed internet, rooms with study areas or modern business centres.

Romancing with the great Aussie road trip

Given that much of the growth in domestic travel will be shorter, more frequent and more affordable holidays, it is likely that many of these trips will be taken by road. The number of recreational vehicles (campers, caravans and motorhomes) registered rose by 16.5 per cent in the June quarter of 2020⁹. Families and grey nomads have traditionally been the most passionate road-trippers. However, the profile of the road tripper in 2021 may include more young professionals, older families, cruise enthusiasts and backpackers who would otherwise be overseas. It will be important to have services and activities suitable to these broader customer groups and to tailor and funnel marketing spend to speak to their needs and interests.



The new business traveller

Business travellers may reduce commute-style trips but increase conference-style trips that more purposefully bring teams together in response to the shift towards remote working.

The drastic reduction in business travel as a result of COVID-19 may not take long to resume but could take longer to recover. In addition to the immediate impact of border closures, business travel has been impacted by employers seeking to reduce costs.

The global remote working experiment now brings into question the need for some business trips. We have seen that meetings can often be adequately conducted using videotelephony software – reducing unproductive travel time and saving money. As a result, it is likely that shorter business trips could remain suppressed following the pandemic.

Employers are now facing an interesting dilemma which could create new reasons for business trips – how to create a culture that enables flexible working but also builds a strong sense of team, fosters trusted relationships and enables leaders to monitor non-verbal cues.

Many employers are embracing employees' desires to continue working more flexibly and leaning into the discussion about how to support employees to either work in the office or from another location even after the pandemic. New Zealand has been particularly bold, with Prime Minister Jacinda Ardern famously flagging the possibility of a four-day working week

in the name of boosting productivity and improving work/life balance. In recent weeks, Unilever New Zealand has pushed ahead announcing that it is commencing a trial where employees will be paid for five days a week but only work four days for the next year. If the trial is successful, it may be rolled out globally at the consumer goods company.

How and where organisations work is likely to be one of the most significant and lasting impacts of the pandemic. However, employers will also wish to continue to bring people together to recreate opportunities for face-to-face interactions and unstructured conversations that build relationships and trust, and often occur outside meetings. Employers need to effectively flip the office whereby most work is done at home and most work-related socialisation is done at work.

One possible solution could be to increase the frequency of conference-style events or team gatherings that more intensively build communities and trust. These community building events could be enhanced if hosted off-site with employees accommodated to include evening activities and reduce distractions. In this scenario, business travel could transform and evolve rather than decline, even if remote meetings replace business trips.

Winners will adapt to follow the money

Where the money is spent across the industry will shift and players that adapt to compete in surging sectors have the potential to emerge stronger.

It is likely that there will be winners and losers across the spectrum of the travel and tourism market. Three subsectors which we believe are in a strong position to capitalise on the current environment are:

Affordable accommodation

Think caravan and camping along the lines of the old-school Aussie road trip, bed and breakfasts, holiday parks, short term rentals and home stays or swaps with friends or relatives. A recent poll commissioned by Groupee of 1000 Australians aged 23-38 indicated that just 21 per cent of participants thought domestic holidays provided good value, while 54 per cent said travel in Australia was too expensive⁷. While the sample size of this study is small, these figures may indicate a preference towards lower cost accommodation rather than high-end luxury for Australians travelling at home. This will have flow on growth impacts on goods and services supporting these low-cost choices, such as camping, hiking, 4WDing, caravanning and fishing equipment. Digital platforms connecting consumers to low-cost accommodation are also likely to grow, such as AirBnB, HomeAway and HomeExchange.



Rural and regional businesses

Tourism businesses and hotels in rural and regional destinations are tipped to be the big winners and stand poised to capture as much as 71 per cent of the inflated domestic travel market according to Hotel Futures 2020⁸.

The expected government stimulus to encourage people to visit regional and rural areas will help kick start their recovery. Australia offers a plethora of natural attractions that draws visitors, many of which are undiscovered by the mainstream market. Anecdotally, many Australians talk about extensive travel in Australia in their grey nomad years – perhaps they will bring it forward. Regional businesses should look to use their advantageous locations to offer unique experiences and convince younger Australians not to wait to explore our backyard. The biggest challenge for these areas will be managing the increased transient population and ensuring their local communities are engaged.

Digitally savvy businesses

As was the case prior to the pandemic, great digitally enabled customer experiences are key to attracting and engaging young Australians and busy families. The use of digital booking tools, social media and influencers, and availability and access to technology at tourist locations will be critical to making the most of the expected domestic travel blitz. These tools will also be critical to manage numbers and enable contactless and COVID-safe service. To stand out, businesses should be looking to innovate. COVID-19 has proven to be the great accelerator of ecommerce and digital services – don't be left behind.

Other sectors such as international airlines, cruise lines and travel agents – all of which are highly reliant on international inbound tourism will be less fortunate. Unless they can pivot to play a role in domestic recreational or business travel, they will need to find a way to remain hibernated until the international borders are relaxed. Even so, it will pay off to start thinking ahead now. For example, there may be an increased role for travel agents to help navigate the complexities of travelling during or soon after a pandemic including potential cancellations, vaccine certificates and travel bubbles.

Be prepared and responsive

Domestic travel and tourism businesses will need to pivot quickly to capitalise on these opportunities.

Divert marketing spend from international to domestic markets, encouraging would-be international travellers to tick off their Australian holiday bucket list

We are already seeing this at a government level with the recent Holiday Here This Year campaign and the Victorian Regional Travel Voucher Scheme. Major events like the Adelaide Fringe Festival, Sydney Mardi Gras, Australian Open and the Taste of Tasmania also offer opportunities to attract new customers. Destinations and operators should prepare to respond quickly through social media and promotions to these campaigns to capture the imagination of curious consumers.

Create promotions, packages and experiences to attract and grow the working holiday crowd

Accommodation providers could consider ways to make working from a holiday destination easier. For example, expanding and upgrading business centres, creating spaces for private video conference calls and

providing screens and keyboards. Operators could also consider using dynamic pricing and promotions to generate opportunistic demand given people may not need to take annual leave to travel. This could not only extend planned trips, but also unlock demand for new trips such as when one parent doesn't have leave during school holidays.

Upweight marketing to younger Australians who have been forced to change their plans from backpacking overseas to staying local

Catering to the needs and expectations of groups of young Australians may require new products, pricing and promotional activities that are highly digital and social media ready. Although these travellers will be on tighter budgets, they have more time to travel longer distances and are highly influential.



Consider how to work with employers to provide facilities and services that purposefully bring teams together frequently through offsites or co-working days

Many employers are currently considering ways to ensure they build strong cultures and relationships while also supporting flexible and remote working choices.

Given the potential for these to become a series of micro-conferences, there could be value in offering annual packages to employers. This potential trend would most suit CBD accommodation and large resorts, who could be impacted if business commuter travel remains subdued.

Use digital services to improve the customer safety experience and adapt quickly if the health context in your area changes

Feeling safe is now a top decision criterion for consumers and it is important to demonstrate robust and responsive practices before, during and after a visit. Prospective travellers will also need confidence that if they cannot travel due to changed restrictions or illness, there will be flexibility to cancel or postpone bookings. Operators with strong digital services and generous cancellation or change policies will be best placed to gain the confidence of travellers under ever-changing restrictions.

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