Study on the Competitiveness of the EU tourism industry

- with specific focus on the accommodation and tour operator & travel agent industries

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Executive summary

Tourism in Europe

In international tourist arrival statistics, the EU[1] consistently appears as the **number one tourism destination** in the world. With approximately 380 million international tourist arrivals in 2007, the EU received 42% of the total number of international arrivals in the world[2]. This represents an increase of 55 million annual arrivals compared to 2000.

In 2007, roughly 70% of **international arrivals** in the EU were EU residents, with the remaining 30% being non-EU residents, mainly from North America and the Asia-Pacific region. In addition to the international tourist arrivals, EU residents also accounted for 700 million **domestic arrivals** in 2007[3].

Europe is **expected to maintain its position** as the leading tourism destination in the next decade. Although the wider "European area"[4] is likely to lose market share to other world regions, forecasts by the UN World Tourism Organization[5] suggest that international arrivals in the European area will still increase by up to 717 million international tourist arrivals over the period 2007 to 2020. This means that the number of international tourist arrivals in Europe will have almost doubled over a period of two decades (2000-2020).

The EU tourism industry, engine for economic growth

In order to accommodate the very large numbers of tourists arriving in the EU each year, a very **diverse range of companies** operates in the tourism industry. The "tourism industry" encompasses, among other activities, travel organisers, accommodation providers, local tourist offices, visitor attractions and tourism-related transport activities. Very small companies operate alongside large multinational corporations to serve a wide variety of customers. Moreover, private and public activities are often intertwined. This makes the tourism industry a very **complex industry with a highly fragmented value chain**.

Approximately 340,000 companies operate in the accommodation and travel organisation sectors, which provided jobs for nearly 2.8 million people in 2006[2]. This equates to 1.2% of total employment in the EU-27. Together, these sectors generated a turnover of around

[1] The 27 EU Member States combined
[2] Based on most recent data at the time of analysis
[3] i.e. within the home country
[4] According to UNWTO (World Tourism Organization) definition (including 53 countries)
[5] UNWTO, *Tourism 2020 Vision*, Tourism Highlights 2008

€290 billion. With more than 90% of the companies concerned employing fewer than 10 people, "micro-enterprises" form the backbone of the industry.

The EU tourism industry has become a **sector of major importance for the European economy** as a whole. As tourism demand in the EU has grown steadily, tourism enterprises have increasingly generated additional employment, turnover and added value. Over the last decade, the **job creation rate in the EU tourism industry was above the average** observed for the EU economy as a whole. The tourism industry plays a particularly important role in terms of employment of women, young people and the less skilled. For these reasons, the tourism industry has been identified as an industry with an important role to play in attaining the EU's goals for growth and jobs, as set out in the Lisbon Strategy.

However, in order to be able to optimise its potential, the tourism industry must remain competitive. This prerequisite has been translated in this study into a clear **ambition for the European tourism industry** and its stakeholders:

> ***"To strengthen the tourism industry to become a dynamic and sustainable growth sector that aims to provide all its customers with a high quality travel experience at a balanced price / quality ratio."***

The "megatrends" and challenges ahead

The analysis undertaken for this study has singled out a number of clear challenges lying ahead for the EU tourism industry, which will need to be addressed if the industry is to realise the high-level ambition set for it. These challenges derive, on the one hand, from the current structure of the tourism industry and the framework in which it operates and, on the other hand, from expected changes in society with an impact on tourism demand: the so-called 'megatrends'. Eight such 'megatrends' have been identified:

- ***Megatrend 1: Globalisation***
  Different societies, cultures and economies are increasingly interwoven. Technological changes, further liberalisation in trade of goods and services and the increased mobility of individuals have brought the whole world within reach.
- ***Megatrend 2: Demographic change***
  In 2020 roughly 20% of the European population will be aged over 65. This older population will often have considerable purchasing power and have more free time in which to travel. Alongside the 'greying' of the population, the number of one or two person-households will increase in Europe.
- ***Megatrend 3: Access to information***
  Computer technology, internet, search engines, mobile phones, GPS and digital television profoundly change the way the world communicates, collects information and distributes products and services.
- ***Megatrend 4: Experience economy***
  In an era where supply is abundant and where it is not always easy to distinguish products and services based on quality, consumers are increasingly looking for other factors on which to base their choices. 'Soft' characteristics such as design

and meaning, as well as the creative combination of products and services into one ‘total experience’ are gaining importance.

