

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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List of abbreviations

ABTO	Association of Belgian Tour Operators
ADR	Average Daily Rate
AEA	Association of European Airlines
ASK	Available Seat km
ATC	Air Traffic Control
ATM	Air Traffic Management
B2B	Business to Business
B2C	Business to Consumer
bn	billion
BTO	Belgian Travel Organisation
CEE	Central and Eastern Europe
CIP	Competitiveness and Innovation Framework Programme
DG ENTR	Directorate general of Enterprise and industry
DMC	Destination Management Company
DMO	Destination Management Organisation
EC	European Commission
ECTAA	European Travel Agents' and Tour Operators Associations
EEA	European Economic Area
EDEN	European Destinations of Excellence
EFCA&HPA	European Federation of Campingsite Organisations and Holiday Park Associations
EFFAT	EU Federation of Trade Unions in Food, Agriculture and Tourism sector
ERDF	European Regional Development Fund
ESF	European Social Fund
ETAG	European Travel and Tourism Action Group
ETC	European Travel Committee
ETOA	European Tour Operators Association
ETS	Emission Trading Scheme
ETUC	European Trade Union Confederation
EU	European Union
FDI	Foreign Direct Investment
FP7	7 th European Framework Programme for Research and Technological Development
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GDS	Global Distribution System
GPS	Global Positioning System
GVC	Global Value Chain
HACCP	Hazard Analysis and Critical Control Points

HoReCa	Hotels and other types of accommodation, restaurants, bars, canteens and catering (corresponding to NACE 55)
HOTREC	Confederation of Nat. Hotel and Restaurant Associations in EC and EEA
IAAPA	European International Association of Amusement Parks and Attractions, European Office
IACA	International Air Carrier Association
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
ICT	Information and Communication Technology
IH&RA	International Hotel & Restaurant Association
ILO	International Labour Organisation
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IRU	International Road Transport Union
km	kilometres
LCC	Low Cost Carrier
LFS	Labour Force Survey
MICE	Meetings, incentives, conferences and events
Mio	million
MS	Member State
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne
Occ	Occupancy
OECD	Organisation of Economic Cooperation and Development
OTA	Online Travel Agent
p.a.	per annum
Pax	Number of passengers
PLF	Passenger Load Factor
R&D	Research & Development
RDP	Rural Development Programme
ReCa	Restaurants, Bars, Canteens & Catering (corresponding to NACE 55.3 to 55.5)
RevPAR	Revenue per Available Room
RPK	Revenue Passenger km
SBS	Structural Business Statistics
SES	Single European Sky
SESAR	Single European Sky ATM Research Programme
SME	Small or Medium Enterprise
STCRC	Sustainable Tourism Cooperative Research Centre
SWOT	Strengths, weaknesses, opportunities & threats
T&T	Travel and Tourism
TA	Travel Agent
TAC	Tourism Advisory Committee
Ths	Thousands
TMC	Travel Management Companies
TO	Tour Operator
TO&TA	Tour Operator and Travel Agent
TSA	Tourism Satellite Accounts

TSG	Tourism Sustainability Group
TTCI	Travel and Tourism Competitiveness index
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNWTO	World Tourism Organisation
US	United States
VAT	Value Added Tax
VFR	Visiting Friends and Relatives
WEF	World Economic Forum
WTO	World Trade Organisation
YTD	Year to date

Country Codes

EU-15 (also called ‘old Member States’ in the report) include:

AT	Austria
BE	Belgium
DE	Germany
DK	Denmark
ES	Spain
FI	Finland
FR	France
GR	Greece
IE	Ireland
IT	Italy
LU	Luxembourg
NL	the Netherlands
PT	Portugal
SE	Sweden
UK	United Kingdom

EU-12 (also called ‘new Member States’ in the report) include:

BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
EE	Estonia
HU	Hungary
LT	Lithuania
LV	Latvia
MT	Malta
PL	Poland
RO	Romania
SI	Slovenia
SK	Slovakia

EU-27 or EU = EU-15 + EU-12

Executive summary

Tourism in Europe

In international tourist arrival statistics, the EU¹ 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 world². 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 2007³.

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 Organization⁵ 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 2006². 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.

PART 1: INTRODUCTION

1 Introduction

1.1 Background of the study

Over the last decade the EU tourism industry has become a **sector of major importance in the European economy**. A communication of the European Commission⁶ states that the EU tourism industry generated in 2006 in its most narrow definition more than 4% of the EU GDP, with about two Million enterprises employing around 4% of the total labour force (approx. eight million jobs). Especially with regard to the employment of women, young and less skilled persons, the tourism industry plays an important role. Moreover, over the last decade the job creation rate in the EU tourism industry was above the EU average. For these reasons, it has been identified as an industry, which can play an **important role in the attainment of the Growth and Jobs Strategy goals** set in the Lisbon Strategy.

The EU tourism industry is however **facing a number of important challenges**. Even though the total number of international arrivals in Europe is still growing, Europe has been loosing market share lately. Tourism has become a global phenomenon implying that Europe has to compete with other destinations worldwide. Moreover, globalisation, internet and rapidly changing consumer behaviour have a growing impact on the tourism industry, as well as a growing concern about the environmental footprint of tourism activities. In a report of the Tourism Sustainability Group (2007)⁷ nine challenges have been identified which need to be tackled in order to make European tourism more sustainable:

- Reducing the seasonality of demand
- Addressing the impact of tourism transport
- Improving the quality of tourism jobs
- Maintaining and enhancing community prosperity and quality of life
- Minimising resource use and production of waste
- Conserving and giving value to natural and cultural heritage
- Making holidays available to all
- Using tourism as a tool in global sustainable development

In this report the competitive position of the European tourism industry is analysed in order to improve its role as a potential sustainable growth engine in the European economy.

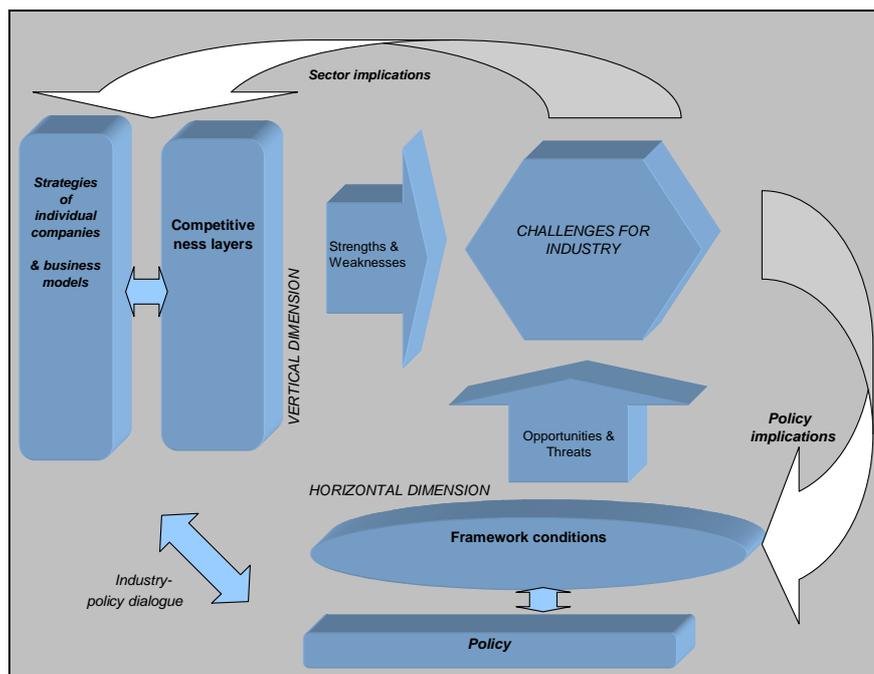
⁶ European Commission (2006), *A renewed EU Tourism Policy: Towards a stronger partnership for European Tourism*, Communication from the Commission

⁷ Tourism Sustainability Group (2007), *Action for more sustainable European tourism*, February 2007, 50 p.

1.2 Aim of the study

The main goal of this study is to **assess the competitiveness of the EU tourism industry** and identify existing barriers that might hamper the competitiveness of the sector in Europe. The study will focus on the current state of competitiveness of the EU tourism industry. Specific attention goes to **regulatory and other framework conditions affecting competitiveness**. The competitiveness assessment (vertical dimension of competitiveness) and the assessment of the impact of regulatory and framework conditions on the competitiveness (horizontal dimension of competitiveness) allow us to **formulate the challenges for the EU tourism industry to remain competitive**. From there we can suggest **possible actions for the industry and policy makers to enhance the competitiveness** of the sector in the short and medium long term (see Figure 1.1). The focus of this study lies specifically on the sub-sectors Accommodation and Tour Operators and Travel Agents (TO&TAs).

Figure 1.1 Assessing the competitiveness of the EU tourism industry

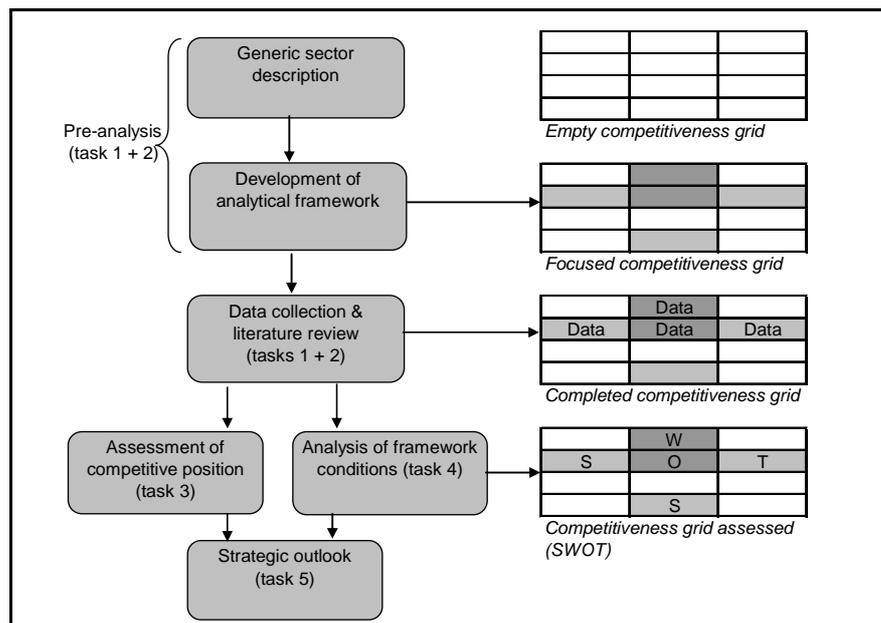


1.3 Methodological approach

The approach and methodology used for the execution of this study, is based on the one set out in the Competitiveness Frame as defined in section 5.1 of the original framework proposal. It starts with a clear description of the industry and the development of the analytical framework relevant for this study (Task 0). The **literature review and data collection** (Tasks 1 and 2) provide the necessary input to **assess the competitive position** of the industry (Task 3) and analyse the relevant **framework conditions** influencing the competitiveness of the industry (Task 4). Both tasks are summarized in a 'competitiveness grid' that highlights the implications of the framework conditions on the

performance and competitiveness of the tourism industry. The assessment of the competitive position and the framework conditions in the competitiveness grid leads to the **identification of the strengths and weaknesses of the industry, as well as the opportunities and threats** faced by the industry. They are the basis for the formulation of the medium and long term **strategic outlook** (Task 5) and potential industry and policy actions. A general overview of the approach and different tasks is presented in the following diagram (Figure 1.2).

