THE FUTURE OF BUDGET ACCOMMODATION

Delivering Value That Appeals to The Hearts and Minds of the New Traveler

Our knowledge partner:

Tourism Management Institute of Singapore

NATIONAL ASSOCIATION OF TRAVEL AGENTS SINGAPORE

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FOREWORD

Traveling often makes it to the top in most people's bucket lists. Definitely on mine. Who doesn't like to take a break from their daily life, unplug from the pulls and pushes of technology and engage in new activities in new places?

The growing presence of budget hotels in the world has greatly facilitated and enhanced the traveling experience. Together with the rise of budget airlines and the higher relative disposable income levels, traveling has never been easier.

This emerging budget traveling trend is a positive development for the inbound travel industry in Singapore. A greater variety of accommodation pricing negates the impression that Singapore is an expensive destination and makes Singapore competitive with other tourist hotspots in the region. Singapore is already one of the most visited locations in the world with its modern image, impeccably safe streets, world-class attractions, air-sea connectivity and incredible cuisines. And now, it is increasingly possible for those traveling on a budget to enjoy Singapore too, just as the locals do! This in turn increases tourism receipts. Visitors who opt for budget accommodation need not necessarily spend less in Singapore as compared to those staying in 5-star hotels.

The idea of feeling at home away from home has become more and more popular with the rapid growth of Airbnb. With this shift in the travelers' mindsets, Singaporean hostels and hotels will have to compete not only on pricing but also on staying experience.

This BDO report, "The Future of Budget Accommodation", serves as a useful tool for entrepreneurs and agencies in the Asian travel landscape. It has valuable insights into the minds and preferences of the budget traveler and the challenges that budget hotels and hostels face in the current marketplace.

It is also worth noting that young travelers like to travel smart, as for them spending money on adventures is seen as a more viable option than spending on luxurious hotels. Keeping in view of the business models of Airbnb, couchsurfing and hostels, budget accommodation seems like the way to go!

STEVEN LEK
Executive Director

NATIONAL ASSOCIATION OF TRAVEL AGENTS SINGAPORE

OVERVIEW

Rise of Budget Travel in Asia Pacific

All eyes are on Asia when it comes to tourism growth and opportunities. In 2013, Asia Pacific recorded the highest relative growth rates, of which the SEA region saw phenomenon growth with a 10.5% increase in international tourist arrival of 93.1 million and USD 107.4 billion worth of international tourism receipts[1].

A contributing factor to this growth is the rise of intra-regional tourism globally, best demonstrated in Asia Pacific. With rising disposable consumer income amongst Asia Pacific consumers, particularly in emerging economies such as Indonesia and Malaysia, more are choosing to travel within the region. For instance, 4 out of 5 international visitors to Singapore from January to June 2013 were from Asia Pacific[2].

This trend is reflected in global consumption habits as more consumers are choosing to take more frequent but shorter trips to destinations nearer to home. Coupled with a growing preference for budget flight carriers and accommodation options to sustain traveling habits, this has stimulated rapid growth in the budget end of the travel scale.

[1] UNWTO. (UNWTO Tourism Highlights 2014 Edition)
[2] Singapore Tourism Board. (Tourism Sector Performance Q2 2013 Report, January 2014)

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Budget Accommodation: Entry into the Mass Market

Over the past decade, consumers' traveling preferences have changed drastically. Gone were the days where consumers considered budget accommodation such as budget hotels, hostels and guesthouses as merely an inexpensive "off-the-beaten-track" alternative to traditional full-service hotels, only suitable for students and backpackers. Today, budget accommodation brands have gained credibility and recognition as a strong market challenger to traditional accommodation brands, through their offering of value, convenience, flexibility and perhaps most attractively, opportunities for social interaction and a more authentic local experience.

Consumer Behavior towards Budget Accommodation in Asia Pacific

BDO conducted a study with 730 respondents from the Asia Pacific region in early 2014 to better understand consumer preferences and behavior towards budget accommodation in Asia Pacific. For the purpose of the survey, budget accommodation in Asia Pacific is defined as hostels, budget hotels and hotels with 3-star or less.