- ***Megatrend 5: Customisation***
  The focus on ‘me’ as a person will increase. Consumers are seeking tailor-made solutions, fitting their own personality. Society can no longer be divided into homogeneous target groups, but increasingly consists of many different niche groups.
- ***Megatrend 6: Sustainability***
  Concerns about climate change, environmental pollution, social welfare are being translated into an increased demand for ecologically, socially and economically responsible consumerism. This trend is being reinforced by legislative initiatives to stimulate consumers and companies to act in a more sustainable way.
- ***Megatrend 7: Health and wellness***
  The increasingly sedentary lifestyles of many people in developed countries have led to an increased focus on health and well-being as a leisure activity. The boundary between wellness and lifestyle on the one hand, and health care on the other hand, is becoming increasingly blurred.
- ***Megatrend 8: Low cost business models***
  Increasingly, low cost business models are successfully entering the market, reducing products and services to their most basic components. These low cost business models are finding a place alongside more traditional business models.

The trends above provide the context for - and have an impact to varying degrees on - the core challenges for the tourism industry identified by the study and which we now review in turn.

⇒ ***CHALLENGE 1: Reinforce the EU tourism industry as a high quality service sector***

Tourism enterprises operate in a demand-driven society and consumers are becoming ever more experienced and demanding. Important strengths for Europe as a tourism destination are the large diversity of potential tourist destinations in a relatively small geographical area, overall levels of attractiveness and high quality infrastructure. However, these factors are not in themselves sufficient to provide consumers with a ‘high quality travel experience’. It is the **combination of strong resources with high quality services** that enables the EU tourism industry to offer its visitors good value for money. This requires a customer-focused approach, tourism infrastructure that could easily meet international standards, good training in hospitality and motivated and knowledgeable staff.

However, it can be argued that many EU tourism enterprises are **still too “product driven” rather than “consumer driven”**. Moreover, the EU tourism industry has **difficulties in attracting the necessary skills** and is confronted with a high turnover in personnel. This is due to a mismatch between the demand for skills from the tourism sector and current skills supply provided through education and training, as well as the sector's reputation for sometimes unfavourable working conditions (irregular working hours, low remuneration) - especially in the hotels, restaurants and catering sector. This not only results in additional costs for the employer, but also negatively affects the service quality the sector can provide. Finally, the **tourism infrastructure** in more mature tourism destinations in Europe is often relatively old (dating back from the 1960s and 1970s) and **in need of refurbishment** to meet current consumer expectations.

⇒ ***CHALLENGE 2*: Better position the EU as the n°1 tourism destination in the world**

Tourism in Europe is dominated by intra-European travellers and outgoing tourism to other regions in the world. Inbound tourism, from non-EU countries to Europe, is not currently addressed in a structured and systematic way. Given that the internal European travel market is largely mature and several non-European regions show promising figures in terms of important source markets in the future, the industry in collaboration with the public sector could make **more focused efforts to attract additional non-EU visitors**.

However, **Europe as a whole lacks a clear image as a tourist destination** in comparison to other regions of the world. In order to maintain its position as the leading tourism region in the world, Europe would benefit from better branding, to reflect its core values and to adequately differentiate itself from other world destinations. Moreover, improved branding could strengthen the cohesion within Europe, by focusing on commonalities between different parts of Europe as well as on their distinct national and regional identities.

⇒ ***CHALLENGE 3*: Make the tourism industry part of the knowledge economy**

In an era of globalisation and 'informatisation' of society, **entrepreneurship and innovation are critical business processes**. Moreover, in order to remain competitive in this globalised context, sound knowledge about customers, different market segments and competitors becomes ever more important. These requirements are not different for the tourism industry. Globalisation has changed the market reality for the sector (new opportunities due to emerging markets, new competitors entering the market) and developments in ICT (such as web 2.0) have fundamentally changed the way in which the tourism industry approaches customers and vice versa. The rise of online travel agents, consumer community groups and online 'bed banks' are only a few of the many changes. Despite these important developments, the tourism industry has not yet made the transition to the knowledge economy.