Figure 1.2 Methodological approach



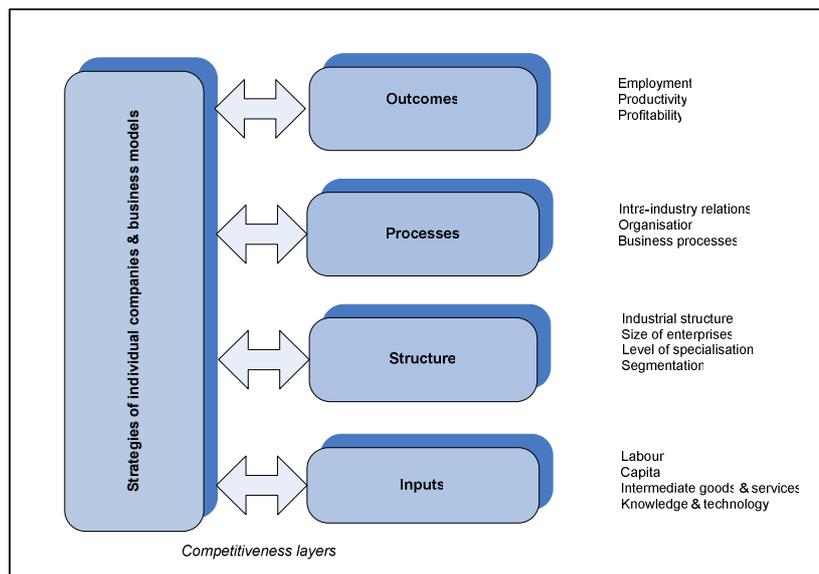
1.3.1 Measuring competitiveness: the vertical dimension of the competitiveness grid

Competitiveness can be defined at the company level, the industry level and national/regional level. The analysis in this study focuses on the **competitiveness at the industry level**. At the industry level, ‘competitiveness’ means the ability of a nation’s enterprises to achieve sustained success versus foreign competitors in a market setting. In this study we will **assess the EU tourism industry’s performance in maintaining and improving its position in the global market**⁸. More specifically, we will assess the competitiveness of the Accommodation sub-sector and the Tour Operators & Travel Agents sub-sector.

The competitive performance of the tourism industry can be considered as composed of a series of layers of which the interactions determine the dynamics of competitiveness within this sector (see Figure 1.3).

⁸ “Economic reforms and competitiveness: key messages from the European Competitiveness Report 2006”, COM(2006)697.

Figure 1.3 Competitiveness layers



Outcomes are the most measurable and visible layer. Outcomes tend to be measured in terms of turnover, employment, capital, productivity and profitability. These variables can be compared over time, in relation to other sectors, and relative to non-EU players. Productivity levels and the development of productivity over time (growth) are particularly important summarising indicators of the competitiveness of a sector and, for example, stagnation in productivity growth is often an important signal of underlying problems and challenges. However, although dynamics of productivity reveal important aspects of competitiveness, this ‘revealed’ competitiveness cannot be understood without a further understanding of the other layers.

Processes are the second layer of competitiveness. They include developments in production processes – both in terms of organisation and technologies – and include intra-industry relations. Some aspects, such as input-output relations, can be measured and quantified. More often, however, the organisational aspects of industry are of more qualitative nature.

Structures are the third layer of competitiveness: industry structure, size of enterprises, level of specialisation and segmentation are all important factors that influence a sector’s performance. Economies of scale and scope differ by sector, but tend to increase against the backdrop of globalisation. Mergers and acquisitions may have altered the landscape of a sector. Specialisation has been recognised in economic science as a ‘driver’ for productivity and growth and is particularly pertinent in the context of European integration. The process of specialisation is further influenced by new business formation and closure.

Inputs form the fourth layer of competitiveness: these are the production factors that are critical for the sector, including labour, capital, intermediate goods & services and knowledge & technology. The unit costs of these production factors and their developments are another source of competitiveness.

The precise relationship and functioning between outcomes, processes, structures and inputs is, however, strongly dependent on the fifth layer, namely ***Strategies and business models***. Strategies can for example consist of cost-based strategies (with a strong focus on input prices and processes), innovative strategies (focusing on knowledge and technology as inputs, and forms of organisation) or branding strategies (with value added being determined more by marketing and reputation building than cost prices).

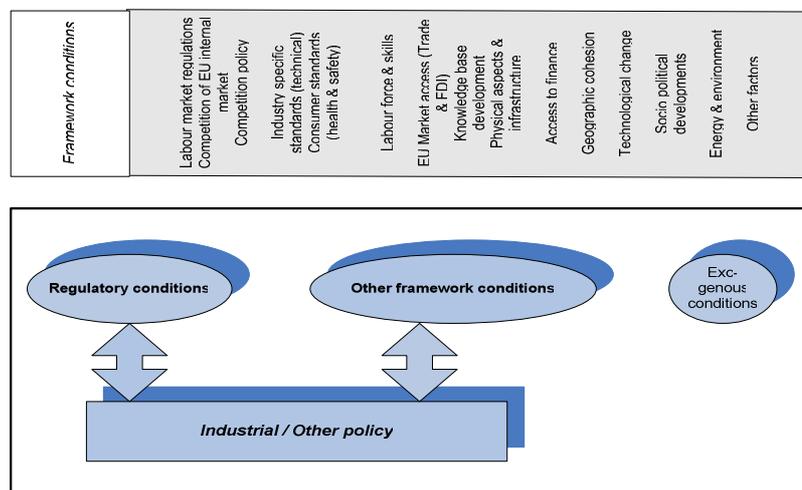
In Chapters 4 and 5 an in-depth analysis of each of these **competitiveness layers** provides insight into the strengths and weaknesses of the accommodation and TO&TA sub-sectors.

1.3.2 Analysing the framework conditions: the horizontal dimension of the competitiveness grid

The horizontal dimension of the competitiveness grid encompasses the framework conditions, which are mostly exogenous to the industry as shown in Figure 1.4. Framework conditions can be partly influenced by industrial policy (or developments in other policy areas), but may often be outside the reach of policy instruments. We distinguish the following framework conditions:

- **Regulatory conditions:** notably in areas of labour market regulation, knowledge, competition policy, standards, energy & environment. Some of these conditions can be influenced by industrial policy directly, others only indirectly or not at all.
- **Other framework conditions:** such as labour force and skills, EU market access, knowledge based development, physical aspects and infrastructure, energy and environment, access to finance, geographic cohesion, etc. Some of these other framework conditions lie within the scope of industrial policy, others fall in other policy areas or are completely outside.
- **Exogenous conditions:** these are conditions that by definition are outside the policy environment. They may include international political and social upheavals, or changes in economic and technological conditions that take place beyond the (geographical) reach of EU policy influence.

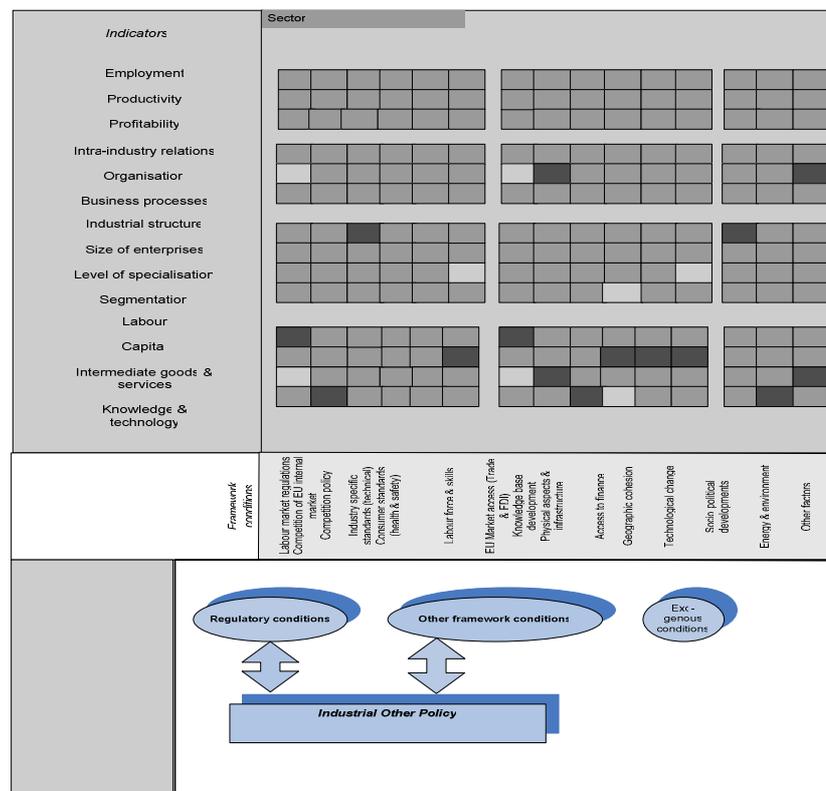
Figure 1.4 The framework conditions



An assessment of the framework conditions **provides an insight into opportunities and threats** that the sector is confronted with. In other words, these can be considered as the ‘external sources’ or ‘external drivers’ of competitiveness.

Chapters 7 and 8 identify the key framework conditions that affect the competitiveness of the accommodation and TO&TA sub-sectors and link the framework conditions to the competitiveness layers in the competitiveness grid.

Figure 1.5 Confrontation of vertical and horizontal dimensions: the competitiveness grid



1.3.3 Stakeholder involvement

During the study substantial effort has been made to enrich quantitative data with qualitative data on the various aspects of the tourism industry’s key characteristics and competitiveness issues. Several stakeholders from the tourism industry as well as industry experts have been involved at different stages in the study.

Stakeholder interviews

A total of **19 organisations/companies** have been interviewed (either face-to-face or phone interview) in the context of this study. Table 1.1 gives an overview of the different interviews carried out. We refer to Annex III for the minutes of each of these interviews⁹.

⁹ No minutes of the interview with ABTO included.

Table 1.1 Overview of stakeholder interviews

Organisation	Interviewee
ABTO (Association of Belgian Tour Operators)	Mr. Claude Perignon, President
Accor	Mr. Daniel Paris, Public Affairs Officer
AEA (Association of European Airlines)	Ms. Susan Lockey, General Manager Market Research Mr. Giorgi Komakhidze, Manager Strategy and Statistics
BTO (Belgian Travel Organisation)	Mr. Bernard Tuytens, Secretary General
ECTAA (European Travel Agents' and Tour Operators' Associations)	Mr. Michel de Blust, Secretary General
EFCO&HPA Campsites and holiday parks	Mr. Den Bannister, Assistant to the Secretary General
EFFAT (European Federation of Trade Unions in the Food, Agriculture and Tourism sector)	Ms. Kerstin Howald, Sectoral Secretary for the Tourism sector
ETAG (European Travel & Tourism Action Group)	Mr. Gareth James, Secretary
ETC (European Travel Commission)	Mr. Rob Franklin, Executive Director
ETOA (European Tour Operators Association)	Mr. Tom Jenkins, Director
Exceltur	Mr. José Luis Zoreda, Executive Vice-President Mr. Oscar Perelli del Amo, Research Director
Federation of Farm and Village Tourism (Eurogites)	Mr. Klaus Ehrlich, President
Federturismo	Mr. Antonio Barreca, Head of the EU office
HOTREC (Confederation of the National Hotel and Restaurant Associations in the EC and EEA)	Ms. Marguerite Sequaris, Chief Executive
IAAPA (Europe International Association of Amusement Parks and Attractions)	Mr. Andreas Veilstrup Andersen, Executive Director
IACA (International Air Carrier Association)	Ms. Sylviane Lust, Director General Mr. Koen Vermeir, Director Aeropolitical & Industry Affairs
IRU (International Road Transport Union)	Mr. Yves Mannaerts, Vice-president
TUI AG	Mr. Wolf-Dieter Zumpfort, Director Bureau Berlin
UNWTO (World Tourism Organisation)	Mr. John Kester, Chief Market Trends, Competitiveness and Trade in Tourism Services Ms. Sandra Carvão, Deputy Chief Market Trends, Competitiveness and Trade in Tourism Services

Academic focus group

In order to validate the analysis and industry and policy measures, an academic focus group has been organised in June 2009 to discuss the data analysis, strategic outlook and possible recommended actions. This academic focus group consisted of **the following experts**:

- *Bilsen, Valentijn – senior expert competitiveness, IDEA Consult*
- *Briene, Michel – senior expert tourism, Ecorys NL*
- *Govers, Robert – professor at the Catholic University Leuven (Belgium)*

- *Keller, Peter – professor at the University of Lausanne (Switzerland)*
- *Van der Beken, Wim – director and tourism expert, IDEA Consult*
- *Ian Woodward – professor at the University of Bedfordshire (UK)*

Tourism Sustainability Group (TSG) and Tourism Advisory Committee (TAC)

In the course of this study we have met four times with the Tourism Sustainability Group working group on “business” (TSG working group) and twice with the whole TSG. The first contacts with the TSG working group have been made in the margin of a work session of this group on the 23rd of February, where we presented the aim and the work plan of this study and received feedback on the proposed methodology. On May 14th we had a second meeting, where we presented the results of the interim report and discussed our assessment of the framework conditions. On June 29th we presented and received feedback on the draft SWOT analysis (Strengths-Weaknesses-Opportunities-Threats analysis) and strategic outlook for the tourism industry.

