Managing Business Travel in the Middle East

The world's fastest-growing travel market has yet to fully embrace travel management. What are the challenges and opportunities companies face in the region?

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Travel buyers unfamiliar with the Middle East may be surprised that the world's fastest-growing travel market is only now beginning to incorporate travel management. Practices that are common in other regions can be rare even in the most economically advanced Middle Eastern countries. And solutions that seem similar at first can be worlds apart. Understanding such differences is the first step to building a successful travel program in the region.

This article presents an overview of the market, including key challenges facing travel managers and some practical advice.

Strong growth

Geographically, the Middle East spans a vast territory surrounding the Arabian-Persian Gulf, encompassing countries in North Africa and Western Asia. According to the International Air Transport Association (IATA) definition, the region includes Afghanistan, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Pakistan, Palestinian territories, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, the United Arab Emirates and Yemen. (See the map on Page 30.)

Economically too, the Middle East is wide-ranging in terms of GDP and wealth, but one major feature is a constant: growth. In particular, the oil-exporting countries of the Gulf Cooperation Council—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates—are enjoying a spectacular boom. According to various sources, their collective GDP for 2008 is forecast to be three times higher than in 2000, driven by record-high oil revenues and consumer spending. International companies that are not yet doing business there are likely to arrive on the scene before long.

The Middle East as defined by the International Air Transport Association

Source: CWT Travel Management Institute

Mirroring this economic growth, the Middle Eastern travel market is expanding at an impressive rate. In 2007, the region recorded an 18.1 percent increase in air passenger demand[1], two and a half times higher than the global average of 7.4 percent. To cope with—and fuel—this demand, governments have been investing heavily in infrastructure. Over the next four years, more than US$34 billion will be dedicated to tripling capacity at 10 regional airports. Middle Eastern airlines, which already own the newest fleets worldwide, have also placed record orders for new aircraft. Qatar Airways, for example, plans to nearly double its existing fleet by 2013, with new aircraft on order including 80 Airbus A350s, five Airbus A380s, 30 Boeing 787s and 14 Boeing 777s.

At the same time, significant new hotel capacity is coming onto the market, with hundreds of new hotels expected to open on the Arabian peninsula over the next few years, especially in the United Arab Emirates, Qatar, Kuwait and Bahrain. According to consulting company HVS[2], more than 250 new hotels should enter the market in the next four years, bringing more than 120,000 new rooms. Demand remains strong. According to Smith Travel Research and STR Global, occupancy stood at 72.9 percent in August, higher than all other regions. Unsurprisingly, the average daily room rate was 19.4 percent compared to one year earlier. (See the article on Pages 9-15 on conditions for this year's hotel negotiations.)

Considerable investment is also being made in high-quality facilities for conferences and exhibitions across the Gulf region. One example is the sphere-shaped RAK

[1] Source: IATA full-year traffic results, January 2008
[2] *Middle East Hotel Survey – Outlook, Market Trends and Opportunities,* 2008 edition
[3] 2nd Middle East Meetings Industry Research Report 2008 by GIBTM/meetme

Convention and Exhibition Center, which will be built near Dubai in the United Arab Emirates at a cost of US$400 million. And demand for meetings and events is growing fast, especially in Dubai and Abu Dhabi. According to a global study of meetings professionals carried out by GIBTM/meetme[3], 74 percent of the surveyed 288 buyers said they intended to organize events in the Middle East in the next 12 months, up from 46 percent in the previous year.

Low cost, high potential: budget brands hit the Middle East

The low-cost concept has been gathering speed in the Middle East in both the air and hotel sectors, addressing growing demand from budget-conscious travelers.

Air Arabia, based in the United Arab Emirates, was the first no-frills airline in the region (2003). Since then, 10 other low-cost carriers have taken off—in Bahrain (Bahrain Air), Egypt (Red Sea), Iran (Ease On Air and Mahan Air), Lebanon (menajet), Kuwait (Jazeera Airways), Saudi Arabia (nas air and Sama) and the United Arab Emirates (Kang Pacific and RAK Airways, soon to be joined by FlyDubai). These add to the growing number of low-cost airlines flying into the Middle East from around the globe, including such brands as U.K.-based easyJet.

