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SPOTLIGHT

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The South Korean Travel Market: Rising Again

Written by Wonsok Jee and Chetan Kapoor

Located off the northeastern tip of China, the Republic of Korea (South Korea) is renowned worldwide for brands such as Hyundai, LG and Samsung. It is also an important and growing consumer market in Northeast Asia, boasting a large middle class with significant disposable income, high incidence of domestic and international travel, and very high Internet and mobile penetration. This spotlight takes a look at the Korean travel market, where shifting consumer behavior and high Internet adoption are bringing change to a landscape long dominated by traditional travel agencies and tour operators.

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Introduction

Located off the northeastern tip of China, the Republic of Korea (South Korea) is renowned worldwide for brands such as Hyundai, LG and Samsung. It is also an important and growing consumer market in Northeast Asia, boasting a large middle class with significant disposable income, high incidence of domestic and international travel, and very high Internet and mobile penetration. This spotlight takes a look at the Korean travel market, where shifting consumer behavior and high Internet adoption are bringing change to a landscape long dominated by traditional travel agencies and tour operators.

A Mature Tiger

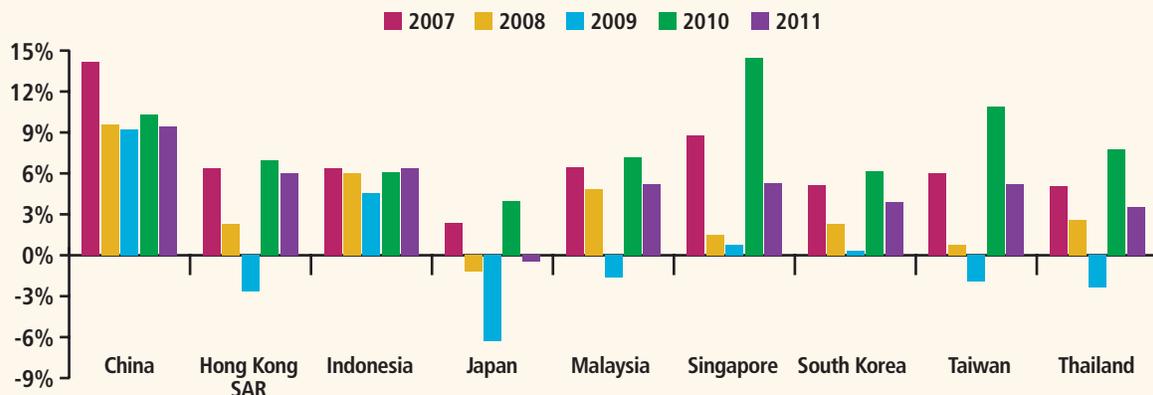
South Korea's export-driven economy withstood much of the turmoil of the global financial crisis in 2009. According to International Monetary Fund, Korea's gross domestic product (GDP) was flat in 2009 and

grew 6% amid the improving global financial outlook in 2010 (see Figure 1). However, the country's economic growth is slowing when compared to most other Asian economies, as growth in the U.S. and Europe – its key export markets – stalls.

Despite the country's small population compared to its neighbors China and Japan, the Korean consumer should not be discounted. The South Korean population and GDP per capita – at below 50 million and just over \$17,000, respectively – are both less than half those of Japan (see Figure 2), but Korean consumers' spending power is relatively high for the Asia Pacific region. It is dramatically higher than that of Chinese consumers, which stood at only \$3,648 in 2009.

Korea is also a global leader in telecommunications. Mobile phone and Internet penetration in the country were 98% and 81%, respectively, in 2009, and are

Figure 1
Annual Gross Domestic Product Growth by Country, 2007-2011

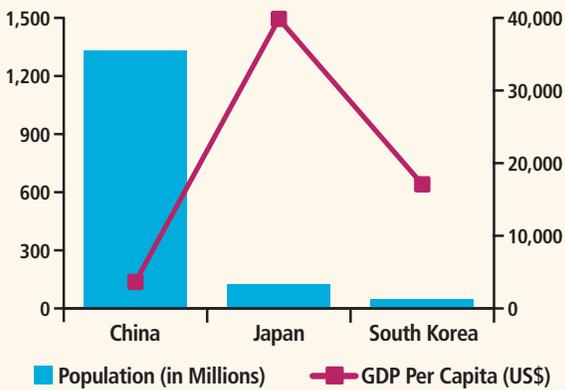


Note: 2011 projected

Source: International Monetary Fund World Economic Outlook Database, September 2011

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Figure 2
Population (Millions) and GDP Per Capita (US\$) by Country, 2009



Source: Bank of Korea, International Monetary Fund and United Nations
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among the highest in the region.¹ The country also has one of the highest broadband speeds in the world. Still, the Korean online travel opportunity remains largely untapped, and wholesalers such as Hanatour and Modetour, with their large franchisee bases and agency affiliations, dominate the travel marketplace.