On June 30th we met the Tourism Advisory Committee (TAC). We presented the key findings from the competitiveness analysis as well as the draft SWOT and strategic outlook for feedback.

1.4 Structure of the report

The report contains our analysis of Tasks 1 to 5. It is structured as follows:

- In the **first part** of the report a general introduction is given to the study. In chapter 1 we discuss the background and the aim of the study as well as the methodological approach to carry out the study. Chapter 2 presents the key characteristics of the European tourism industry. Particular attention goes to the impact of the current financial crisis on the EU tourism industry.
- The **second part** focuses on the assessment of the competitive position of the EU tourism industry. Chapter 3 starts with a clear delineation of the focus of this study: the sub-sector of accommodation and the sub-sector of tour operators and travel agents. Chapters 4 and 5 analyse the different competitiveness layers in each of these two sub-sectors. Chapter 6 discusses a number of developments in connected sub-sectors that have an important impact on the competitiveness of the two mentioned sub-sectors.
- In the **third part** of the study we analyse the regulatory and framework conditions that are relevant for the competitiveness of the EU tourism industry. Chapter 7 includes the analysis of framework conditions that are most relevant for the accommodation industry. Chapter 8 assesses the framework conditions affecting the competitiveness of the TO&TA industry.
- In the **fourth part** we translate the conclusions from the previous chapters in a strategic outlook. Chapter 9 contains the strategic outlook and SWOT analysis. Chapter 10 identifies the major challenges for the EU tourism industry to remain competitive and formulates a roadmap 2010-2020 with possible actions for industry and policy makers to meet these challenges.

2 Key characteristics of the EU tourism industry

This chapter describes some key characteristics of European tourism, its state of play and development vis-à-vis global competition. Figures are presented for **both demand and supply side of tourism**. Special attention goes to the current economic situation and its impact on the EU tourism industry. To calculate figures on the supply side of tourism (i.e. the tourism industry), the Eurostat definition of the tourism industry has been applied, meaning that data on accommodation, tour operators and travel agents, restaurants and cafés have been combined.

2.1 Europe as a tourism destination

Europe is without discussion **the world's most important tourism market**, not only in its traditional role as leading destination in terms of tourist arrivals, but also as a tourism generating region¹⁰. According to the forecasts of the World Tourism Organisation¹¹, Europe will remain the world's most important tourist destination and tourism generating region.

2.1.1 International tourist arrivals

Europe in the world

With 381 million inbound tourist arrivals in 2007, the EU-27 consolidated its position as the most important tourism destination in the world. The EU-27 accounts in 2007 for **42% of the international tourist arrivals in the world**. Between 2000 and 2007 the total number of international arrivals in the EU-27 has increased by 55 million.

¹⁰ Leidner, R. (2004), *The European Tourism Industry – a multi-sector with dynamic markets*, report prepared for DG ENTR of the European Commission

¹¹ UNWTO, Tourism 2020 Vision, Tourism Highlights 2008

Table 2.1 International tourist arrivals in different regions in the world (in Mio and in %), 2000-2007

	International Tourist Arrivals (in million and as %)				Growth 00-07 (in millions) (and change in market share)
	2000	2005	2006	2007	
Europe ¹²	393.5 (57.6%)	440.3 (54.8%)	462.2 (54.6%)	484.4 (53.6%)	+90.9 (-4.0%)
of which:					
EU-27 ¹³	326.3 [*] (47.8%)	347.8 [*] (43.3%)	369.7 (43.6%)	381.0 (42.2%)	+54.7 (-5.6%)
Rest of Europe	67.2 (9.8%)	92.5 (11.5%)	92.5 (11.0%)	103.4 (11.4%)	+36.2 (+1.6%)
Asia and the Pacific	109.3 (16.0%)	154.6 (19.2%)	167.0 (19.7%)	184.3 (20.4%)	+75.0 (+4.4%)
Americas	128.2 (18.8%)	133.4 (16.6%)	135.8 (16.0%)	142.5 (15.8%)	+14.3 (-3.0%)
Africa	27.9 (4.1%)	37.3 (4.6%)	41.4 (4.9%)	44.4 (4.9%)	+16.5 (+0.8%)
Middle East	24.4 (3.6%)	37.8 (4.7%)	40.9 (4.8%)	47.6 (5.3%)	+23.2 (+1.7%)
World	683	803	847	903	+220

*: data for Luxembourg missing

Source: adapted from UNWTO, World Tourism Barometer, Oct. 2007, June 2008, Jan. 2009

Since 2000 the EU-27 and the Americas have **lost market share** compared to other regions in the world. In 2000 the EU-27's share in international tourist arrivals was still at 48%, compared to 42% in 2007. With an increase in market share of 4.4% between 2000 and 2007 Asia and the Pacific account for the largest growth. In 2007, this region accounted for one fifth of the total number of international tourist arrivals in the world, making it the second most important tourist destination.

Regional differences within the EU-27

As shown in Table 2.2, Southern Europe and Western Europe¹⁴ account for respectively 138 million and 146 million international arrivals in 2007. In absolute numbers the total numbers of international tourist arrivals have increased in every region in Europe. The largest increase was seen in Southern Europe (+18.6 million arrivals) followed by Western Europe (+15.3 million arrivals).

¹² UNWTO includes 53 countries when talking about Europe. Besides the countries of EU-27, UNWTO also includes Iceland, Norway, Liechtenstein, Monaco, Switzerland, Armenia, Azerbaijan, Belarus, Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Albania, Andorra, Bosnia & Herzegovina, Croatia, Macedonia, Israel, San Marino, Serbia & Montenegro and Turkey.

¹³ Although the EU-27 is only in place since 2007, we have used this group of 27 countries for data collection since 2000. This allows us to make a better comparison over time.

¹⁴ Southern Europe = Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain; Western Europe = Austria, Belgium, France, Germany, Luxembourg, Netherlands; Northern Europe = Denmark, Finland, Ireland, Sweden, U.K.; Central/Eastern Europe = Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia.

Table 2.2 International tourist arrivals in EU countries by geographical clusters (in Mio and in %), 2000-2007

	International tourist arrivals (in millions and as a %)				Growth 00-07 (in millions) (and change in market share)
	2000	2005	2006	2007	
Northern Europe	38,8 (11.9%)	46,3 (13.3%)	51.5 (13.9%)	52.7 (13.8%)	+13.9 (+1.9%)
Western Europe	130.7 [*] (40.1%)	134.2 [*] (38.6%)	141.3 (38.2%)	146.0 (38.3%)	+15.3 (-1.8%)
Central/Eastern Europe	37.6 (11.5%)	44.3 (12.7%)	45.1 (12.2%)	44.5 (11.7%)	+6.9 (+0.2%)
Southern Europe	119.2 (36.5%)	123.0 (35.4%)	131.8 (35.6%)	137.8 (36.2%)	+18.6 (-0.3%)
EU-27	326.3[*]	347.8[*]	369.7	381.0	+54.7

^{*}: data for Luxembourg missing

Source: adapted from UNWTO, World Tourism Barometer, Oct. 2007, June 2008, Jan. 2009

Together, **Southern and Western Europe, stand for almost three fourth of the total** number of arrivals in the EU-27 in 2007. Between 2000 and 2007 important shifts in the tourism landscape in Europe have to be noticed. While the market share of Western Europe has dropped by 1.8%, the market share, especially of Northern Europe, has grown from 11.9% in 2000 to 13.8% in 2007.

Tourist arrivals for different countries

France accounts for 81.9 million international tourist arrivals in 2007 and remains the prime tourist destination in Europe when it comes to international tourist arrivals. Spain and Italy appear as tourist destinations numbers two and three (see Table 2.3). The UK and Germany complete the top five of most important European tourist destinations, in terms of number of international tourist arrivals. In 2007, the above mentioned **five countries accounted for 63% of total international arrivals in the EU-27.**

Table 2.3 International tourist arrivals in EU countries (in Mio), 2000-2007

Destination	International tourist arrivals (in millions)				Growth (in millions) 2000-2007
	2000	2005	2006	2007	
1. France	77.2	75.9	78.9	81.9	+4.7
2. Spain	47.9	55.9	58.2	59.2	+11.3
3. Italy	41.2	36.5	41.1	43.7	+2.5
4. UK	23.2	28.0	30.7	30.7	+7.5
5. Germany	19.0	21.3	23.5	24.4	+5.4
6. Austria	18.0	20.0	20.3	20.8	+2.8
7. Greece	13.1	14.8	16.0	17.5	+4.4
8. Poland	17.4	15.2	15.7	15.0	-2.4
9. Portugal	12.1	10.6	11.3	12.3	+0.2
10. Netherlands	10.0	10.0	10.7	11.0	+1.0

Source: UNWTO, World Tourism Barometer, Oct. 2007, June 2008, Jan. 2009

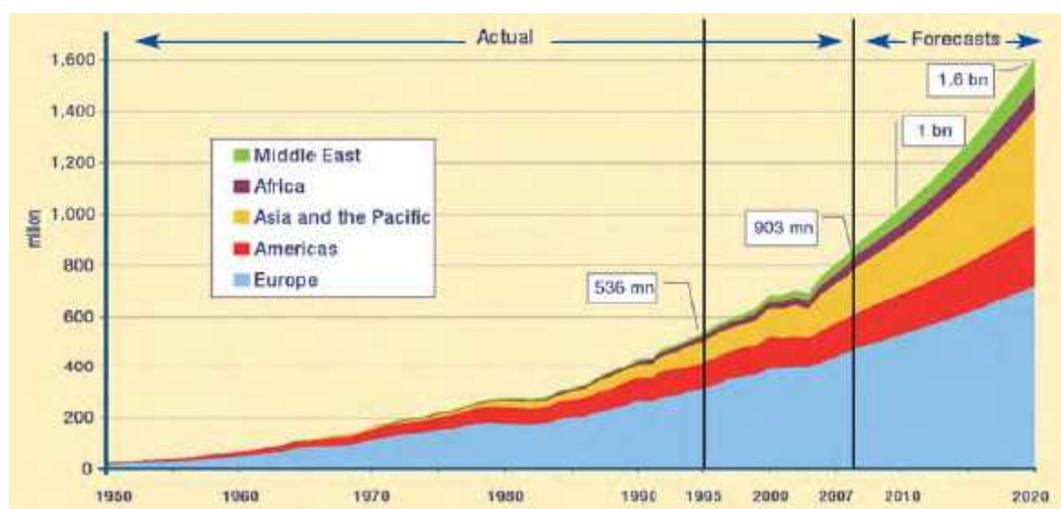
All countries mentioned in the table above, except Poland, show an increase in the total number of international arrivals between 2000 and 2007. Spain has the highest absolute growth (from 48 to 59 million arrivals). Most other countries of the EU also show an increasing number of tourist arrivals between 2000 and 2007. In Bulgaria, the number of international arrivals increased by over 80% in the period 2000-2007. Denmark and the Czech Republic follow, with a rise of more than 30%.