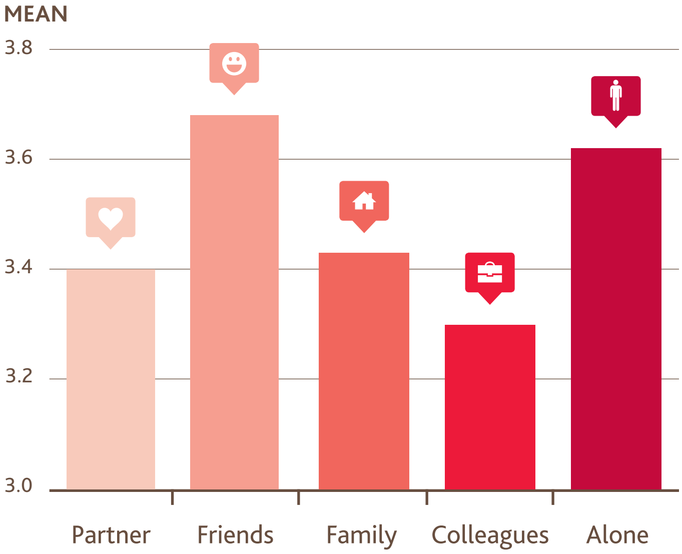
PREFERENCE ON BUDGET ACCOMMODATION

When are consumers most likely to stay in budget accommodation?

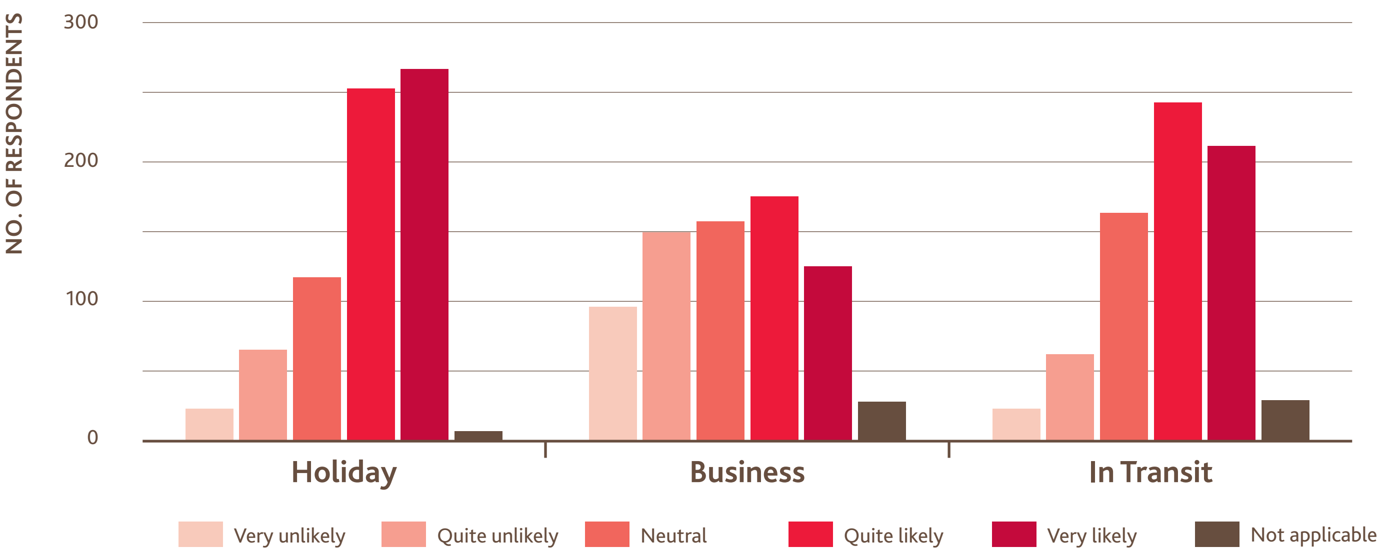
In general, respondents were more likely to choose budget accommodation when traveling with friends or alone. In addition, regardless of destination, respondents were more likely to stay in budget accommodation when on holiday or in-transit to another country, as compared to when traveling for business.

With the fragmentation of the travel market into growing niches of travelers, people are increasingly traveling with different companions and for a much wider and specific range of reasons. Hence it is all the more essential for brands to identify not merely the customer profile of their target audience, but their travel companion and purpose of visit as well, in order to better appeal with targeted offerings tailored to their unique needs.