According to the World Travel & Tourism Council, South Korea ranks 17th globally in 2011 in terms of travel and tourism's total contribution to the nation's GDP. Direct economic contribution of the sector will be KRW21,611.8 billion (approximately US\$19.5 billion) or 1.8% of total GDP.

The Korean travel market felt the pressure of the 2009 economic slowdown but rebounded strongly, reaching just shy of \$11 billion in travel supplier gross bookings² in 2010. Korea's travel market accounted for 4% of the Asia Pacific region's total travel revenues in 2010, and the market is expected to grow in high single-digits through 2012.³

1) The World Bank

2) PhoCusWright's market sizing methodology includes airline passenger revenue, hotel room revenue, car rental revenue and rail passenger revenue.

3) *PhoCusWright's Asia Pacific Online Travel Overview Fourth Edition* (2011)

Purpose of the Spotlight and Methodology

PhoCusWright has incorporated its proprietary market sizing methodology and analyzed research and data from various organizations (including The World Bank, International Monetary Fund and Korea Tourism Organization) to present an overview of the Korean travel marketplace.

Market sizing estimates are built from resources such as government statistics, public filings of listed companies and select third-party data. They are based in U.S. dollars (US\$) and converted from local currencies at the average rate for the period represented. In addition, PhoCusWright conducted several interviews with suppliers and intermediaries operating in Korea.

Travel Back on Track: Air and Lodging

The global economic downturn took its toll on the Korean travel market in 2009, and gross bookings dropped 16% in U.S. dollar terms. The following year, amid economic recovery and local currency appreciation over the dollar, the travel market rebounded 25% to \$10.9 billion. By 2012, the Korean travel market will reach \$12.6 billion in gross bookings, an impressive 45% jump over 2009.

Air sales account for the majority of travel gross bookings in Korea, and two flagship carriers – Korean Air and Asiana Airlines – dominate the market in terms of both revenues and passengers flown. Overall airline revenues fell 13% in 2009, but the introduction of lower fares during a period of poor demand spurred passengers flown 6% across Korean carriers (see Figure 3). Aggregate passenger demand on domestic and international routes grew 6% and 1%, respectively, in 2009.

Demand for air travel soared in 2010. Total passengers carried went up 15% to 44.7 million. Interestingly, due to stabilizing economic conditions and the commencement of overseas operations for low-cost carriers (LCCs), growth in international demand outpaced domestic. Passenger demand on international routes rose an exponential 47% to reach 4.3 million passengers in 2010, and accounted for 10% of all passengers flown by Korean airlines.

Figure 3
Total Domestic and International Passengers Carried by Korean Carriers (Millions) and Annual Change, 2006-2010

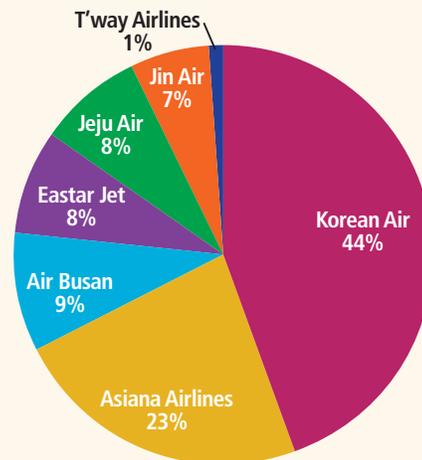
	2006	2007	2008	2009	2010
Total Domestic	27.9	33.6	34.0	36.1	40.1
<i>Change</i>		21%	1%	6%	12%
Share of Total Passengers	92%	92%	92%	92%	90%
Total International	2.5	2.9	2.9	3.0	4.3
<i>Change</i>		15%	2%	1%	47%
Share of Total Passengers	8%	8%	8%	8%	10%
Total Passengers Carried	30.4	36.5	37.0	39.1	44.7
<i>Change</i>		20%	1%	6%	15%

Source: Korea Airports Corporation
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Korean Air and Asiana Airlines together accounted for two thirds of all passengers carried in the country (see Figure 4). Passengers flown on Korean Air and Asiana Airlines dropped 13% and 14%, respectively, while demand on their domestic routes slipped 15% each in 2009. International demand, however, grew at a low single-digit rate during the global economic slowdown for both carriers.

