

TRAVEL

detour

By Wendy Geister

RETAILERS AND MANUFACTURERS RETHINK THE FUTURE OF THEIR TRAVEL BUSINESS.

I'm a simple girl with

a simple dream—to travel the whole globe. I try to hop a plane at least every other year, and in the summer of 2001, my family and I planned a September trip to France.

Then came the shock of September 11, and we had a tough decision to make. Nothing seemed safe, especially overseas travel.

After the shock wore off, I sort of skipped the intermediate emotions and went straight to defiance. I refused to live in fear, and no one was going to spoil my dream. To hell with the terrorists. We went anyway.

Unfortunately, many travelers made the opposite decision and stayed away in droves. More than a year later, the travel market is still feeling the repercussions. And it's not just the airlines and travel agencies—gear manufacturers and retailers have also been forced to file a new flight plan.

FROM BAD TO WORSE

Actually, the travel industry's woes began before September 11, 2001. Travel businesses had already been feeling the crunch as early as spring of that year. In May 2001, the Travel Industry Association of America's (TIA) summer forecast predicted that the industry was entering a slow cycle.

"The recession that began earlier in that year was beginning to take hold," said TIA's Cathy Keefe. "Consumers were looking to cut back or modify their vacations. They didn't want to give their vacations up; they were simply modifying how they took them. They were trying to save money by driving shorter distances, driving instead of flying or taking shorter duration trips.

"What September 11 did was the equivalent of pushing them off of a cliff. Consumers changed their travel habits drastically after that," Keefe said.

As a result, domestic and international travel expenditures dropped \$33.3 billion in 2001 to \$537.2 billion, a 5.8-percent decrease from the year before, according to TIA.

Trying to see the light at the end of the tunnel, businesses entered 2002 with optimism, but it was short lived. "The first quarter of 2002 was getting a little bit better," said Ricky Schlesinger of Eagle Creek, a luggage and travel accessory manufacturer based in Vista, Calif. "It had gotten back on track a little bit. We saw that the first quarter was pretty good for 2002. The second quarter was when we thought it would continue to go up and get stronger, and it really didn't. It's a slow plodding recovery, not a snap back."

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As Keefe said, consumers modified their traveling habits. Airline travel is reportedly down by at least 10 percent and as much as 20 percent with no significant signs of an upswing soon, and hotels are hurting, too. Driving, on the other hand, is up 3 percent—a significant increase since 80 percent of travel is done by car to begin with.

Leisure travel volume for 2002 did increase by 2 percent to 4 percent, albeit with one major caveat. “People are spending less money. They’re spending a lot less money. For travel spending, the forecast [says] it will drop another \$2 billion this year. It won’t be until 2004 that travel spending exceeds the record level of the year 2000. We have a ways to go before we recover. More people are traveling. Yeah, that’s great. The problem is they’re not spending money,” Keefe said.

A DISTURBANCE IN THE FORCE

Le Travel Store in San Diego, Calif., has been owned by Joan and Bill Keller for 25 years. They’re pioneers in the travel store business—bringing together outdoor gear, luggage, books and accessories for international and urban travelers—and have weathered the ebb and flow of the travel

market before. They’ve built up a successful website since the late 1990s, which accounts for half their revenue. Joan Keller admits, though, September 11 pulled the rug out from underneath them.

“We call it a disturbance in the force after September 11,” Keller said. “We did notice a softening of the market prior to September 11. We weren’t beating same month [sales from the] prior year. It was either equal or slightly down. We’d already been talking about where we had to make cuts. But didn’t do it—it’s always hard to actually do. Then September 11 hit. At that point, there was no more hemming and hawing, we needed to make decisions and take action, which we did.”

The Kellers cut two staff members and put the brakes on spending. The new POS system, displays and apparel introductions will have to wait until sales increase. Their business was down more than 20 percent after September 11, and it’s only in this past quarter that sales have been up enough to give them some optimism.

Keller attributes the slow road to recovery to several factors. “One is the softness in the economy and the bursting of the dot-com bubble. The economy overall hasn’t

come back, and travel is always the first to go and the last to come back. Second, the world right now isn’t very welcoming. Where are you going to go?” she asked, listing off various countries that have had volatile incidents in the last few years.

She also points to a certain inertia of doubtful feelings. “I don’t think people are out there thinking, ‘Oh, I’m afraid to travel. I’m not going to get on an airplane.’ People are thinking, ‘I’m not sure how the economy is going to be and if I’m going to have my job.’ People are back on their heels when it comes to travel.”

So with so much against them, why keep going? “The exciting thing about having been in business nearly forever is we’ve been through these kind of cycles before,” Keller said. “And what we’ve seen in the past is that there becomes pent-up demand. When people do feel more secure, we have banner years because they haven’t been traveling. They’re lengthening that list of places they want to go and things they want to see. So I do think it’s going to come back and I’m going to be ready for it when it does.”

SUPPLY AND DEMAND

An interesting development on the retail

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side is that Wilsons The Leather Experts decided to close its 135 Bentley's Luggage and El Portal luggage specialty stores. Wilsons hadn't owned either one for very long— El Portal was acquired in October 2000 and Bentley's in April 2001.

Less than two years later and after paying nearly \$60 million for the two entities, Wilsons' November 2002 investor report stated: "The company believes that, over the last few months, the test stores operated through its travel subsidiaries have had the appropriate merchandise mix, pricing and management guidance. However, sales results and unit productivity have not rebounded and are not anticipated to return to a level which management believes justifies continued focus and the deployment of additional capital resources."