TRAVELING COMPANION



LIKELIHOOD TO STAY IN BUDGET ACCOMMODATION X PURPOSE OF TRIP



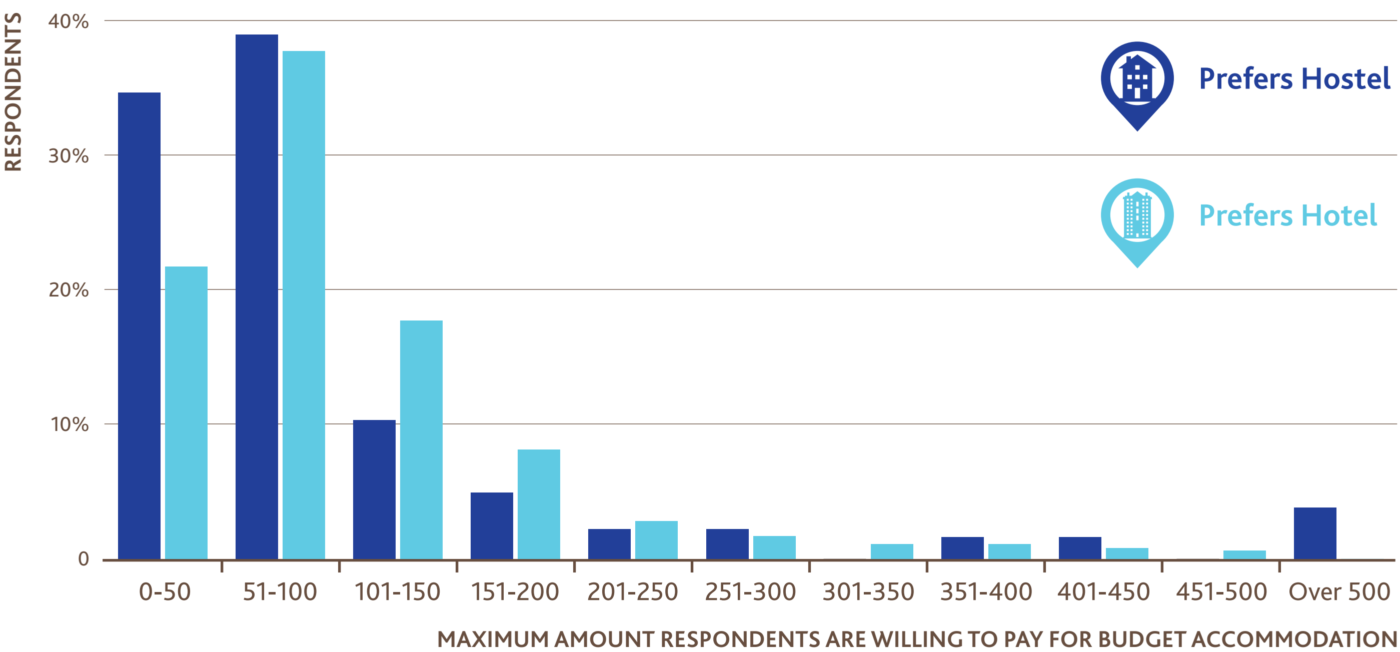
ACCOMMODATION BUDGET

How much are consumers willing to pay for budget accommodation?