LCCs in Korea are growing rapidly. Domestic LCC fliers grew by an astounding 42% in 2010, while growth for full-service carriers was flat during the same period. In the wake

Figure 4
Share of Total Passengers Carried by Korean Carriers, 2010



Note: Total may not add to 100% due to rounding.
Source: Korea Airports Corporation
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of the Ministry of Transport's new policy (from mid-2008), carriers with one year of domestic operations and 10,000 flights become eligible for international operations. Total passenger enplanement on Jeju Air – focusing on routes from Jeju Island, including to Japan and Thailand – and Air Busan (in which Asiana Airlines is a key stakeholder) was up 33% and 46%, respectively, in 2010.

Hotel occupancy took a beating in 2009. Aggregate occupancy in South Korea was slightly above 50% for the year, and four- and five-star hotels had the highest occupancy (see Figure 5). Although the Korean hotel

Figure 5
Hotel Suppliers in Korea, 2009

	1 Star	2 Star	3 Star	4 Star	5 Star	Others	Total
Hotels	68	101	150	78	59	63	519
Rooms	4,097	5,224	12,359	13,616	21,612	3,458	60,456
Occupancy Rate	41%	38%	47%	62%	59%	42%	53%

Note: The ratings are issued by the Korea Hotel Association.
Source: Korea Culture & Tourism Institute
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landscape is dominated by mid-range properties, four- and five-star properties – which account for a fourth of all hotels – comprise nearly 60% of the country’s room inventory.

Domestic vs. Outbound Travel

Koreans are avid travelers. Two thirds of the population travels domestically, while about a quarter goes overseas. The number of domestic tourists fluctuated slightly between 2005 and 2008 before falling a whopping 17% in 2009 to 31.2 million (see Figure 6). Overnight and day travelers declined 16% and 26% that year, respectively. On the other hand, outbound departures grew around 15% between 2005 and 2007 but plunged 10% year over year in 2008 and a further 21% to 9.5 million in 2009. Departures recovered in 2010, surging 32% to 12.5 million and surpassing 2008 levels.

Korean tourism expenditure suffered during the recession but recovered in 2010. The slowing economy and currency swings affected domestic and outbound

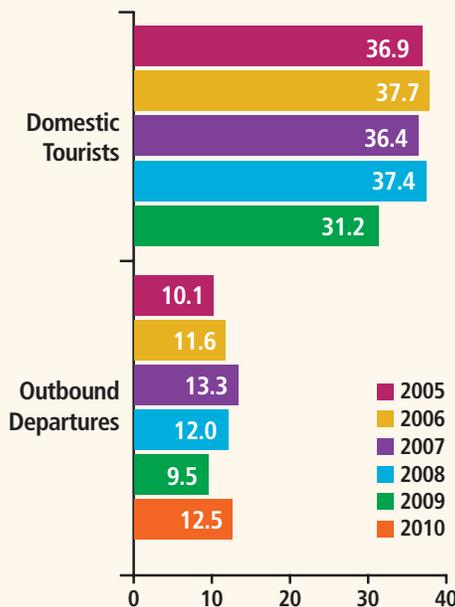
travel expenditures, both of which declined in double digits in 2008 (see Figure 7). Domestic expenditures plunged 27% to \$12.6 million that year. Outbound expenditures dropped 14% in 2008 and fell another 24% to \$11 billion in 2009 as the economic climate deteriorated, but rose 19% to \$13.2 million in 2010. Despite a 10% annual appreciation of the Korean won against the U.S. dollar, outbound travel expenditure still lagged pre-recession levels in 2010.

Trip Drivers

Leisure and recreation are the primary drivers for domestic travel. Over one in three domestic trips in Korea were for these purposes in 2009 (see Figure 8a). Natural attractions are the second-most cited reason for domestic travel, driving 28% of overnight domestic trips. Korea has eight UNESCO-accredited World Heritage Sites, yet only 6% of domestic travelers visited places of cultural importance in 2009. The Gangwon (Kangwon) province in the north and Kyungpook in the south are the most popular domestic travel destinations.