As in other markets worldwide, legacy carriers are considering the impact on their business and are starting to create their own spin-off brands. Qatar Airways, for example, announced in July of this year that it was prepared to launch a low-cost carrier within 90 days if rivals eroded its market share. UAE-based Etihad Airways has also said it may launch a low-cost subsidiary.

In the hotel sector, a variety of budget brands are springing up, particularly in the Gulf and specifically Dubai, which has become a major hub for business travel and a key destination for meetings and events. Brands such as centro, easyHotel, Premier Inn and Yotel are rolling out numerous properties across the region, providing a new alternative to mid-range and luxury rooms.

A unique business travel context

Naturally, business travel accounts for a large share of Middle Eastern travel. Just how large is unclear, although 40 percent may be a fair estimate. One reason for this poor visibility is that traditionally corporations have not tracked their travel spend, instead providing travelers with cash or vouchers to use at their discretion. Travel policies are rare and few companies apply procurement practices to purchasing travel services. At the same time, the role of travel agencies has typically been limited to issuing tickets, booking hotels and processing visas and invoices.

This situation is changing as companies increasingly seek to consolidate and better manage their spend in the region, and full-service travel management companies (TMCs) like CWT partner Alshamel International provide local and multinational solutions. While drawing on global best practices, these solutions are necessarily adapted to the local business environment. Several specific features stand out:

Cultural features

- **A high-touch culture.** Travelers generally are more comfortable talking face to face with in-house agents than phoning business travel centers or using an online booking tool.
- **Predominant last-minute booking**. The region is often referred to as a late-booking market, as travel of all kinds, including vacations, is frequently booked within seven to 10 days of departure. It is also common practice to alter an itinerary during a trip.
- **Local ownership of business agreements.** Personal relationships are critical when doing business in the Middle East. Local representatives tend to lead the decision-making process, even when companies have an agreement at a global level.
- **A focus on best price.** It is no myth that Middle Easterners like to bargain and business deals tend to focus largely on price more than overall value. Service fees may be poorly understood and can lack transparency. Notably the "zero-commission" concept has met with some resistance from travel agents. Local civil aviation authorities and agency consortiums have taken initiatives to maintain commissions, which are usually calculated as a percentage of net fares. While many agencies agree in principle with the suggested pricing, very few actually implement it, preferring to add their service fee to airfares.
- **Limited transparency.** With the exception of some large establishments such as Alshamel International, very few travel agencies have an automated back office system. Most accounts are still kept manually, which makes it challenging to provide detailed reporting.

Technical/operational features

- **High operating costs.** Soaring real estate prices and high staff turnover are pushing up operating costs, making BTCs (business travel centers) a relatively expensive solution compared to other regions.
- **Late adoption of credit cards.** Currently, only about 5 percent of all business travel transactions are settled by credit card, given high merchant fees and strict rules for credit card acceptance. For example, to pay by credit card over the phone, cardholders are often asked to provide a photocopy of their card for the agency to keep on file. Many travelers are not comfortable doing so, as this raises security concerns. Most companies therefore prefer to pay on invoice even though this is an

expensive option—finance costs can reach nearly 10 percent, raising the fees charged by the travel management company. All stakeholders, including airlines, travel agents and credit card companies, are actively looking for solutions to reduce bureaucracy and create a more efficient environment.

