

SCHOOL'S OUT— BUT WHEN?

UNCERTAINTY IN UK TRAVEL AND TOURISM

By Stéphane Baleston, Sylvain Duranton, and Pedro Esquivias

TURBULENT TIMES ARE SET to continue for UK travel and tourism companies, particularly those catering to family holidays. Beginning later in 2015, the deregulation of centralized school-holiday scheduling will add one more disruption to a market that is already dealing with the impact of the recession, the recovery, and the 2013 prohibition on term-time leaves of absence for students. Travel companies can expect less predictable patterns of demand going forward, meaning that operations and pricing will be harder to manage. Dynamic pricing, enhanced forecasting capabilities, capacity management, and consumer insight will be key to winning in this shifting environment.

An Already Shifting Market...

At a macro level, overall demand for domestic holiday destinations has remained relatively constant since 2009, with the annual number of trips averaging in the range of 55 million to 60 million. Although projections show demand for domestic travel remaining at this level over the next several

years, the family-oriented segments of the market are expected to show modest growth (for example, the holiday park segment can expect to see annual growth of 1.2 percent) and overseas travel will rise slightly from a recession-affected base.

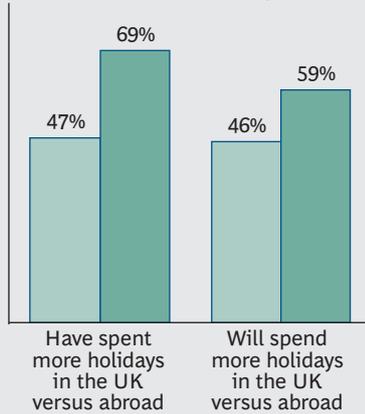
Within the domestic market, a recent survey of more than 1,000 UK consumers by The Boston Consulting Group found that half expect to spend more holidays in the UK than in the recent past; this is the case for 60 percent of families with children younger than 18. (See Exhibit 1.) At the same time, consumers are increasingly opting for more short breaks rather than less frequent long trips. Research shows that the length of the average trip has been declining steadily, from 3.8 days in 2007 to 3.5 days in 2013.

In September 2013, the government shook up the travel market when it put an end to the long-standing practice of allowing head teachers to grant ten days of term-time absence for family holidays. The new rules, backed by hefty fines for noncompli-

EXHIBIT 1 | Modest Volume Growth Is Projected for the UK Domestic Family-Travel Market

Families continue to favor domestic trips, even as the recession eases

Domestic versus overseas holidays (nonexclusive, respondents taking a mix of domestic and overseas holidays)



■ Nonfamilies ■ Families¹

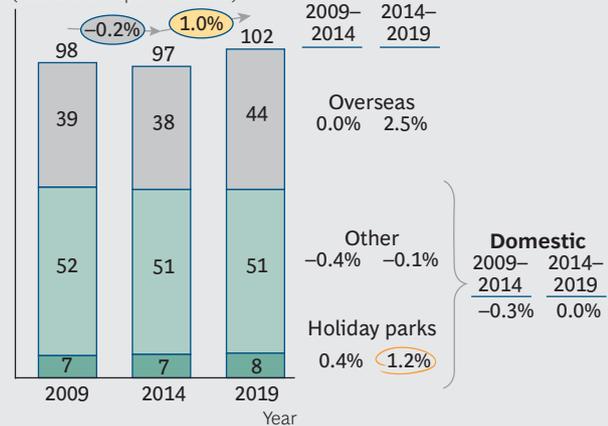
Source: BCG research.

Note: Because of rounding, not all numbers add up to the totals shown and not all growth rates reflect the rounded totals shown.

¹Families are respondents with children younger than 18 living at home.

Modest future growth is expected in family-oriented propositions (such as holiday parks)

UK holiday-market volume evolution (number of trips in millions)



ance, prohibit leaves of absence during term time for other than “exceptional circumstances,” and they have had the impact that the government desired. Statistics show a 17 percent year-over-year decline in overall school absences since the new rules were introduced.