Leisure and vacations are the leading reasons for outbound travel as well (see Figure 8b). Two in three trips in 2010 were for these purposes, while 16% were for business. One in 10 overseas trips were to visit friends and relatives.

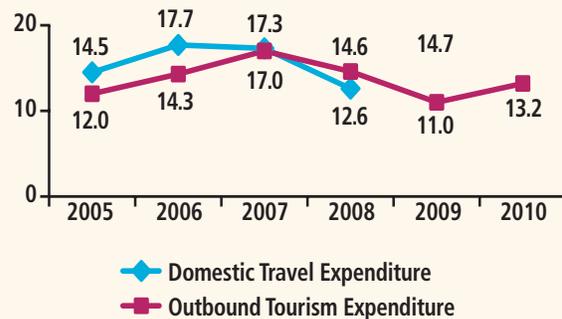
Figure 6
Korean Domestic Tourists and Outbound Departures (Millions), 2005-2010



Note: “Domestic tourists” represents the number of tourists over 15 years old who have conducted day or overnight travel.

Source: Korea Tourism Organization and Korea Culture & Tourism Institute ©2011 PhoCusWright Inc. All Rights Reserved.

Figure 7
Korean Domestic and Outbound Tourism Expenditure (US\$M), 2005-2010



Note: “Domestic travel expenditure” is converted from local currency to U.S. dollars. Comparable 2009-2010 data for domestic travel expenditure is not available.

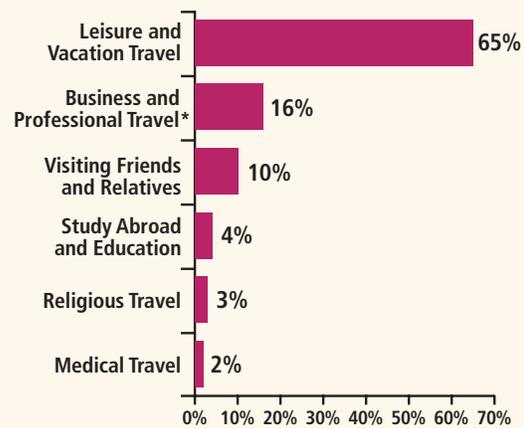
Source: Korea Tourism Organization and Korea Culture & Tourism Institute ©2011 PhoCusWright Inc. All Rights Reserved.

Figure 8a
Major Attractions for Overnight Domestic Travel by Share, 2009



Source: 2009 Domestic Tourist Behavior Study, Korea Culture & Tourism Institute
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Figure 8b
Major Attractions for Outbound Travel by Share, 2010



* A change in methodology has understated the share of "Business and professional travel." Previous surveys were conducted at airports.
Source: 2010 Online Study on Outbound Tourism, Korea Culture & Tourism Institute
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The top international travel destinations for Korean travelers are China and Japan. China attracted over 4 million Korean tourists in 2010, and when combined with Japan, sourced over half of the 12.5 million Korean outbound tourists in 2010.

Shopping Behavior

Korean consumers have historically bought leisure travel through travel agencies and tour operator packages, and traditional channels continue to represent a significant share of the market today. However, traveler behavior is changing. Share of offline all-inclusive package purchases has declined as consumers migrate toward the Web in search of more flexible, independent or semi-packaged offers. Agency package sales, which stood at 57% of total trips in 2005, tumbled to 35% by 2010 (see Figure 9). Even individual travel (FIT) has seen a healthy uptake over the years, representing 45% of all purchases in 2010.

Semi-package purchases have experienced strong growth in recent years. The segment consists only of travel agency air and accommodation sales without itinerary or other travel-related assistance. Share of these purchases

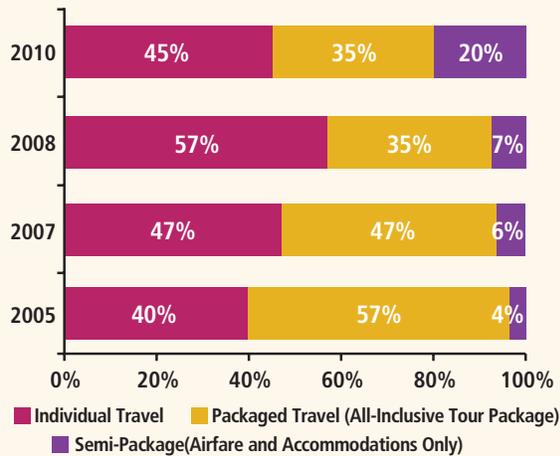
has increased threefold since 2008, accounting for 20% of all travel purchased in 2010.