- **Technological limitations.** Broadband connectivity remains relatively expensive and slow across the region, even in leading cities such as Dubai. Therefore, Voice over Internet Protocol (VoIP) solutions tend to be limited. VoIP is not yet permitted in some countries like the United Arab Emirates. This makes call centers with toll-free numbers a costly option that is yet to be offered by any travel management company.
- **Capacity challenges.** Rising lodging costs mean that business travelers prefer to take day trips rather than stay overnight in a destination whenever possible. This puts increased stress on flight capacities during peak times at the beginning and the end of the working day.
- **Different GDS features.** The main global distribution systems (GDSs)—Amadeus, Galileo and Sabre—are all available in the Middle East, although content and features vary compared to other regions. Notably, traveler profiles such as those in *CWT Portrait* are used less often than in other markets. In addition, negotiated airfares do not tend to be loaded into GDSs, so bookings are often made offline, which takes longer.

Keys to success

As in any international market, it is essential to keep an open mind and accept local differences while challenging the status quo where appropriate. A few simple rules can go a long way:

Accept that services and solutions may work differently than in other regions but question pre-conceived ideas. A good example is the choice of a GDS. Traditionally, each national carrier has a preferred GDS. Qatar Airways, for example, prefers Amadeus, Emirates uses Galileo in Dubai, and Gulf Air supports Sabre in Bahrain. For this reason, TMCs tend to use the strongest GDS in each country. This said, it is possible to successfully implement one GDS across the region, as CWT has for some clients. And the situation is changing, a sign of which is Emirates signing a new 10 year deal with Sabre in September.

- **Approach challenges with a willingness to create workable solutions.** Global best practices need to be adapted to the local context. Moreover, the most effective solution may be slightly different in each Middle Eastern country.
- **Proactively address local resistance to change.** Often, the biggest challenge facing a company is managing change within their own organization. There will always be people who argue "it will never work here." But often, it is simply a question of time, teamwork and good communications.
- **Seek partners who understand the market and are committed to finding solutions.** To that end, it can be invaluable to work closely with a locally established, full-service TMC.

Given that business travel management is an emerging concept in the Middle East, companies have plenty of opportunity to adapt global best practices to local needs and build a successful managed program. ■

The Gulf Cooperation Council: a region of superlatives

The Gulf Cooperation Council (GCC) is made up of six oil-producing countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (comprising Abu Dhabi, Ajman, Dubai, Fujairah, Ras al Khaimah, Sharjah and Umm al Qaiwain). Exceedingly wealthy, the gulf stands out as a region of superlatives. In addition to featuring the world's fastest-growing travel market, the region is home to the world's:

- **Largest oil reserves.** Saudi Arabia is believed to hold a reserve of 264.1 billion barrels, a quarter of the world's total.
- **Tallest building.** Burj Dubai, currently under construction, is already the world's tallest skyscraper at 668 meters (2,247 feet) and 160 stories, and will reach approximately 900 meters (3,024 feet) when completed.
- **Largest man-made island.** Dubai's Palm Deira will cover approximately 80 square kilometers (861 million square feet) by 2015. Designed to house more than a million people, the island is respectively eight and five times larger than its two neighboring man-made islands, Palm Jumeirah and Palm Jebel Ali.
- **Most traveled residents.** Four out of five Gulf residents traveled to at least two foreign countries in the past year, according to the 2008 Travel Survey carried out by *ArabianBusiness.com.*
- **Highest per capita death rate on the road.** According to a World Health Organization report in 2007, the United Arab Emirates recorded 29 road deaths per 100,000 inhabitants, more than twice the average of 11 per 100,000 in western Europe and North America. Companies keen to manage risks should bear in mind that car accidents remain the biggest cause of death for business travelers in the Middle East.

Alshamel International: the region's fastest growing, full-service TMC

Founded in 1996, Alshamel International is the region's fastest growing, full-service travel management company with more than 350 employees and offices in seven cities across six countries. In October 2007, the company signed a partnership agreement with Carlson Wagonlit Travel to provide regional travel services to corporate and government clients in Bahrain, Kuwait, Qatar and the United Arab Emirates. Since then, the majority of multinational CWT clients represented in the region have had their travel programs implemented with Alshamel International and more will follow.

For more information on how Alshamel International and CWT can help with your travel management program in the Middle East, please contact your CWT sales representative or consult www.carlsonwagonlit.com.