With a rather negative image of the industry as employer and a high turnover rate among personnel, it is frequently **difficult to build up a good knowledge base** in tourism companies. However, new developments in the industry require new skills, such as increased knowledge of information and communication technologies (ICT) or knowledge about health and wellness. In order to make the tourism industry part of the knowledge economy, additional efforts are needed to increase and attach more value to human capital within the industry.

In addition to the lack of good market knowledge and skills, many entrepreneurs in the tourism industry are **'self-made' (wo)men with no specific educational background in tourism or management**. Although they have built up the necessary skills to run a business, they often fail to capitalise on opportunities, as they are not always aware of their own position in the tourism industry. Improving the professionalism of these enterprises is often cited as a critical priority for improving the competitiveness of the industry. However, it is a major challenge for public authorities and others to reach out to these enterprises and improve their access to support, guidance and advice.

Finally, **innovative solutions** to tackle major challenges such as identifying new (niche) markets, lowering seasonality, improving working conditions, etc. are **generally lacking in the sector** at present. Many companies still focus too much on product and price to compete. Too little attention appears to be focused on the creation of added value for customers. Moreover, "eco-innovation" – which is high on the research agenda in many other industries – has hardly entered the tourism industry. The **low absorptive capacity for innovation** among SMEs, as well as limited knowledge about the concept of and need for innovation in many SMEs, makes the promotion and adoption of innovative practices a real challenge in a tourism industry dominated by SMEs (and especially micro-enterprises).

⇒ ***CHALLENGE 4: Develop EU tourism in a sustainable manner***

The principles of sustainable development must be taken as the basis for further developing and strengthening tourism within the EU. Sustainable development means that ecological, economic and social welfare go hand in hand. Given the importance of human capital and the strong dependency of tourism on natural and cultural resources, **further development of the industry in a sustainable way is key to its continued competitiveness**. This has also been recognised at the EU policy level and underlined in the European Commission Communication (2007) "*Agenda for a sustainable and competitive European tourism*".

The EU tourism industry is seen as a job creator, especially for women, young people and less skilled persons. However, a question remains about the quality of these jobs. Applying the principles of sustainability, while making better use of the opportunities that social dialogue offers, could help the industry to develop further in a more sustainable manner.

⇒ ***CHALLENGE 5: Increase the value generated from available resources***

There is considerable **fragmentation** within the EU tourism industry. This means that many actors are involved in delivering a given travel experience to a particular customer, which complicates the task of providing customers with a 'total holiday experience'. A major challenge lies in improved **collaboration between the different stakeholders** in the tourism value chain in order to deliver a coherent 'total experience'.

Increased collaboration across the tourism value chain could also help individual enterprises to reduce the impact of the strong seasonal pattern of tourism activities on their business. Currently, tourism demand is highly concentrated in the months of July and August. This not only affects revenue streams, but also leads to inefficient use of the existing infrastructure and staff. The inefficient management of human resource capacity is reflected in the low labour productivity that characterises the tourism industry. However, tourism-related industries are generally under strong pressure to improve labour productivity, as they have to compete in factor markets (for labour and capital, for example) with other economic sectors that are more productive and thus can offer better remuneration.

More and better collaboration across the value chain to increase the value obtained from resources should **not only be limited to private enterprises**. Public authorities are a non-negligible partner for the tourism industry. They frequently provide the infrastructure necessary for tourists to reach their destination (airports, railways, road infrastructure). Through national, regional or local tourism boards, the public sector promotes destinations in an attempt to attract tourists to companies operating in the tourism industry. Through their ownership of museums, nature reserves and other attractions, public authorities directly deliver services to this industry. Last, but not least, governments create the regulatory framework in which tourism companies operate, clearly impacting the competitiveness of the industry. However, finding the right balance between public and private initiatives in order to create the best synergies is a major issue.

⇒ ***Challenge 6: Ensure sufficient "oxygen" for tourism businesses***

In any industry that wants to grow, entrepreneurship is critical. Entrepreneurs create employment, turnover and added value. In order to ensure that tourism enterprises can grow and invest in innovation and training, it is crucial that they find sufficient "oxygen" to develop. This oxygen can comprise financial means, but also regulatory and other framework conditions that can either hinder or support entrepreneurship and innovation.