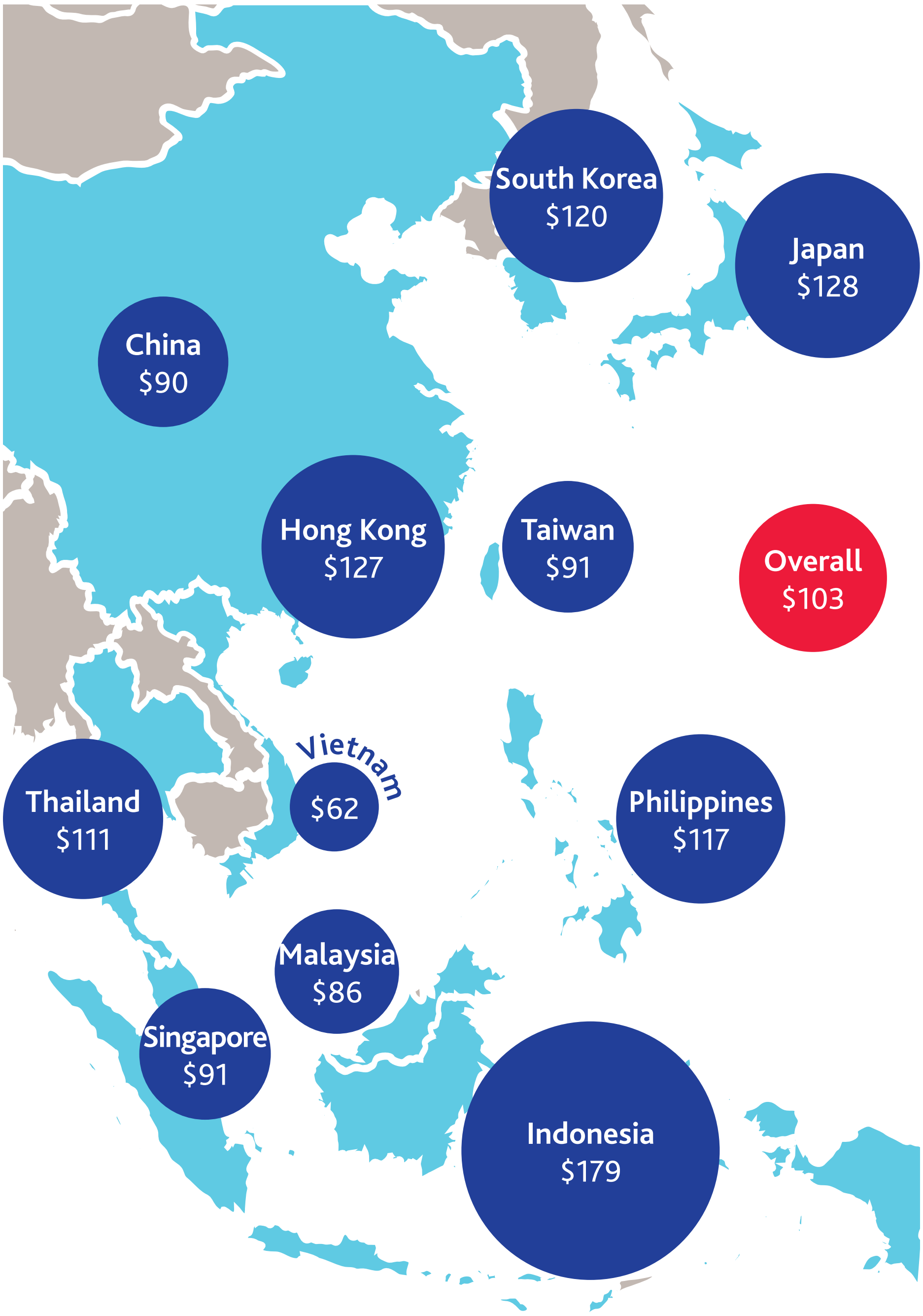
When asked for the maximum that they were willing to pay for one night of budget accommodation in Asia Pacific in general, 80% of respondents gave a maximum budget of S$150 and below. The mean and median amount are S$103 and S$80 respectively.

Interestingly, respondents from Indonesia were the most willing to spend (mean of S$179 per night) and those from Vietnam had the smallest budget (mean of S$62 per night). In addition, respondents who prefer staying in hotels were willing to pay a maximum of S$107 (mean) per night while those who prefer hostels were on average only willing to pay a maximum of S$90 per night on budget accommodation. Understanding the spending behavior of consumer groups from different regions and with varying accommodation preferences allow budget accommodation brands to better determine their pricing strategy and target the most compatible group of consumers.