Long term forecast of international tourist arrivals

UNWTO's *Tourism 2020 Vision*⁹ forecasts that international arrivals worldwide are expected to reach nearly 1.6 billion by 2020¹⁵. According to this forecast, the number of **international arrivals will nearly double in two decades (2000-2020)**. The two main drivers for this ongoing increase are:

- On the one hand, the growth of personal disposable income, a longer and healthier life and a reduced working time;
- On the other hand, the improved transport infrastructure as shown by the evolution of the air traffic and the spread of cars.

Figure 2.1 Estimated evolution in international tourist arrivals (in Mio), 1950-2020



Source: UNWTO, Tourism Highlights 2008

As shown in Figure 2.1, **the European region¹⁶ will remain the most important destination for international tourism**. In 2020, Europe will maintain the highest share of international arrivals, even if it will decline from 60% in 1995 to 46% in 2020. In absolute numbers, this corresponds to an increase of almost 400 million arrivals, up to 717 million international tourist arrivals.

¹⁵ As the UNWTO's *Tourism 2020 Vision* is a long term forecast that has been done in 2007, it does not reflect the actual financial and economic crisis. At present the UNWTO is updating the mentioned *Tourism 2020 Vision*. The study will forecast international tourism growth through the year 2030 and identify key actual and future trends and their impact on tourism development. UNWTO Future Vision: Tourism Towards 2030 will be officially presented at the UNWTO General Assembly (Republic of Kazakhstan, first week of October 2009).

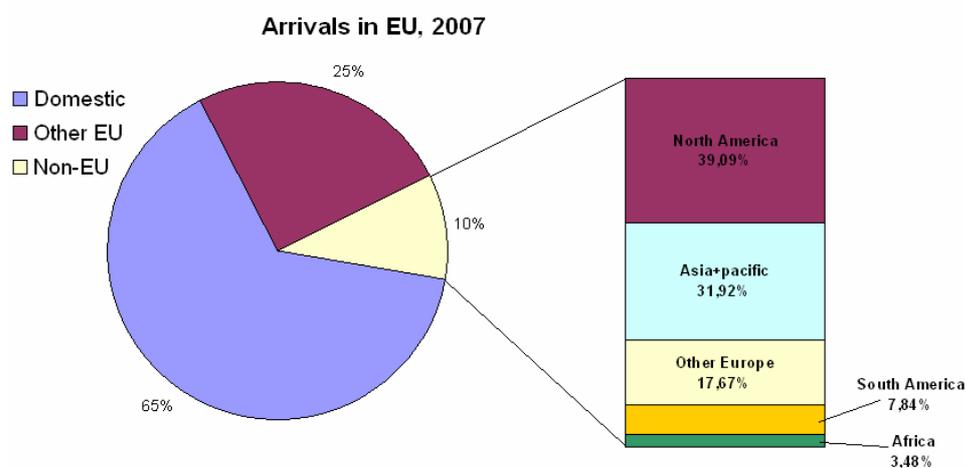
¹⁶ In this paragraph Europe is defined according to the UNWTO definition (see footnote 6). Specific data on the EU-27 are not available in this forecast.

2.1.2 Main source markets

Domestic travel

Tourist arrivals in the EU-27 are largely domestic. In 2007, almost 65% of the arrivals in one of the 27 Member States are generated by residents (see Figure 2.2). Especially Germany (81%), Romania (78%) and Sweden (78%) heavily rely on domestic tourism. Also in Finland, Poland and the UK, the percentage of domestic arrivals is above the European average.

Figure 2.2 Relative share of different source markets in tourist arrivals in the EU (in %), 2007



Source: IDEA Consult, based on Eurostat and UNWTO data

In 2009, the focus of tourism **seems to be shifting in a more domestic direction**¹⁷. We refer to paragraph 2.3.3 for further discussion.

International arrivals

Concentrating on international arrivals, about **70% of international arrivals in 2007 are generated by EU-residents** (intra-European) and **30% is inbound tourism** (non-EU residents visiting the EU-27).

- Major flows of international arrivals¹⁸ **within the EU** are from Germany to Austria, from Germany, the Netherlands and the UK to France, from Germany to Italy and from Germany, France and the UK to Spain. This last flow was the most substantial flow in 2007, with over 10.6 million arrivals.
- From the **non-EU arrivals**, 39% originates from North America, while 32% is generated by tourists from the Asia-Pacific region. Non-EU Europe, South America and Africa respectively constitute 18%, 8% and 3.5% of non-EU arrivals. The largest flows are those from the USA to the UK, France, Spain, Germany and Italy.

¹⁷ Flash Eurobarometer: survey on the attitudes of Europeans towards tourism – analytical report, 2009

¹⁸ i.e. flows of more than 4 million tourists in 2007

Looking at the numbers of nights spent in the EU in 2007, there is a substantial difference compared to the figures of arrivals. The share of nights spent by residents is about 59% (compared to a 65% share in arrivals), 35% by other EU-residents (compared to 25% share in arrivals) and 6% by tourists from other regions (compared to 10% share in arrivals). This means that **non-domestic EU-residents spend more nights per arrival compared to domestic tourists and non-EU tourists**. In the number of nights spent by non-EU residents, the lion's share is taken by tourists from North America (48%) and tourists from Asia and the Pacific (36%). Furthermore, it is important to remark that both domestic and international tourists have a **very different expenditure pattern**.

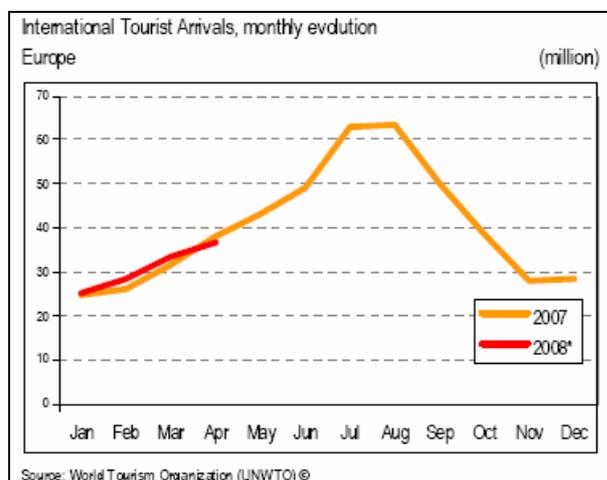
International benchmarking

Although international studies on tourism consistently award the title of n° 1 tourism destination to Europe, this is only based on data on international tourist arrivals. However, the analysis in the previous paragraphs clearly shows **that data on international arrivals only capture part of the total amount of tourist flows**. Domestic arrivals make up more than half of the tourist flows in the EU. It can be expected that also in other countries in the world (especially in major countries such as the US, Canada or Australia) domestic arrivals constitute a non-negligible part of total tourist flows. To make a balanced assessment of the market share of different regions in tourism and thus of their competitive position, these domestic tourist flows should be taken into account. Unfortunately, at present **internationally comparable data on domestic travelling are lacking**.

2.1.3 Seasonality of international tourist demand

International tourist demand in Europe is characterised by a **high degree of seasonality**. Figure 2.3 clearly shows that the total number of international tourist arrivals in Europe faces a peak in July and August. In these two months, tourist arrivals attain a peak of more than 60 million. In the months of January, February, November and December, the number of tourist arrivals is less than half this number.

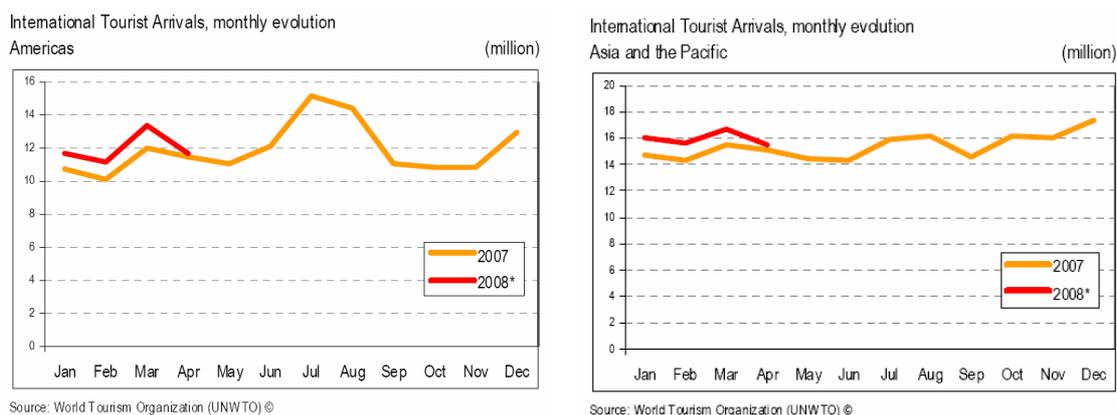
Figure 2.3 Monthly international tourist arrivals in Europe (in Mio), 2007



Source: UNWTO Barometer, June 2008 – Volume 6, Issue 2

This strong seasonal pattern of international tourist demand **seems to be a specific problem for Europe**. The Americas and especially the Asia-Pacific region show much less seasonality (see Figure 2.4). In this last region, the number of tourist arrivals is relatively constant over the year¹⁹.

Figure 2.4 Monthly international tourist arrivals in the Americas and Asia/Pacific (in Mio), 2007



Source: UNWTO Barometer, June 2008 – Volume 6, Issue 2

We do remark that the data only refer to international tourist arrivals and do not include domestic travel. As we discussed in the previous paragraph, this is an important tourism flow in the EU. We assume that this is also the case in the Americas and Asia-Pacific region. However, lack of data makes that we cannot assess whether domestic travel shows a similar seasonal pattern.

2.1.4 Europe as a competitive tourism destination

Since 2007, the World Economic Forum annually presents its Travel & Tourism Competitiveness Report²⁰, in which it calculates a Travel & Tourism Competitiveness Index (TTCI) for different countries worldwide. The TTCI aims to measure the factors and policies that make a country attractive to develop a travel and tourism industry (T&T). It is based on three broad categories of variables that facilitate or drive travel and tourism competitiveness:

1. T&T regulatory framework (policy rules and regulations, environmental sustainability, prioritization of T&T, safety & security, health & hygiene);
2. T&T business environment and infrastructure (ground & air transport infrastructure, tourism infrastructure, ICT infrastructure, price competitiveness);
3. T&T human, cultural and natural resources (human capital, affinity for T&T, natural resources, cultural resources).

¹⁹ UNWTO (2009), World Tourism Barometer.

²⁰ World Economic Forum, **The Travel & Tourism Competitiveness Report 2009**
<http://www.weforum.org/en/initiatives/qcp/TravelandTourismReport/index.htm>

In 2009, 11 out of the top 20 countries in the TTCI ranking are EU-27 countries. Austria and Germany were, in the last three years, the number two and three in the ranking, after Switzerland that has been occupying the first place since the WEF started compiling the TTCI. The other EU countries completing the top 20 are:

- France (4th)
- Spain (6th)
- Sweden (7th)
- UK (11th)
- Netherlands (13th)
- Denmark (14th)
- Finland (15th)
- Portugal (17th)
- Ireland (18th).

Apart from the 11 EU Member States mentioned above, 3 more European countries rank in the top 20: Switzerland (1st), Iceland (16th) and Norway (19th)²¹. **Compared to 2007, the EU has clearly improved its competitive position in 2009** vis-à-vis other countries and regions. In 2007, only 4 EU Member States ranked in the top 10 compared to 6 in 2009.

- Especially France, Spain, Sweden and Ireland have improved their attractiveness for tourism businesses. Also several new Member States – although not ranking in the top 20 (yet) – have considerably improved their position: Czech Republic, Slovenia, Poland and Romania.
- Other EU countries have been less successful in maintaining their competitive position, such as Luxemburg and the Slovak Republic. Compared to 2007 they dropped in the TTCI ranking.