The liquidation of that much product into the travel market, even the specialty luggage arena, is something that Keller at Le Travel Store keeps her eye on. "The closing of El Portal and Bentley's tells you kind of where our travel gear distribution industry is. That's a pipeline that has just collapsed. There's a lot of product in that pipeline. We're going to see more excess inventory, more discounting. We're in for a little bit of a bumpy ride," she said.

Todd Spaletto, vice president of sales for JanSport and Eastpak, views Wilsons' decision as a sign that the travel market is experiencing a flushing out period on both the retail and supplier sides.

"I think it really speaks to the fact that it's all supply and demand. And demand is not there right now and I think you're seeing a consolidation of the destinations where you can find travel products. I think you'll hear more of it," he said. "Following that, you're going to see the same thing happen on the manufacturer side. Some of the manufacturers will go away, and we'll be left with probably the right mix of retailers and manufacturers."

Spaletto added that continued market strength for both manufacturers and retailers is built on brand recognition. Consumers aren't looking for another bland piece of black luggage, but a brand they can identify with.

MANUFACTURERS' STANCE

For manufacturers business fluctuated due to the slowdowns in 2001 and 2002. Swiss Army Brands, which released its travel gear line in 1999 to critical and financial success, barely missed a beat.

"At holiday [2001] and the beginning of January [2002], our business picked right back up and has continued to grow very rapidly. We consider ourselves very fortunate that we've been able to achieve this

growth," said Terry Bader, vice president of marketing of Swiss Army Travel Gear. "But I think we have a very strong position between a universally recognized brand— a brand people trust and like— and a product that brings the Swiss Army Brand attributes to life."

Rick Hemmerling, president of Seattle-based Ex Officio, was initially worried after the events of 2001. After all, Ex Officio has built its name on outdoor and travel apparel. "At first, we thought we were going to have to turn around and run from the word 'travel.' Pretend we'd never heard it before. At first our shock reaction was, 'Oh, are we in the wrong business at the wrong time,' but it just never happened," he said.

Diverse lines and new product development strengthened and buoyed many suppliers through periods of slow sales. Swiss Army already had a strongly diverse line of backpacks and computer cases established, while others like Kiva Designs drew from their travel product line to create new areas of business to survive the downturn in business.

"We started focusing on non-luggage, travel-related items that are more urban and not as dependent upon the travel industry," said Tom Koenig, president of Kiva Designs. "We maximized those items that could cross over that would give us a little bit more depth. The crisis we were thrown into with 9/11 has positioned us nicely going forward. As the travel business comes back, we'll be able to add that to the new markets that we created and, in the end, we'll probably come out better because we were able to expand our base. We have new customers in areas where we might not have gone looking before. We look to 2003 to be a very strong year."

Schlesinger at Eagle Creek said when retailers started canceling orders, his company got leaner, bringing down inventories and shrinking overhead slightly, then cranked up product design.

"We got very aggressive on the product development side so that we would be putting into the pipeline fresh new products and innovative ideas, so that as the travel market recovered there was a real good excuse for the consumer to buy new products," he said. "We focused more on every day travel so that our retailers had more to sell and more product choices that didn't directly deal with getting on an airplane. We dialed up innovation in very hard-core travel-related product, and we dialed up innovation in everyday travel-related product."

Schlesinger sees that retailers can use a travel department to build long-term, ongoing relationships with customers as

they age. "They may rock climb less. They may paddle less, but they still have the same outdoor values and outdoor spirit and want to do outdoor activities including adventure travel. We think that if you look at the big picture and where things will trend, I think travel is the place where things will go."

THE SLOW ROAD TO RECOVERY


In October 2002, Suzanne Cook, senior vice president of research for TIA, presented her forecast for the travel market. After falling nearly 6 percent in 2001, domestic and international travel spending continues to be soft and isn't expected to recover until 2004.

"We can expect a long, slow road to recovery for the travel and tourism industry, and even when it does come, this does not mean we will necessarily return to the way things were before Sept. 11," she said. "Travel demands, patterns and expectations may have been changed for the long term. And despite continued slow growth in the leisure market, this recovery is fragile and could be choked off by any number of developments."

She predicts that the industry will see a 5-percent gain in domestic and international travel spending in 2003 to \$560 billion. Another 5-percent gain is projected for 2004 to \$588 billion, exceeding 2000's \$570 billion— the record level of spending for travel.

Eagle Creek's Schlesinger said his business is continually improving and anticipates a stronger 2003 despite conservative forecasts by retailers. "It's hard to not be conservative in this economic environment, but I'm much more optimistic than our retailers that 2003 will be a stronger travel year. I think it'll just continually get better, little by little by little, and they'll see growth and improving numbers," he said. "Consumer confidence is going to grow and the economy is going to get better. I don't think it's going to go crazy, but it'll get better."

The outdoor industry should certainly smile at the notion that there is greater interest in domestic travel and unique American experiences.

"We're seeing a greater interest in rural destinations, and reconnecting with our natural resources and what makes America great," TIA's Keefe said. "In many cases, those are our historic sites, visiting our forests and parks, camping and hiking. We've seen a big push to those areas. What September 11 has done is forced people to reconnect with what's important to them. That is the family, America itself and our natural resources." 

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