HOTEL VS. HOSTEL



WILLINGNESS TO PAY X COUNTRY OF ORIGIN



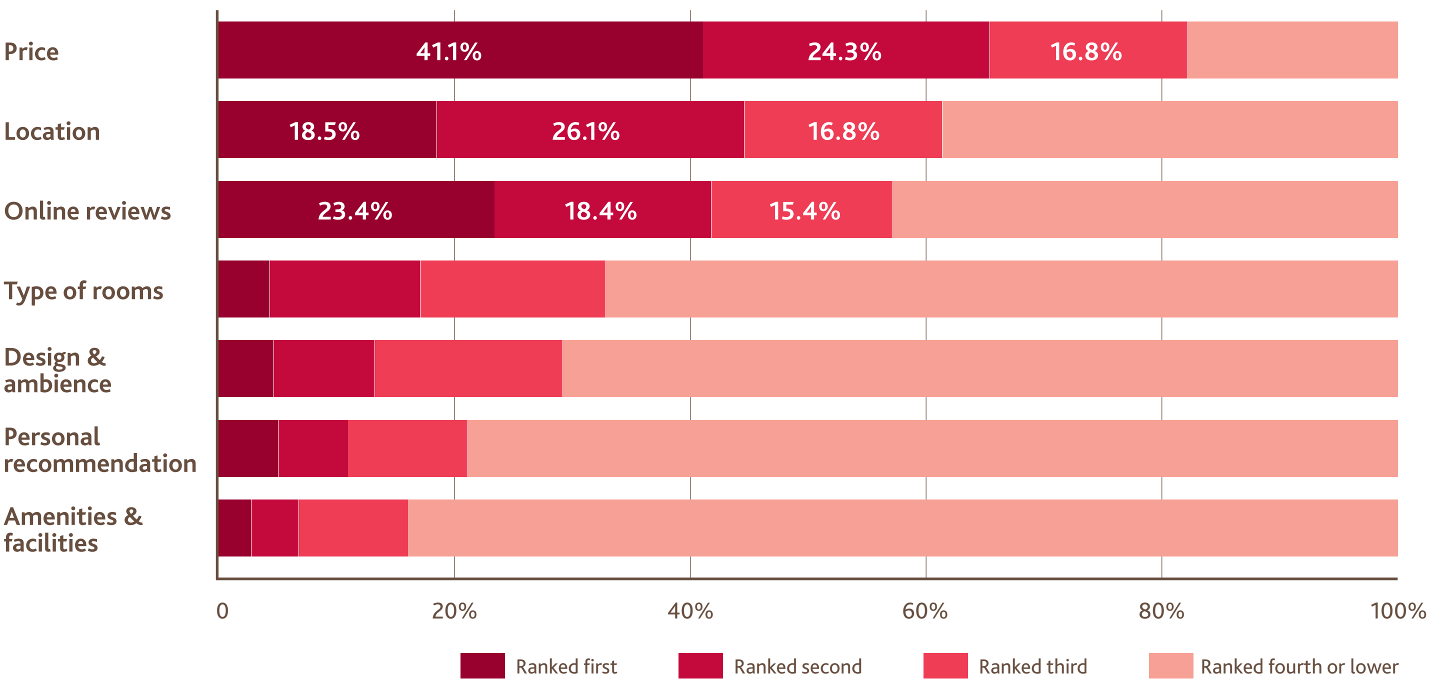
KEY INFLUENCING FACTORS

What are the key factors that influence purchase decisions?

When seeking budget accommodation in Asia Pacific, the top 3 consideration factors revealed through the study were price, location (convenience) and online ratings and reviews, regardless of age or accommodation type. With access to a wealth of information online, consumers can easily compare prices amongst budget accommodation brands and are therefore much more discerning with their spending. Nonetheless, to avoid getting into a price war, brands can maximise their value by highlighting other functional value adds such as the convenience of their location.

In addition, consumers display increasing diligence in doing research online through crowd-sourced review sites and social media before booking a stay. Consequently, brands should shift their customer care focus to online channels and social media to better engage consumers and monitor complaints. Ultimately, before seeking to expand into communicating an experiential or symbolic brand appeal, fundamental functional needs still form the foundation of a brand's appeal, and should be consistently delivered and communicated.