Even though Italy is one of the major tourism destinations in Europe, the country ranks only 28th in the TTCI 2009 ranking. According to the WEF, especially the regulatory framework restricts the country's competitiveness.

²¹ The North-American countries Canada (5th) and the United States (8th), and the Asian-Pacific countries Australia (9th), Singapore (10th), Hong Kong (12th) and New Zealand (20th) complete the top 20.

Focus on sustainable tourism

Tourism plays an important role in the development of most European regions. The sector contributes to the local development through the creation (and retention) of jobs in the industrial and rural areas, but also contributes to urban regeneration.

National and EU institutions strongly support the concept of ‘sustainable tourism’, as a means to economically develop tourist destinations while respecting local culture, promoting social integration and preserving the natural heritage.

Due to this potentially positive influence (already proven in many tourist sites) on the economic, social and environmental fields, the development of the tourist industry at EU level is considered as a tool to implement the main objectives set up by the Lisbon Strategy. Since the early 80s, but especially during the 90s, European institutions, aware of the enormous potential of the European tourism sector, have progressively integrated sustainable tourism into Community policies and actions.

Currently, the level of awareness and commitment at European level is reflected in the Lisbon Treaty (with the title XXI and its article 176B specifically devoted to tourism) but also in actions taken by the Union, whether in support of the recommendations on promotion of sustainable tourism, or via other European policies that have a direct influence on the sector. Indeed, tourism is a transversal sector which is affected by many EU policies and which can also benefit from most of the EU financial instruments. These policies are mainly: regional policy (rural development and structural funds), environment protection (renewable energy), transport, agriculture (rural tourism), taxation, health and consumer protection and culture.

Furthermore, the EU institutions have been working to create a political framework for European tourism through the last four communications launched by the European Commission. These non-binding acts aim to express their commitment to the future of the European tourism industry, the principles of sustainability, stronger partnership and the implementation of an Agenda for a competitive and sustainable European tourism industry.

The results of this political message are translated into a considerable number of concrete actions, as for example, the constitution, end of 2004, of the Tourism Sustainability Group (TSG) which gathers together stakeholders and experts from industry associations, destinations and civil society, as well as from Member States’ administrations and international organisations, the organisation of conference cycles, of the Annual European Tourism Forum or of the European Tourism Day, the support to networks of sustainable tourism destinations, the promotion of best practices of accessible and social tourism, the elaboration of the Tourism Satellite Account (to improve the understanding of the European Tourism) and a certain number of research studies.

²² http://ec.europa.eu/enterprise/tourism/index_en.htm and others

Nevertheless, with some exceptions, the EU-27 seems to be very competitive when it comes to creating the context factors to become attractive and develop a travel and tourism industry. The European tourism industry is however facing important challenges, as we will further discuss in this report.

2.2 Structure and economic importance of EU tourism industry

Whereas the previous paragraph described tourism from a demand side perspective, in this paragraph we describe **the main characteristics of the supply side of tourism in the EU-27: the tourism companies**. To this end, we make use of the Eurostat definition of tourism. According to this definition, the tourism industry consists of accommodation, TO&TA and Restaurants & Cafés (ReCa). The analysis is based on the data available from Eurostat and relates mostly to the year 2006.

2.2.1 Structure of EU tourism industry

Number of enterprises

In 2006, **some 1.8 million enterprises** were active in the EU tourism industry. Almost **90% of all tourism companies were located in the EU-15**. This means that the tourism industry is to a very large extent concentrated in the old Member States.

With almost 300,000 enterprises, Spain hosts the largest number of tourism companies in the EU-27. Five countries – Spain, Italy, France, Germany and the UK – together host 65% of all EU tourism businesses. In the new Member States Poland and the Czech Republic account for half of the tourism enterprises.

Looking at the number of enterprises per 10,000 inhabitants, the largest density of tourism enterprises is found in Cyprus. Other countries with a large concentration of tourism enterprises are Greece, Malta and Portugal.

Share of different sub-sectors

More than four fifth of the total number of companies are active in the sub-sector of **restaurants and cafés**. The **accommodation** sub-sector accounts for 15% of all tourism companies, whereas **the tour operators and travel agents** represent 4% of the enterprises.

There is a significant difference between the old and the new Member States in the relative importance of the different sub-sectors. Whereas in the old Member States tour operators and travel agents represent 4% of the tourism companies, in the new Member States those companies account for about 9% of all tourism companies. As we will further discuss in chapter 1, the tour operators and travel agents business has gone through a phase of consolidation in the old Member States, whereas in the new Member States this consolidation wave is only just beginning.

Size distribution

The tourism sector is characterized by a **dual structure**. The basic idea behind this structure is that tourism demand is global, whereas tourism supply of goods and services is local. On the one hand, there are **a limited number of large companies that organise tourism to various destinations**. On the other hand, **a large group of small companies, mainly micro-enterprises, deliver tourism services at the destinations**. The large companies are mainly in charge of organisation, information and transport whereas the small companies are directed to welcoming tourists, hospitality and leisure²³. Micro-enterprises are by far the largest group of companies, with more than 90% of all enterprises in the tourism sector employing less than 10 persons.

Wide diversity of businesses and industry clusters

The EU tourism industry is characterized by a wide variety of enterprises and different types of clusters in different destinations. Not only do very large multinationals operate next to very small companies in the same sub-sector or destination. Due to the very **different types of tourists** (business tourist, elderly, families with little children ...) as well as the **wide variety in destinations** (city, coastal area, mountains ...), many different companies offer their products and services to tourists.

- In the accommodation industry the structure differs depending for example on the specific location within a destination. Large hotel chains have a significant presence in larger cities. In more rural areas many micro-enterprises operate that are only open in the high season.
- Differences in travel habits between different Member States might explain differences in market structure. In the UK for instance, tour operators have a more important position in the tourism industry than in other Member States. Not only do British tourists favour long-haul destinations more than other European tourists, but also the geographical location of the UK (island) makes consumers turn to tour operators quicker than in France for example.

When talking about the tourism industry, one should therefore **never forget that behind the official statistics on the industry, a very heterogeneous group of companies operates**.

2.2.2 Economic importance of the EU tourism industry

Total employment

According to Eurostat, the tourism industry **employed 9.7 million people** in 2006. This is **equal to 5.2% of the total employment** in the EU. Similar to the concentration of tourism enterprises in the EU-15, tourism employment is also largely concentrated in the old Member States (88%). The five major destinations (Spain, Italy, France, Germany and the UK) account for 70% of total EU tourism employment. With over 2 million

²³ OECD (2008), *Tourism in OECD Countries 2008: Trends and Policies*

employees, the UK tourism industry is the largest employer representing 21% of the total EU tourism employment²⁴.

Looking at the relative importance of the tourism industry in the local economy, tourism **contributes considerably more to the total employment in new Member States than it does in the old Member States.** Whereas tourism employment represents on average only 2.6% of total employment in the EU-15, it represents 7.5% of total employment in the new Member States.

Share of different sub-sectors

Whereas some 81% of all tourism enterprises are active in the ReCa sub-sector, they only represent 72% of total tourism employment. The average size of companies operating in this sub-sector is clearly smaller than the average size of tourism companies in general. Opposite, the average size of a tour operator or travel agent is clearly above this average.

Looking at the tourism structure, in the different Member States the high share of accommodation in Malta's and Cyprus' tourism employment is to be noticed. Whereas in terms of number of companies the accommodation business represents only around 10% of the total number of tourism enterprises in those countries, they do represent more than 40% of the workforce. This indicates that in the accommodation business of both countries a relatively high number of larger accommodation businesses are operating.

Size distribution

EU tourism companies employ on average 5.5 employees. This again underlines that the tourism industry is mainly dominated by micro-enterprises. Nevertheless, differences across Member States do exist. On the one hand, the average size of a company operating in the tourism industry is only 4.4 employees in the new Member States and even around 3 employees in countries like Greece and Czech Republic. On the other hand, in the UK the average size of a tourism company is almost three times the average EU-size.

Despite the fact that **small enterprises dominate the tourism industry, large and medium sized companies do account for a considerable percentage of the total tourism employment.** Whereas this group of enterprises hardly represents 2% of the total number of tourism enterprises in most Member States, they account for 15% to even 50% of total tourism employment.

Turnover

According to Eurostat, the EU tourism industry realised a **total turnover of €586 billion** in 2006. This **is equal to 5% of total EU-27 GDP.** More than 95% of this total turnover was realised in the EU-15. With a turnover of €146 billion, the UK tourism industry represents one fourth of the total tourism turnover in EU-27. The UK, France, Italy, Spain

²⁴ Given the fact that UK tourism companies only represent 8% of the total number of tourism enterprises, this is a remarkably high percentage. It is clear that UK tourism companies on average operate on a significantly larger scale than other tourism enterprises.

and Germany together represent 75% of the total tourism turnover (with 65% of the total number of tourism enterprises).

Although the ReCa sub-sector represents more than 80% of the total number of enterprises in the EU tourism industry, they only generate half of the turnover. Tour operators and travel agents only represent 4% of the number of enterprises, but do account for 26% of the total turnover.

Productivity

The European tourism sector is **generally characterized by a low labour productivity**. When compared to services and manufacturing, wage adjusted labour productivity²⁵ in the tourism industry is significantly lower in most Member States. The main reason for this low labour productivity is the **labour intensive ReCa sub-sector**. The labour productivity is significantly higher in both accommodation and especially in the tour operators and travel agents sub-sector. If the HoReCa sector is considered as one sector, its labour productivity is half the average labour productivity in the service sector. As wage levels depend largely on the labour productivity of a sector, the HoReCa sector pays wages significantly below the average of the service industry. The relatively low labour productivity **indicates some potential for improving qualification and organisational measures**, but it should not be interpreted as the best indicator for productivity²⁶.

Because of a lack of specific data on the productivity of the EU tourism industry as a whole, we have to use the service sector as an indicator to compare the productivity in the EU tourism industry vis-à-vis other regions. The labour productivity per person employed in the service sector is highest in Japan and the United States. European labour productivity is significantly lower. Moreover, in the period 1995-2005, the productivity in the EU grew with about 5 percent, while in the United States for example growth in services' labour productivity was equal to about 30 percent.

Furthermore, the ratio of value added to gross domestic product (GDP) in the tourism sectors of industrialised nations is in a downward spiral. **Other industries and economic sectors are more productive** and therefore tend to grow faster²³. The EU tourism related industries are not only under global competitive pressures, they also have to compete for factor markets (e.g. for labour and capital), with other sectors that tend to be more productive.

2.3 Impact of the financial crisis on the EU tourism industry

The intensity of tourism activities is strongly linked to the overall performance of the total economy. In this paragraph we discuss the impact of the current economic and financial crisis on the European tourism industry as a whole²⁷. The start of this crisis can be pointed around September or October 2008.

²⁵ Wage adjusted Labour Productivity = Labour Productivity/Average wage per employee

²⁶ The European tourism industry – a multi sector with dynamic markets, 2004

²⁷ Paragraphs 3.6 and 4.6 specifically focus on the effect of the crisis on the two main sub-sectors

2.3.1 The current crisis versus previous crises

Tourism as an activity is closely linked to the overall economic activity in a country or a region. In the past, the tourism industry has been affected by other economic crises. However, **this crisis shows some specific characteristics** that make it different from other crises in the past²⁸:

- Opposite to previous economic crises, the current one is of a **more global nature** affecting both emerging and mature destinations. The rapid slowdown since mid-2008 reflects the impact of rising oil prices at the beginning of last year and the deterioration of the economic situation as well as of consumer and business confidence during the second semester.
- The impact is also **expected to last longer**. Experts expect a fast downturn and only a slow recovery for the future. When looking at the impact of the terrorism attacks of 9/11, the tourism industry needed approximately 4 years to recover.