Korean travelers, including FITs, turn to the Web in droves while shopping for travel, but booking remains predominantly offline. Slightly more than half of all Korean travelers visited the Internet to look for travel information in 2010, and its share over other mediums has been rising rapidly over the years (see Figure 10). By comparison, seeking information through personal interactions has swung inversely. The percentage of travelers asking for advice from travel agencies has dropped considerably, from 40% in 2005 to 24% in 2010. Travelers who get advice from friends and relatives stood at 16% in the same year. Only a handful of travelers sourced information through guidebooks.

Gearing for the Online Wave

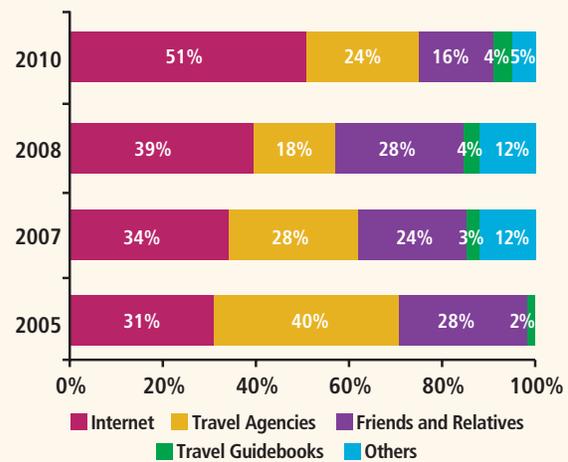
South Korea boasts an impressive telecommunications infrastructure and a vibrant e-commerce and mobile commerce environment. The country already has one of the fastest broadband services worldwide (with speeds up to 100 megabytes per second) and the Korean

Figure 9
Share of Travel Purchased by Type, 2005-2010



Note: 2006 and 2009 data not available
Source: 2009 Domestic Tourist Behavior Study, Korea Culture & Tourism Institute
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Figure 10
Traveler Information Sources, Share by Channel, 2010



Note: 2006 and 2009 data not available; totals may not add to 100% due to rounding
Source: 2010 Outbound Tourism Report, Korea Culture & Tourism Institute
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Communications Commission aims to introduce speeds of up to a phenomenal 1 gigabyte per second by 2012.⁴ Over 90% of Korea’s Internet users connected wirelessly in 2Q11,⁵ indicating heavy mobile usage. Korea also has high credit card penetration: Though the population is less than 50 million, the country has over 117 million credit cards, with transactions worth nearly \$475 billion in 2010.⁶

Online travel penetration in South Korea stood in the high single digits in 2010, but online gross bookings will grow faster than the total market through 2012. Major wholesalers have vast franchisee networks and a large segment of consumers travel in groups and prefer buying packages offline with credit cards. But consumer behavior in Korea is changing. There is a promising shift toward booking travel online – online bookings through key wholesaler websites ranged between 10%-15% in 2010 and are projected to nearly double by 2015. Given the dominance of package sales, supplier direct online bookings are relatively small. Nonetheless, low-cost carriers will be a key driver in online bookings growth in Korea, similar to other markets in the region.

In addition to the consumer-facing online forays of wholesalers, the Korean market is also home to local online hotel players such as HotelJoy, HotelJoin, and Hotelpass. International online travel agencies also have a presence: Expedia-owned Hotels.com and Priceline subsidiary Agoda have localized sites, and Expedia.co.kr was recently launched under the Expedia-AirAsia joint venture. At present, outbound is a key focus for most online intermediaries, but as the country’s online travel space heats up, expect wider local content and an increasing emphasis on regional and domestic travel bookings.

Mobile is another area to watch. While payments and security regulations currently inhibit high-cost purchases – including travel – via mobile devices, rising demand for handhelds and m-travel adoption could pave the way for Korea to emerge as a vital breeding ground for innovative mobile products and strategies.

4) Om Malik, “By 2012 Koreans Will Get 1Gbps Broadband Connections,” February 2009, GigaOM
 5) Wireless Intelligence, October 2011
 6) “Credit Cards Trump Cash in South Korea,” April 13, 2011, Channel News Asia