KEY INFLUENCING FACTORS

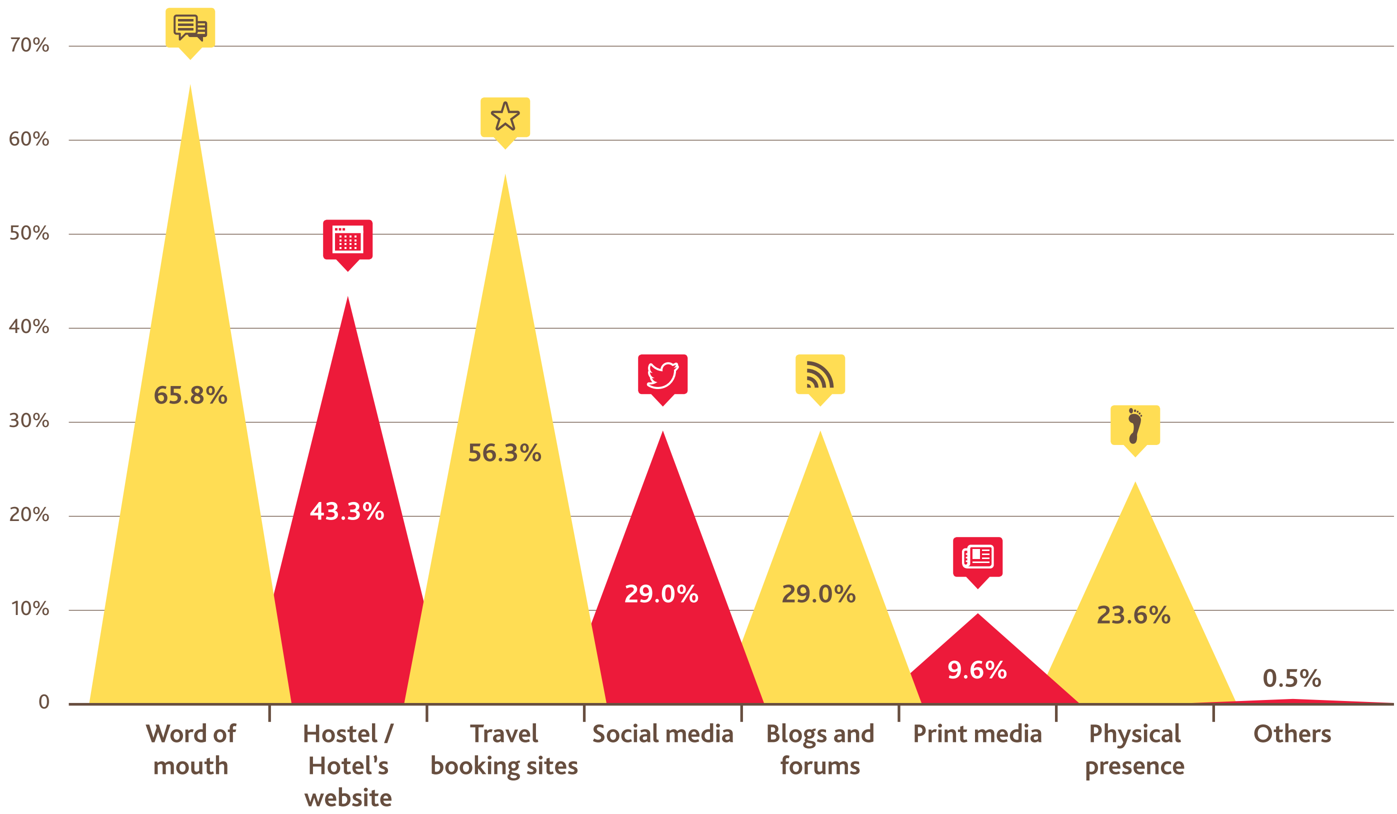


SOURCES OF INFORMATION

What are the most influential sources of information?

Regardless of one's preferred accommodation type or age group, the study revealed that respondents were most receptive to word-of-mouth recommendation by family, friends or colleagues (65.8%). This was followed by information on travel/hotel/hostel booking sites (e.g. Agoda) and information found on the hostel/hotel's webpage. The high level of influence from personal sources is reflective of the growing cynicism towards brand-generated messages, and the shift towards customer-generated testimonials. As such, brands need to carefully manage their various brand touch points, to encourage customer-initiated reviews from brand advocates which are perceived as a more authentic and reliable sources of information.

MOST INFLUENTIAL SOURCES OF INFORMATION



THE NEW TRAVELER

Through this study, BDO sought to find out general purchase preferences and influencers towards budget accommodation which may be useful to budget accommodation brands in determining their positioning and pricing strategy. Nonetheless, it is crucial to note that these fundamental needs only form the first layer of a brand's appeal. In order to be truly differentiated, a brand should seek to appeal to both the minds and hearts of consumers, first by understanding the motivations and characteristics of the new age of travelers.