2.3.2 Impact on international tourist arrivals

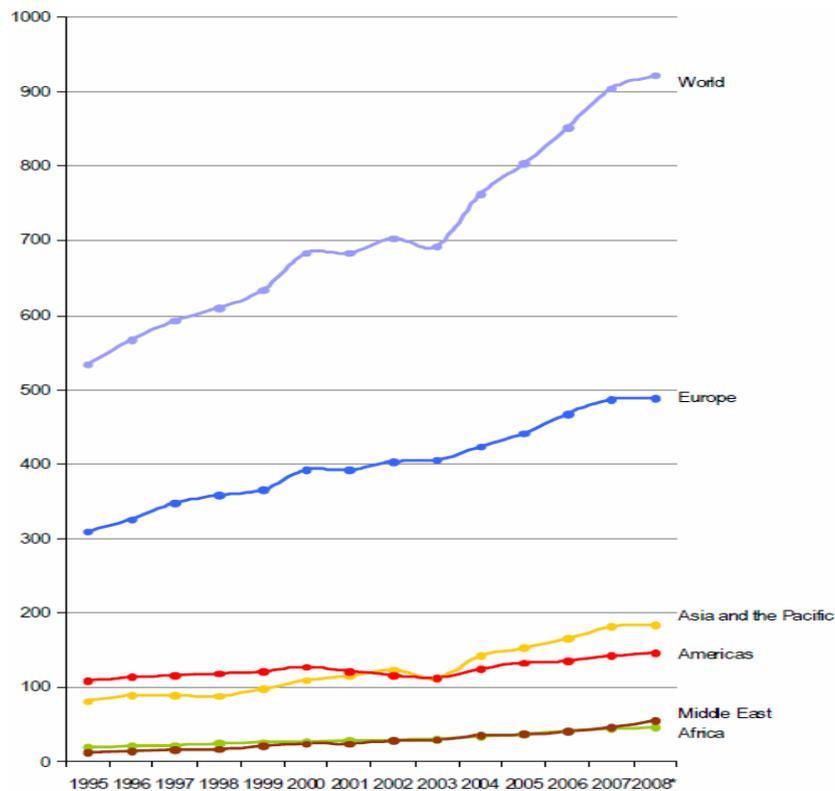
In 2008, the growth in international tourist arrivals has **significantly slowed down worldwide** under the influence of the current financial and economic crisis. After a 5% increase in the first half of 2008, growth in international tourist arrivals became negative in the second half of 2008 (-1%). The final result was an estimated 2% growth for the full year – down from 7% in 2007, which was the fourth year of consecutive strong growth in world tourism (see Figure 2.5).

Worldwide, international tourist arrivals declined by 8% between January and April 2009. Prospects by UNWTO for international tourism now report a decline by -6% to -4% during the year 2009²⁹.

²⁸ Interview UNWTO

²⁹ UNWTO (2009), *World Tourism Barometer*. Volume 7, no. 2, June 2009

Figure 2.5 World: inbound tourism (international tourist arrivals) (in Mio), 1995-2008



Source: UNWTO World Tourism Barometer– June 2009, Volume 7, issue 2

Slowdown of international tourist arrivals in the EU-27

The international tourist arrivals in the EU-27 annually increased by 4.8% between 2005 and 2007, and still increased in the first half of 2008. However, in the last six months of 2008 international tourist arrivals showed a negative growth in both the EU-27 and Asia, while the other regions of the world still showed positive growth. Looking at the full year 2008, international tourist arrivals have been growing worldwide (+2.3% compared to 2007), while the EU-27 suffered from stagnation in arrivals. The stagnation is mainly caused by the negative performances of both Northern and Western Europe and the stagnation of international tourist arrivals in Southern Europe³⁰. Table 2.4 shows the evolution in tourist arrivals in EU-27 destinations between different quarters in 2008 YTD. While in most countries the **total number of arrivals has grown in the first two quarters of 2008, the figures for the third and fourth quarters are significantly falling back.**

³⁰ UNWTO (2009), *World Tourism Barometer*. Volume 7, no. 1, Jan. 2009

Table 2.4 Change of international tourist arrivals per Member State per quarter (in %), 2008 compared to same quarter 2007

Country	International tourist arrivals per quarter in 2008			
	Q1	Q2	Q3	Q4
Austria	+10.25%	+0.82%	+2.66%	+2.86%
Belgium	+5.65%	+4.54%	+1.79%	
Bulgaria	+10.50%	+4.14%	+2.39%	+6.27%
Cyprus	-0.06%	-6.78%	-8.44%	
Czech Republic	+11.13%	+3.43%	+1.42%	
Germany	+3.13%	+4.00%	+0.81%	
Denmark	-0.15%	+1.13%	-5.69%	-5.65%
Estonia	+6.81%	+3.68%	+1.51%	-1.47%
Spain	+5.51%	-2.60%	-1.42%	
Finland	+5.34%	+5.33%	-0.17%	-1.00%
France	+3.64%	-0.21%	-2.51%	
Greece	+0.59%	-5.23%	-4.77%	
Hungary	+7.09%	+3.04%	+0.91%	-0.59%
Ireland				
Italy	+2.94%	-5.52%	-4.00%	-6.00%
Lithuania	+11.31%	+6.25%	+5.50%	-5.66%
Luxemburg	-0.96%	-7.47%		
Latvia	+9.76%	+3.12%	+4.09%	
Malta	+14.07%	+4.06%	-6.98%	-9.65%
Netherlands	-3.59%	-2.77%	-6.25%	-6.91%
Poland	+6.89%	+8.71%	+3.42%	-0.86%
Portugal	+11.26%	+2.83%	+2.42%	-5.11%
Rumania	+6.53%	+1.15%	+3.86%	-2.70%
Sweden	+0.95%	+7.87%	-2.25%	-2.00%
Slovenia	+6.61%	+4.81%	+2.01%	+1.64%
Slovakia	+12.57%	+16.48%	+5.49%	-0.33%
United Kingdom	+4.55%	-0.52%	-6.66%	

Source: Eurostat, 2009

Between January and April 2009, international tourist arrivals continued to decline (by 10%) with Central and Eastern destinations being the most affected, based on available information. Slovakia was hit hard with a decline by 28% for the first four months of 2009. For the whole of the year 2009, UNWTO expects a negative growth in international tourism for Europe of -8% to -5%. Besides Europe, the Middle East is also severely hit with an expected decline of 18%²⁹.

It seems however that consumers were more confident in April and May 2009 than in the beginning of the year. Combining this observation with the fact that the main summer holiday is more protected by the consumers than other secondary trips, one might become more optimistic in terms of arrival figures over the next months. The length of stay will however be shorter and spending lower.

Slowdown in different source markets for tourism in Europe³¹

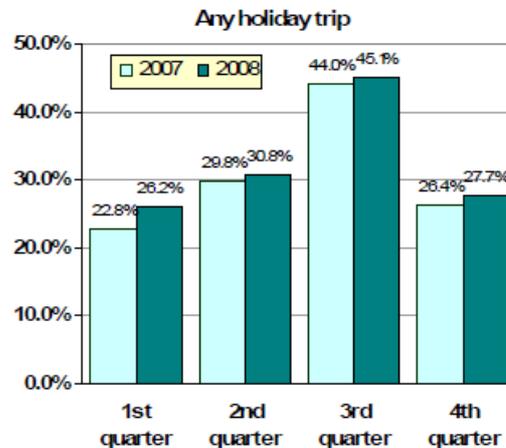
The financial and economic crisis is also causing a **shift in the main source markets for tourism to Europe**. Although data availability for 2009 is still very limited, most indicators point to a broadening and deepening contraction in the first two months of the year, with little expectation of an improvement until the summer.

Intra-European tourism

The general trend so far seems to be a **decline from almost all leading intra-European markets**. Italy, as well as the Netherlands and Cyprus, however are showing positive growth to some destinations. The UK, Germany and France on the contrary are well down on 2008.

In each quarter of 2008 however, the share of EU residents that has made at least one holiday trip of at least one overnight stay during the reference quarter, has grown for domestic trips as well as for outbound trips. In Figure 2.6 the percentages are given for any holiday trip of at least one overnight stay. The share of the population having made a holiday trip of at least 4 overnight stays remains rather stable.

Figure 2.6 Share of EU residents (aged 15 or over) having made at least one holiday trip during the reference quarter (in %), 2008 compared to same quarter 2007



Source: Eurostat, data in focus 24/2009

In total, EU residents made 6.8% more trips in 2008 compared to 2007 with the strongest growth for short breaks and domestic trips. The second half of the year was slightly less positive with an overall growth of 5.4% and a decline in short holiday trips abroad of -0.6%.

Germany remains the largest European outbound market. There has however not been any substantial growth in recent years, which only remained stable in 2008. Based on the limited data available for 2009, we note a general negative trend.

³¹ European tourism 2009 – Trends & Prospects: Quarterly Report

In 2008, the **UK** is characterised by declines to some of the major destinations and only few increases in international arrivals from the UK. So far, no country for which data was available has reported an increase in international arrivals from the UK in the first five months of 2009. The declines recorded are mainly attributed to the weak pound rather than the current economic uncertainties. Some of the major tour operators even report good advance bookings for holidays and consumer surveys indicate that British people may well still decide to travel abroad for their summer holidays.

In **France**, outbound tourism fell by some 3% in 2008. With about 51% of the French not planning any holiday in 2009 according to a recent consumer survey, the outlook for 2009 is not much better. The great majority of the European countries report declines in the first two months of 2009. The same accounts for the following three months of 2009, with almost all destinations for which data is available, reporting mostly double digit declines³².

In 2008, **Italian** outbound tourism generally stagnated. For 2009, some surprising increases are recorded for arrivals and nights out of Italy to Cyprus, Ireland and Malta. Most of the other destinations report declines.

As one of Europe's strongest growth markets in 2008, the **Netherlands** are facing an uncertain year of 2009 with some increases but also severe declines. Total summer bookings for package holidays and long-haul destinations are falling. However, according to consumer surveys, a considerable number of summer bookings are to be expected.

Non-EU markets

In general, the cost of a long-haul flight is an important reason for the fall back of long-haul travel. The strong Euro does not appear to help. The long-haul source markets that appear to be growing to Europe this year are Brazil (and possibly some other Latin American sources), as well as some of the smaller Asian markets.

Although **Russia** is one of the most dynamic emerging source markets for Europe, the severity of the economic crisis in Russia makes a moderation in travel growth out of Russia inevitable. Most destinations for which data is available report declines in visits from Russia.

Travel from the **US** to Europe has fallen back by more than 6% in 2008. For most destinations, the arrivals fell back. Visits from the US to Europe have contracted 13% in the first quarter of 2009³². Although the US economy is showing some slight positive signs, it is still expected to shrink through the third quarter of 2009.

The **Canadian** economy seems to have suffered less from the economic crisis and thus remained a relatively strong market for European tourism in 2008. For 2009, most of the destinations report declines but of course, the outlook is still very uncertain as data is scarce.

³² Tourism Economics, The financial crisis and implications for European tourism, report prepared for the European Travel Commission, July 2009

As short-haul trips are being favoured over long-haul trips in the current economic crisis, the outlook for 2009 for outbound tourism from **China** does not seem too positive, with almost all countries having reported data up to now, recording declines.

India, being a promising emerging market from which only few European destinations have recorded arrivals yet, shows mixed results so far with a predicted market slowdown for the year 2009. This slowdown has been confirmed so far, reporting almost all double digit declines for every European destination for which data is available.

2.3.3 Impact on domestic travelling

Contrary to international tourist arrivals, the latest Eurobarometer Survey suggests that **domestic travelling might increase in 2009 as a result of the economic crisis**. Although we have to wait for data on the exact booking patterns before making any final conclusion, in February 2009 (i.e. at the time of the survey), significantly more travellers had plans to travel within the home country (48%) compared to 2008 (43%). Fewer travelers had plans to travel to other EU countries in 2009 compared to 2008 (see Table 2.5).