Tourism is a relatively volatile activity that can be severely impacted by specific shocks such as terrorist attacks, natural disasters or diseases. Moreover, tourism is subject to rapidly changing trends: what is "hot" today, might be "out" tomorrow. This uncertainty leaves its mark on the ease with which tourism enterprises can access finance. However, **access to finance is critical** in order to innovate, to invest in quality, to adapt to changes in consumer demand or to just survive in more difficult times.

Finally, the **regulatory framework in which European tourism enterprises operate is complex**. Regulations and taxes not only exist at the national level, but also at the local, regional and European level. Moreover, although tourism activities as such are not heavily regulated directly, they are influenced by horizontal regulations in many policy areas. To comply with all regulations and taxes demands a considerable investment in (both financial and human) resources. Especially for the many micro-enterprises in the sector, this is a heavy burden to cope with.

Roadmap 2010-2020 for the tourism industry

In our view, to support the industry to tackle the six key challenges in an effective manner, **actions are needed in five major fields**:

- Support tourism demand
- Stimulate innovation and entrepreneurship
- Combine available resources more efficiently
- Ensure that development of tourism is sustainable
- Provide oxygen to the industry

In each of these action fields, **suggestions for specific actions are made**. In our opinion, all these actions require an **immediate initiation** in order to make the EU tourism sector more competitive in the longer run. Hence, all action fields and actions are equal in importance and priority should not be given to one action over another. Nevertheless, we are well aware that some of the actions will lead to 'quick wins', while other actions will take much more effort and time to implement. Table I of this executive summary contains a clear overview of the expected **time horizon** for each of the actions to sort results.

⇒ ***ACTION FIELD 1*: Support tourism demand**

- **Action 1.1 - Create and promote brand 'Europe'**: Many emerging markets can be evaluated as interesting source markets for tourism towards Europe. The EU needs a targeted marketing and branding programme that adequately reflects its core values and strengths (diversity, quality, history and culture) and that allows it to differentiate itself from other destinations in the world.
- **Action 1.2 - Improve convenience of travelling**: The overall tourist experience is partly influenced by the quality of the services related to travelling. In Europe, special attention should go to improving the convenience of travelling: visa restrictions, waiting times at airports, accessibility of attractions, interconnectivity of different modes of transport etc.
- **Action 1.3 – More uniformisation of quality assessment**: At the moment a large number of different systems to assess the quality of a service or product are used in the different Member States. For consumers, more uniformisation of the different systems used to assess quality would improve confidence in the European tourism product.
- **Action 1.4 - Strive for worldwide liberalisation of trade and investment in services**: Possible initiatives by European players to invest in countries such as Russia, Egypt or China are often limited by protective measures within those countries. Through its representation at different international organisations, the EU can strive for a more global liberalisation of trade and investment in services.

⇒ ***ACTION FIELD 2*: Stimulate innovation and entrepreneurship**

- **Action 2.1 - Improve market intelligence and data availability**: Adequate and timely data and market intelligence about the EU (and global) tourism market are crucial for developing a successful business and to adapt to changes in customer behaviour.

- **Action 2.2 - Develop a Centre of Excellence at EU level**: Although different institutions exist that provide information about new developments in the tourism industry, a Centre of Excellence that brings together all knowledge and coordinates and stimulates relevant research, is lacking at European level.
- **Action 2.3 - Improve collaboration with education and training institutes**: Closer collaboration between the industry and education and training institutes should result in an improved matching of skills supply and demand.
- **Action 2.4 - Improve attractiveness of tourism industry as employer**: A campaign could be launched to improve the attractiveness of the tourism industry as an employer. Such a campaign should not take place in isolation, but in parallel with supportive measures such as for example an increased dialogue between industry and education institutes.
- **Action 2.5 - Create awareness about the importance of innovation**: Most SMEs strongly underestimate the role of innovation in remaining competitive. Actions are needed to increase the awareness about the importance of innovation and to demonstrate that innovation (in its broader meaning and not only restricted to technological innovation) is accessible to all.