Wooing the Millennials

Individualistic, curious and globally connected, the Millennials (anyone born between 1980 and 2000) are poised to be the key focal point of the hospitality market. Asian Millennial Travelers account for nearly 35% of the US$600 billion spent by Asians on international travel, and the population segment is expected to increase their travel spending by 1.6 times to US$340 billion by 2020, due to income growth[3]. With this generation set to provide the majority of spending for travel and leisure in the next 5 to 10 years, brands are beginning to realize that in addition to functional offerings, there is an increasing need to cater to this unique generation who value experiences and innovative products as a significant part of their travel expectations.

The ME Mentality

Having grown up with the world at their fingertips, many Millennials have adopted the ME mentality – essentially the expectation of not just customer-centric offerings, but ME-centric offerings that are tailored to each individual's needs.

Appealing to the mind with convenience and flexibility

With the ease of smartphones and constant access to the internet, Millennials demand instant gratification, prioritizing speed, efficiency and convenience across all brand touch points. This has prompted brands to offer various solutions to maximise convenience such as check-in kiosks at hotels as an alternative to the front desk, and mobile applications that promote last-minute spontaneous purchases. This is a generation of consumers who consider time as their most valuable asset and will appreciate a brand that shares that belief.

A significant aspect of the ME mentality is customisation. Brands are increasingly seeking to bend the boundaries of flexibility by offering basic packages with add-ons or select-services that allow Millennials to choose and pay only for services that matter to them such as "pay-as-you-use" gym and pool facilities and meeting spaces. Millennials in turn perceive these brands as offering them greater value as they save costs by eliminating services and offerings that are not essential to them.

Romancing the soul with experiences beyond the norm

This desire for control over their travel experience is not limited to just the four walls of the hotel room. Millennials have a general aversion towards traditional cookie-cutter itineraries and tour group activities, with many seeking to craft their own travel plans to suit their personal interests and hobbies. This new generation of curious explorers seek differentiated beyond-the-norm experiences that turn them into storytellers. They treat travel experiences as personal brand badges that they can add on to their social resume and stir a response from their friends and followers. Essentially, travel has become a new-age form of self-expression and budget accommodation brands seeking to win the hearts of their target audience have to go the extra mile to connect with each customer in a unique way.

[3] Singapore Tourism Board (TravelRave 2013: Navigating The Next Phase of Asia's Tourism)

THE FUTURE OF BUDGET TRAVEL

Traditionally budget accommodation has always been focused on the attractiveness of its price tag. However, with the shifting preferences and motivations of the new traveler, budget travel will elevate itself beyond its position of being the cheaper alternative and move into its own category of providing a completely interactive and immersive experience. Consumers will come to expect functional benefits such as convenience and flexibility as a given, and seek participative benefits as a key criteria when making travel decisions. Consequently, budget accommodation brands will aim to substitute the non-essential offerings of a traditional full-service hotel with authentic and customised value-adds that better suit the ME mentality of their customers.

The new generation of travelers will be enticed by genuinely shareable moments. Brands should strive to not merely quench their thirst for adventure, but to offer them the freedom of multiple flavors to choose from and the empowerment to take control of their own experience.

ABOUT BDO

BDO Singapore is a full-service tax, accounting and business consulting firm with a long history of serving both small and medium-sized enterprises (SMEs), large privately-held businesses and multinational companies across a wide spectrum of industries in Singapore.

We are a proud member of the fifth largest accounting and consulting network in the world. BDO is at its optimum, offering you the best of both worlds - a strong local presence in Singapore with the support, opportunities and resources of being part of a cohesive global network.

At BDO Singapore, we build our business on strong personal relationships with our clients. Whether you are a small start up, SME or large multinational company, you can expect the same friendly, personal and proactive service from our team of professionals.

We value each client as our business partner. So whatever the size of your business, what matters to you, matters to us.