In a survey of 50 state-school head teachers by BCG, nearly three-quarters of respondents said that the new regulations have had a significant impact on term-time absences and 55 percent said that parents who used to take their children out of school during term time to get cheaper holiday fares no longer do so.

The impact on UK travel has been material. The new regulation has put more pressure on peak periods and lowered demand during shoulder seasons. According to a survey of 54 travel companies by Travelzoo and the Chartered Institute of Marketing – Travel Industry Group, 85 percent of travel operators have seen an impact on their business since the law changed, with a quarter saying that they might have to raise prices during the summer holidays to counteract the drop-off of families traveling during term time.

...Can Anticipate More Change

The UK government plans further regulatory change with respect to school holidays. Beginning in September 2015, head teachers will have the authority to set their school’s holiday dates rather than adhering to a nationally coordinated schedule. Our research shows that almost 70 percent of head teachers will consider making immediate changes (and almost 90 percent of those who don’t plan to change now said they would revisit their decision in a few years). More than 60 percent said they will consider making changes because they think the changes will allow families to enjoy more-affordable holidays and will help match school holidays to religious and cultural holidays and festivals. Although shorter, more numerous holiday breaks are the most commonly mentioned possibility, we found no strong tendency toward any one type of change, suggesting potential fragmentation of holiday schedules across the country.

History may be an indicator of future changes. Almost two-thirds of head teachers at UK academies (state-funded schools created in 2010 that are not subject to local authorities’ control and have the flexibility to determine their own holiday schedules)

have changed holiday dates. The changes follow no dominant pattern: 35 percent require more annual days of term time and 18 percent more annual days of holiday, 18 percent mandate shorter holidays more often in the year and 24 percent authorize longer holidays less often throughout the year, and almost one-quarter result in shorter summer holidays.

Going forward, most head teachers believe, the main difficulty in making changes will be parents with children attending different schools (almost 90 percent cited this as a factor in their thinking), and a third said they do not want to disrupt child care schedules. These concerns suggest that although fragmentation in holiday schedules is likely, consistency among some neighboring schools is likely to remain.

And a Softer Demand Curve...

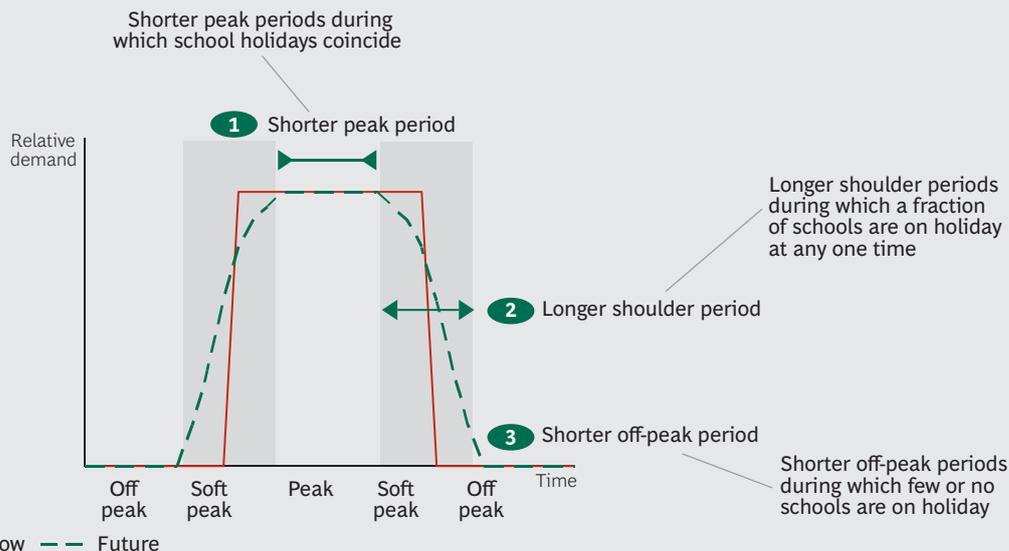
The deregulation of school holiday scheduling will almost certainly lead to a softening of the demand curve with respect to peak versus off-peak travel. (See Exhibit 2.) In the next few years, the market will shift as schools adjust their schedules, and operators will likely contend with shorter peak periods when school holidays coincide, lon-

ger shoulder periods when fewer schools are on holiday at any one time, and shorter off-peak periods when only some schools (or possibly none at all) are on holiday.