⇒ ***ACTION FIELD 3: Combine available resources more efficiently***

- **Action 3.1 - Create awareness about the role of (global) value chains**: Actors in the tourism value chain increasingly need to work together to create the total experience that customers are seeking. However, many tourism SMEs are not aware of the structure of the value chain in which they operate, nor of their own position in it.
- **Action 3.2 - Stimulate networking and collaboration across the value chain**: The creation of a 'web' of cooperation across the value chain can be an effective way to reinforce each other's product and draw in additional visitors. Networking at both European and local level (within specific destinations) should be strengthened.
- **Action 3.3 - Create increased "tourism-focused" accessibility of public attractions and resources**: Tourism cannot fully develop in a sustainable way if both public and private actors do not work together. An important element in this sense is the accessibility of public 'spaces' for tourism. Better coordination between partners could result in a more optimal use of resources.
- **Action 3.4 - Create a platform for the tourism industry at EU level**: In order to strengthen the position of the EU tourism sector as an important economic actor, the industry needs to adopt a more united position (a single voice). As such, a platform should be created covering the whole tourism industry.
- **Action 3.5. - Redefine the role of the TSG in line with recommendations of this study:** At the EU level, the Tourism Sustainability Group provides a good forum where different stakeholders at different levels interact. In light of this roadmap, we suggest that the tasks and the organisational structure of the TSG might be reviewed.

⇒ ***ACTION FIELD 4**: Ensure that development of tourism is sustainable*

- **Action 4.1 - Stimulate further social and environmental sustainability of the tourism sector**: Stimuli –regulatory, fiscal as well as financial– should push (tourism) companies to further incorporate the principles of sustainability in the daily operations.
- **Action 4.2 – Smooth away inefficiencies in different modes of transport:** At present, inefficiencies in transport exist, leading to environmentally unfriendly use (e.g. the outdated air traffic management system in European air transport). Furthermore, different modes of transport should become better interconnected.
- **Action 4.3 - Support "tourism for all" at EU level**: DG Enterprise currently coordinates the Calypso action which particularly aims at elaborating a mechanism enabling particular target groups (senior citizens, young people and families facing difficult social circumstances) to go on holiday in another Member State, on the basis of themed programmes and accommodation offers recommended by public authorities (national, regional or local), possibly in the low season. The rationale behind this initiative is to enhance employment, reduce seasonality in tourist demand and improve regional and local economies.
- **Action 4.4 - Actively support and participate in social dialogue**: Whatever platform, forum or initiative for discussion or interaction among stakeholders, representatives of both employers and employees should be involved to the maximum extent possible.
- **Action 4.5. – Increase awareness about (the importance of) principles of sustainability in tourism**: Although sustainable development is high on the policy agenda, the principles of sustainability are not yet widely understood or taken for granted in day to day activities.

⇒ ***ACTION FIELD 5**: Provide "oxygen" to the industry*

- **Action 5.1 – Stimulate/promote use of EU financial instruments**: At European level, different funds exist which can be used within the EU tourism industry. Stakeholders at all levels play a role in promoting these instruments to improve the competitiveness of the industry. When setting priorities in the funding programmes, it is important that tourism is sufficiently recognised as a strategic sector and an engine for local and regional growth.
- **Action 5.2 – Monitor impacts of other policy areas at different geographical levels**: Businesses in the tourism industry are often significantly impacted by new regulations in different policy areas. It is key for businesses to have timely and transparent information about all regulatory issues affecting their business.
- **Action 5.3 - Reduce administrative burden to a minimum:** Administrative burden is costly and unproductive, negatively affecting the competitiveness of any business. Initiatives should be taken to further reduce the administrative burden.
- **Action 5.4 - Reduce discriminating differences in tax systems and regulation**: Within the EU, differences in the regulatory framework exist between Member

States, as well as between different sub-sectors. The European Commission needs to create the right framework for a level playing field within the tourism industry.

- **Action 5.5 - Negotiate guarantee systems to improve access to finance**: Access to finance remains an important issue for the tourism industry in general and the SMEs in particular. Public authorities could negotiate a guarantee system to improve access to finance.