Together with over 400 employees, we offer a comprehensive range of services that include:

- Audit & Assurance
- Corporate Finance
- Corporate Secretarial
- Financial Services Group
- Goods & Services Tax
- Management Consulting
- Outsource Accounting
- Restructuring & Forensic
- Risk Advisory
- Tax Advisory
- Technology Risk & Advisory

Vision

To be the leader of exceptional client service

Values

BDO Promotes Thought-Leadership
BDO Engages and Develops Talents
BDO Leverages on Stakeholders' Support
BDO is Ambitious Beyond Profits
BDO Fosters Strong Relationships
BDO Embraces Social Responsibility

No.1 for exceptional client service [1]

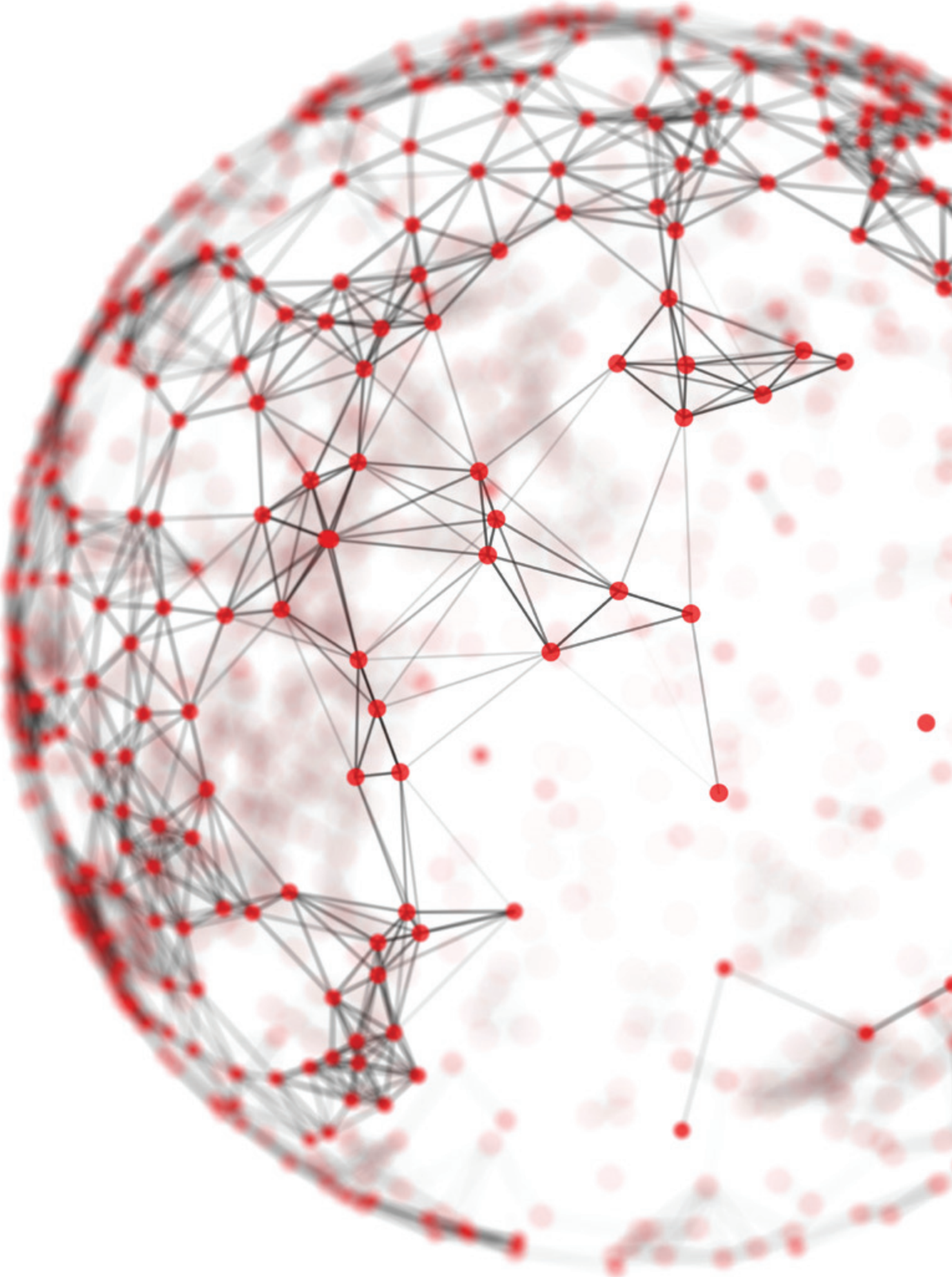
US$7bn [2] 2014 revenue

151 countries

1,328 Offices

59,369 Staff

1. Indepedent research carried out by Lighthouse Global (Mid Market Monitor 2012)
2. $7bn (€5.2bn) total combined fee income as at 1 October 2014



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