Table 2.5 Shifts in location of main holiday, 2009 compared to 2008 (% of respondents*)

Location of main holiday	2008	2009
Resident country	43%	48%
EU-27	31%	24%
Non-EU destination	26%	28%

*: the results refer to the group of respondents that identified a 2009 destination

Source: Eurobarometer Survey

The Eurobarometer Survey also indicates that in 2009 domestic vacations appear to be **generally preferred by the less affluent segments** of the EU population:

- Those not working (45% of respondents compared to an EU average of 41%)
- Those with the lowest level of education (53%)
- Those aged over 54 (46%).

The least likely respondents to spend their vacation domestically are those taking a holiday with a cultural emphasis (36%)

2.3.4 Impact of the financial crisis on SMEs: SME Panel survey results

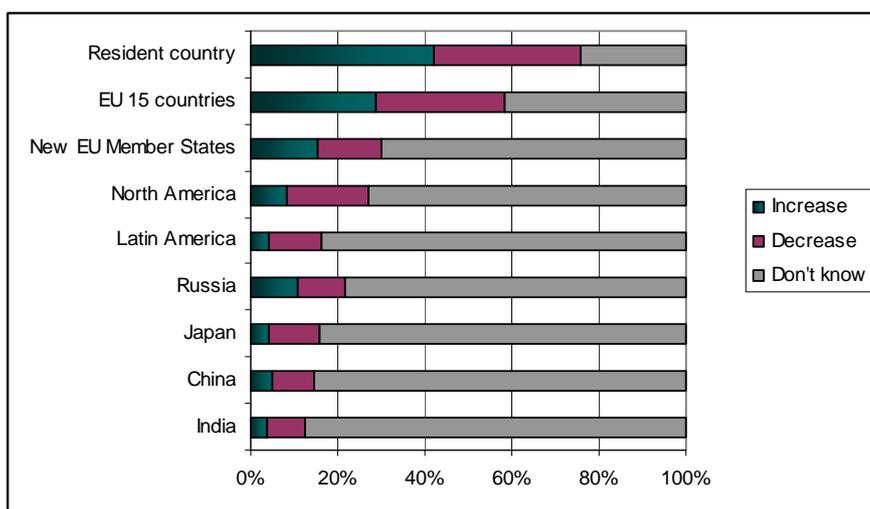
In March 2009, the European Commission carried out a **survey among SMEs in the tourism sector**. In total, 2,750 businesses in the accommodation (42%), gastronomy (22%), travel agencies & tour operators (20%) and transport (15%) sub-sectors replied to the survey. Questions related to demand and consumption trends, on recent evolutions in their business and on the future outlook. Although the results of the survey are not

representative for the whole EU tourism sector, it is the most recent data source available to capture the impact of the economic crisis. In the following paragraphs we summarize the main findings for the whole group of respondents. We refer to chapters 4 and 5 for a focused analysis of the responses from the accommodation and TO&TA companies.

Demand/ consumption trends and changes

Over one third of the respondents in the SME panel indicated that they saw an increase in demand for their services, but almost the same number faces a decrease in demand. Figure 2.7 shows that **demand from resident countries (i.e. from their own country) increased** for 42% of the companies, whereas **demand from other countries mainly decreased**. This confirms the trend that many people choose for a holiday in their resident country as opposed to a destination further away.

Figure 2.7 Changes in demand from specific (groups of) countries (% of respondents)



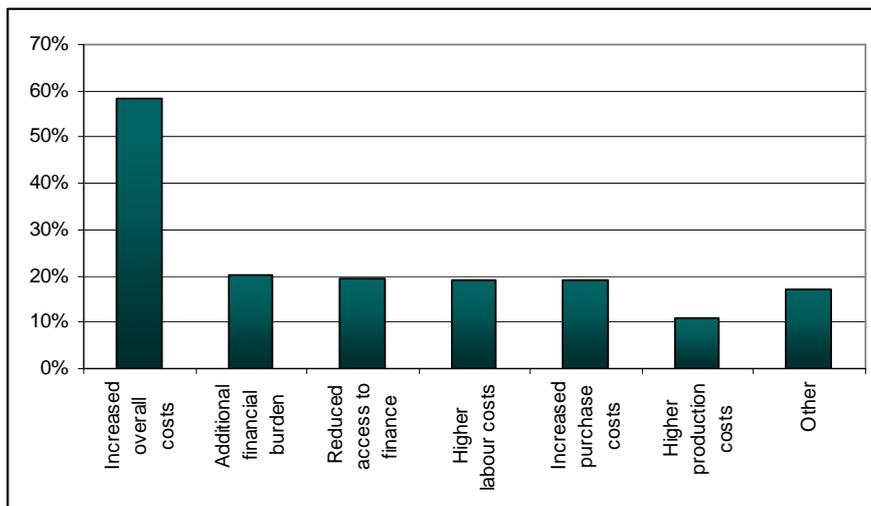
Source: SME Panel Survey 2009

Over 75% of the SMEs in the tourism sector have noticed **changes in the consumption pattern of clients**. One third of the respondents indicate that clients have become **more price conscious** and **spent less money** in the past six months. Almost a quarter indicates that clients have become **more quality conscious**. Only a minority of respondents (2 to 5%) indicates that clients have become less price conscious or spent more money.

70% of the survey respondents notice an **impact of the current economic situation on their business** and another 19% indicate a possible impact.

Among the respondents that indicated to see a clear impact, an increase in overall costs appears to be quoted most frequently (60%), while 20% faces an additional financial burden or reduced access to finance due to the economic crisis (Figure 2.8).

Figure 2.8 Type of impacts on business due to current economic situation (% of respondents*)



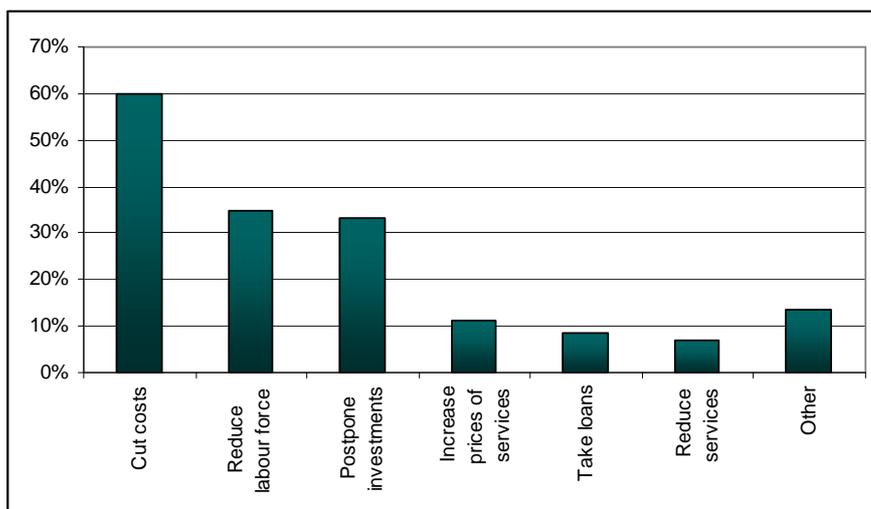
*: the results refer to the group of respondents that answered “yes” to the question “Does your business face any impacts due to the current economic situation?”

Source: SME Panel Survey 2009

Among those respondents who see possible effects of the economic situation on their business, increased overall costs and higher labour costs are most frequently cited.

Over 70% of the SMEs have already **undertaken major actions** to face the economic crisis. **Cutting costs, reducing the labour force and postponing investments** are mentioned most frequently (Figure 2.9).

Figure 2.9 Actions undertaken to address the economic crisis (% of respondents*)



*: the results refer to the group of respondents that answered “yes” to the question “Have you already undertaken major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

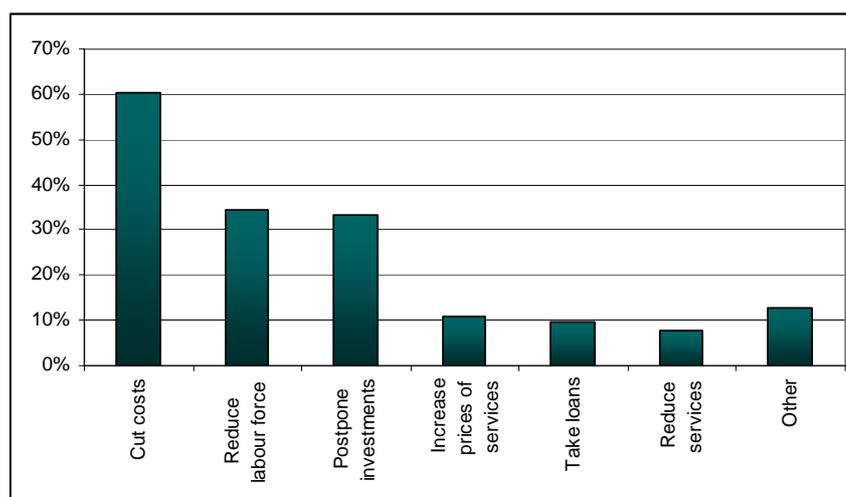
The SME panel was also asked what **support actions** at European level they would consider to be most important. The ones mentioned most frequently are measures to **strengthen demand** (by 47% of respondents) and **measures to encourage investments and innovation** (by 41% of respondents).

Future outlook (2009)

For 2009, still 45% of the SMEs in the survey **expect a rather negative impact of the current economic situation**. Another 28% even expects substantial negative impacts. Only 9% thinks that the economic situation will have a positive effect and 7% expects no impact at all. The nature of the impact expected is most often a **decrease in demand** (by 70% of respondents), followed by **guests spending less money** (by 55% of respondents).

Over half of the respondents foresee **the need to undertake major (additional) actions to address the impact** of the economic crisis and more than a quarter thinks this is possibly the case. Cutting costs, reducing the labour force and postponing investments appear to be the actions that will be used most (see Figure 2.10).

Figure 2.10 Measures to be undertaken in near future to address economic crisis (% of respondents*)



*: the results refer to the group of respondents that answered “yes” to the question “In the near future (in 2009), will you have to undertake major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

The business outlook for 2009 is negative for almost 40% of the SMEs that participated in the survey. On the other hand, almost one third foresees a positive evolution in business. Only 7% fear a very negative outlook for 2009.

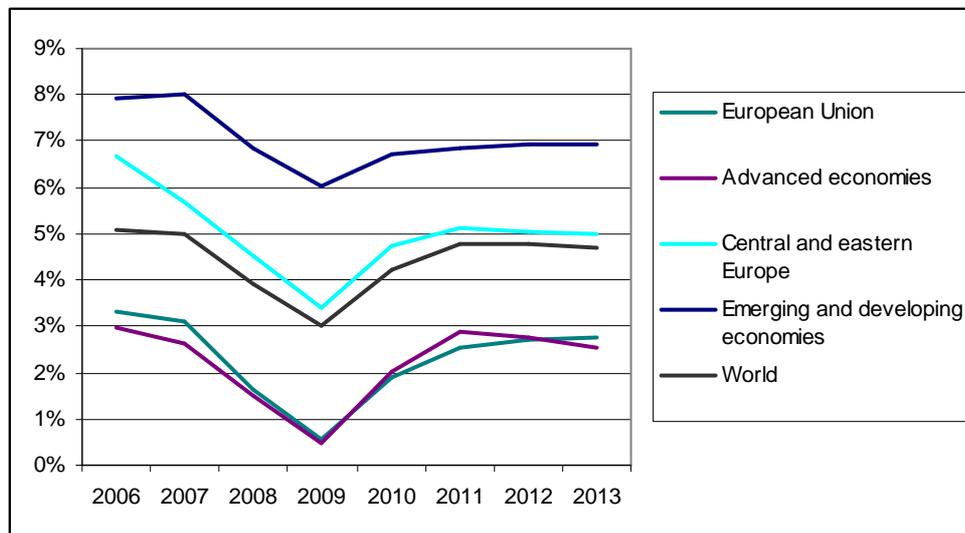
2.3.5 Expected impact of the financial and economic crisis on the EU tourism industry

Based on the different interviews and the existing literature on this topic, we evaluate in this paragraph the potential impact of the economic and financial crisis on the tourism industry as a whole. We start with an overview of the general forecasts on the economic recovery, as the intensity of tourism activity is strongly linked to the performance of the total economy.