Some of these actions target only one stakeholder (industry (associations), Member States or EU authorities). However, due to the high level of fragmentation in the industry, **many of the proposed actions demand a concerted collaboration between different stakeholders** in order to maximise their effectiveness.

This immediately leads us to the most important condition for making the roadmap operational. As many actions demand involvement of different stakeholders, there is a **danger that nobody takes up leadership** and that many of the suggested actions remain on paper. To counter this, Table I contains clear **suggestions on how responsibilities could be distributed**. We are convinced that when both industry and public authorities assume a more pro-active attitude and adopt an integrated approach to tackling the challenges, the ambitions for the tourism industry are within reach.

Table I Making the roadmap 2010-2020 operational: allocation of responsibilities and time horizon

ACTION	INITIATOR	OTHER ACTORS	TIME HORIZON
Action field 1: Support Tourism Demand			
1.1. Create and promote brand 'Europe'	EU	MS + IND	medium
1.2. Improve convenience of travelling	MS	EU	medium
1.3. More uniformisation of quality assessment	EU	IND	medium
1.4 Strive for worldwide liberalisation of trade and investment in services	EU		long
Action field 2: Stimulate innovation and entrepreneurship			
2.1. Improve market intelligence and data availability	IND	MS + EU	short
2.2. Develop a Centre of Excellence at EU level	EU	MS + IND	short
2.3. Improve collaboration with education and training institutes	MS	IND	medium
2.4. Improve attractiveness of tourism industry as employer	IND	MS	short
2.5. Create awareness about the importance of innovation	MS	EU + IND	short
Action field 3: Combine available resources more efficiently			
3.1. Create awareness about the role of (global) value chains	IND	MS	short
3.2. Stimulate networking and collaboration across the value chain	EU + IND	MS+IND	medium
3.3. Create increased "tourism-focused" accessibility of public attractions and resources	MS	IND	medium
3.4. Create a platform for the tourism industry at EU level	IND		medium
3.5. Redefine role of the TSG in line with recommendations of this study	EU		short
Action field 4: Ensure that development of tourism is sustainable			
4.1. Stimulate further social and environmental sustainability of the tourism sector	EU	MS + IND	medium
4.2. Smooth away inefficiencies in different modes of transport	EU	MS	long
4.3. Support "tourism for all" at EU level	EU	MS + IND	short
4.4. Actively support and participate in social dialogue	IND	MS + EU	short
4.5. Increase awareness about (the importance of) principles of sustainability in tourism	EU	MS + IND	short
Action field 5: Provide "oxygen" for the industry			
5.1. Stimulate / promote use of EU financial instrument	EU	IND + MS	short
5.2. Monitor what happens in other policy areas and at different geographical levels	IND	MS + EU	short
5.3. Reduce administrative burden to a minimum	EU+MS	MS	medium
5.4. Reduce discriminating differences in tax systems and regulation	MS	EU	long
5.5. Negotiate guarantee systems to improve access to finance	MS	EU	medium

EU = EU authorities / MS = National, regional and local authorities / IND = Industry associations
short = short term / medium = mid term / long = long term

Do difficult times call for extraordinary measures?

Undeniably, the current economic crisis is having a major impact on tourism demand. It profoundly affects a number of segments (for example, business travel) and tourist flows. Nevertheless, does this mean that the challenges, the industry is facing, are fundamentally different in times of crisis? The answer is clearly “no”. However, **a number of challenges**, such as improving entrepreneurship and innovation, **become even more pronounced** in a difficult economic context than in more favourable conditions.

This implies that in times of crisis the actions suggested in the five fields continue to be very relevant and are often even more urgently required, as the challenges have become more acute. That is why two specific actions might need **particular attention in the short term**. The first action relates to **market intelligence**. As the business reality is changing rapidly, timely data and market intelligence are critical. Companies, industry associations and governments at all levels should join forces to share and analyse relevant market information on a periodic basis. The second action relates to **guaranteeing sufficient access to finance**. As the investment profile of financial institutions is strongly risk-averse in difficult economic times, specific measures at government level might be necessary to ensure sufficient financial support for enterprises to (further) develop into the entrepreneurial and innovative companies that the EU tourism industry needs.