This will have mixed consequences for travel companies. We expect a positive impact on overall volume. The holiday market is highly price elastic, so families that would currently choose not to take holidays at peak periods owing to high prices and finite capacity may now have new opportunities to travel in shoulder seasons. This indicates a potentially positive value impact for leading players that generally enjoy high occupancy rates, and a negative effect for those that do not. Companies with very high demand are likely to be able to maintain peak prices while increasing prices for shoulder reservations. Others will probably need to lower their price in peaks (owing to reduced demand) without being able to increase prices for shoulder periods, with a significant impact on profitability.

The timing of changes to school holidays is likely to vary by school, so the overall transition to a more fragmented holiday schedule could take a few years. Some 70 percent of head teachers we spoke to said that they are eager to move forward and make

EXHIBIT 2 | Deregulation of School Holidays Will Lead to a Softening of Differences in Peak and Off-Peak Demand



Source: BCG research.

changes. Half of the head teachers would want to consult a wide range of people first, while 20 percent described themselves as “pioneers” who are keen to improve things as soon as possible. Regardless of the exact timing, the transition period will generate uncertainty in the demand forecast for most operators, which will need to adapt.

...Puts a Premium on New Capabilities for Travel Companies

Whether the goal is to capture the opportunity or mitigate risks, we expect dynamic pricing and forecasting tools, capacity planning, and keen consumer insight to be key to success in a changing marketplace.

Dynamic Pricing. As the travel demand curve flattens and consumers figure out how they want to use new holiday times and formats, it will be more difficult for travel companies to determine optimal price points through the year. Vacation periods will likely become more fragmented, resulting in a higher number of varying price points. Without historical patterns to look back on, the early years of the transition will be especially challenging. The ability to price dynamically—setting prices in real time based on shifting demand, competitors’ actions, and other factors—will be key to maximizing revenues as well as occupancy and use rates. Companies that do not have dynamic pricing systems will need to invest in them, and those that do have them may need to enhance their systems’ reactive capabilities.

Forecasting Tools. Until new holiday patterns emerge, insights from the past are going to be less valuable and forecasting will gain in importance. Forward-looking operators will build adaptive forecast models, collecting granular holiday-schedule data for the first few years and using this information to assess shifting demand.

Capacity Planning. Travel companies will face evolving needs for the variable portion of their service capacity, such as hotel and resort staff or the number of shifts for rail employees. Extra capacity will be needed for shoulder periods, and capacity may need to be lowered for traditional peak periods. Operators will likely also face difficulty in shifting capacity to meet changing demand, adding to operational complexity. For example, companies that are not open year-round and rely on recruiting students as temporary staff during peak holiday periods may find it more difficult to find workers if holidays no longer coincide.

Consumer Insight. Developing precise and detailed knowledge of guests’ profiles, such as family makeup and places of residence, will become increasingly important to predicting demand. Making the effort now to capture such information as customers’ postcode and the share of guests with school-age children for cross-reference with local school schedules will pay off down the road with the ability to more accurately anticipate demand patterns through the year.

THE UK TRAVEL market will not be transformed overnight. But there is little doubt that domestic-travel patterns will shift over time, and after a period of transition (that could last many years) travel companies will have to adapt to a new paradigm of demand. Those operators that start now to invest in and build the capabilities that will enable them to both anticipate, and react quickly to, shifting demand will have a big competitive advantage over the rest of the UK travel and tourism marketplace.

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