Forecasts in GDP

Forecasts in GDP can be used as an indicator for the future growth potential from different regions in the world in terms of international tourist arrivals. Figure 2.11 shows that GDP growth in the EU will, according to the International Monetary Fund (IMF)³³, not exceed 2% in the near future with a strong decrease in 2009. This development is comparable to the evolution in other advanced economies, such as the US, Canada and Japan. Both Central and Eastern Europe, and emerging and developing economies will also face an important slow down of their economies. The IMF predicts that the **world economy will recover to a lower level than before within the next three years**³⁴.

Figure 2.11 GDP evolution, constant prices (annual % change), 2006-2013



Source: IMF, World Economic Outlook Database 2008

The IMF does expect that the **average growth rate of GDP will remain significantly higher in emerging and developing economies** after recovering from the financial and economic crisis. Especially in emerging economies such as Brazil, Russia, India and China, prosperity will increase at a faster pace. This means that more and **more people in those countries will be able to afford to travel**. Therefore, it generally remains expected that those countries will become important source markets for international tourist arrivals in the future, probably also in Europe.

Expected impact of the crisis on the EU tourism industry

Making forecasts in unstable economic situations is very difficult, but based on the face-to-face interviews with different stakeholders of the EU tourism industry some general expectations can be distinguished on the future outlook for the sector.

³³ IMF, World Economic Outlook Database 2008

³⁴ According to forecasts of Tourism Economics, an Oxford economic company, GDP growth for 2008 is 0.8% and decreases to -2.1% for 2009. Average GDP growth rate over the three years before 2008, was 2.5%. In 2010, growth rate is expected to turn slightly positive again by 0.8%. These projections confirm the future outlook from IMF.

- Overall, the different stakeholders are **rather confident about the long term future outlook for the sector**. Survival on short and mid long term will become however essential. As **access to finance** is in general a point of attention for the tourism industry as a whole, this becomes vital in times of financial and economic crisis. Access to finance is for instance crucial for innovation in the industry. In turn, **innovation** is essential to improve the quality of Europe as a tourist destination. Lack of innovation might in that sense influence the attractiveness of the EU tourism industry.
- At this very moment, tourism enterprises are facing the consequences of the financial and economic crisis. The crisis will accelerate processes and initiatives, which have been slumbering for many years. When things get tougher, only the ‘fittest’ do well. Different elements such as sustainability, professionalism, branding or diversification strategies definitely receive more attention nowadays than before the crisis. Many expect that the current crisis will **increase professionalism in the industry**.
- Even if going on holiday has become an acquired right, the crisis has brought the **balance between price and quality more central** in the picture again. Important shifts are to be expected towards cheaper accommodation, shorter holidays, domestic holidays instead of holidays abroad, cheaper modes of transport, less holidays, etc. What we can expect is a growth in demand for destinations closer by. For European citizens this might be other European countries. These shifts are being confirmed in the latest Flash Eurobarometer, as well as in a French study on the short-term expectations of inhabitants' travel plans.
- The financial and economic crisis is also **changing the consumer behaviour**. Because of the crisis, certain groups will decide not to take any holidays this year. The sector is facing a trend towards last minute bookings leading to some uncertainty at the level of demand for tour operators for example.
- The crisis makes **collaboration across the value chain even more important**. In particular for more remote regions, it is of utmost importance that airline companies (low cost carriers) keep the region connected to the rest of the world. However, this implies that occupancy rates need to be maintained at an acceptable level (otherwise the low cost carriers eliminate the connection). Joint promotion efforts between the airline companies, tourism destination offices and tourism companies could be set up to remain attracting the necessary groups of tourists.

UNWTO expects that the years 2009-2010 will remain difficult for the tourism industry. **Travel demand is elastic:** it tends to exceed the growth of the overall economy in good times, and to contract more severely when the economy falters. This might mean that the tourism industry shall probably resilience sooner than other industries, once the economic situation is improving. However, extensive research about the impact of the financial crisis in the early eighties in the Netherlands showed a delay of two years before the impact of that crisis became visible to the tourism industry. Only the future will tell us with certainty how long and to what extent the current crisis has affected the tourism industry.

PART 2: IN-DEPTH ANALYSIS

3 Towards a workable definition of the tourism industry

The tourism industry is compared to other economic activities a very **complex industry**. Moreover, the tourism industry has many important linkages to related industries such as for example the catering or construction industry. A **clear and workable definition** of the EU tourism industry is therefore **instrumental for a successful execution** of this study. In this paragraph we specify how we have come to such a workable definition, which has been decided upon in consultation with the Tourism Unit of DG ENTR and presented to the TSG Business Working Group for feedback.

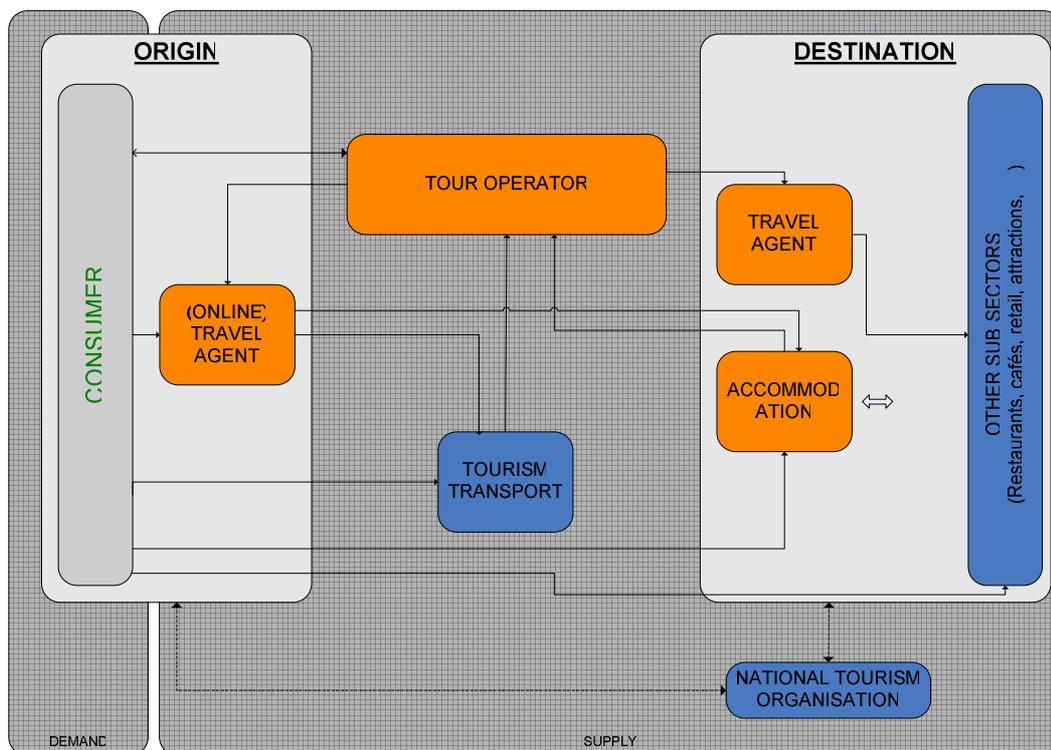
3.1.1 Tourism value chain

The tourism value chain consists of a rather **complex relation between many different actors** (see Figure 3.1). The economic activities which are considered as part of the tourism industry vary considerably. Tourism is an activity involving a **wide variety of stakeholders, but also policy measures at various levels**. It is a broad industry as it contains attractions and transport, travel organisers and local tourist offices. Moreover, very different target groups (e.g. business travellers, leisure tourists, etc.) are being served.

The tourism industry is characterised by a **geographically dispersed value chain**:

- On the one hand, suppliers of tourism products and services – often SMEs – are mainly located in the tourist destination itself.
- On the other hand, the demand side consists of a very heterogeneous group of consumers. Changes that influence the demand for tourism products and services are for example a trend towards more but shorter holidays, raise of new forms of tourism and structural demographic changes.
- In between we find the intermediaries who bundle, pack and promote the tourism product and make it available to tourists. The intermediaries are usually located in the tourists' country of origin. These companies with which the tourist deals can be either national or, as it is often the case in the old Member States, part of a larger multinational company.

Figure 3.1 Structure of the tourism industry



Source: IDEA Consult

As it will be further elaborated in this report, many of the sub-sectors in the European tourism industry are **influenced by major changes** like for example consolidation, horizontal and vertical integration, diversification and an increasing level of professionalism. Over the last decade, the structure of the tourism value chain has also changed significantly with the rise of internet and its applications. The entry of new players such as online travel agents (OTAs) is just one of the many examples. This makes that the business reality is often more complex than indicated in the figure.

3.1.2 Core of this study

Ideally, each of the sub-sectors mentioned in Figure 3.1 should be included in the analysis of the tourism industry. However in order to carry out a quantitative analysis, we strongly depend on the availability of statistical data, which are mainly available within the NACE classification³⁵. Some sub-sectors of the tourism industry are yet not easily traceable in the NACE classification:

- Their identification requires disaggregating and separating existing data on industrial sectors. It is for example impossible to distinguish in the NACE Rev. 1 classification between transport of goods and transport of people, let alone transport of people for tourism purposes.

³⁵ We refer to Annex IV for a detailed discussion on the availability of statistical data

- Different sub-sectors do exist for another purpose than tourism. Tourists however make gratefully use of these services. This is for example the case for cultural venues, restaurants and bars.

For these reasons and in close consultation with the client we have chosen to follow a **dual approach to carry out this study**:

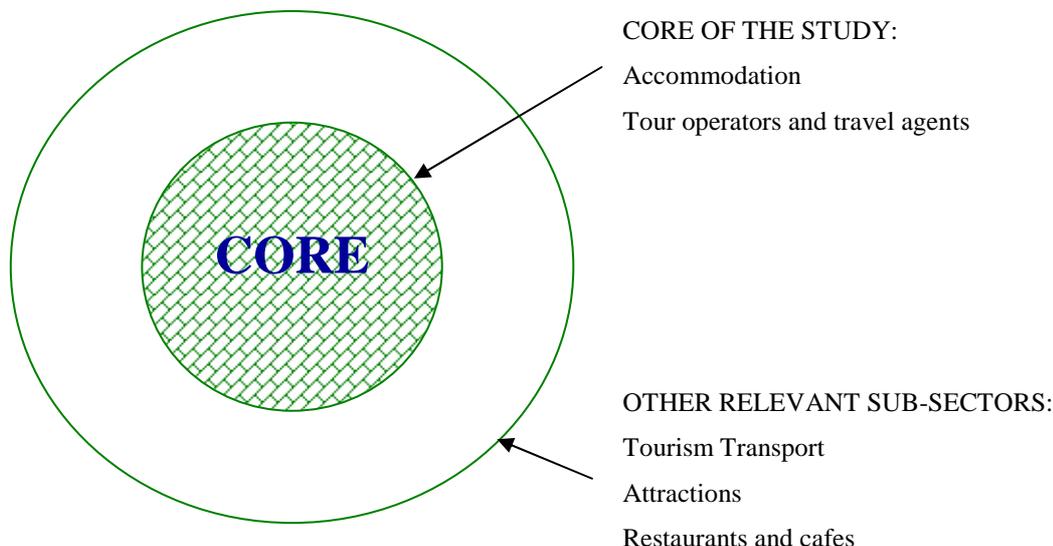
- When making the **general description of the tourism industry** (economic importance of EU tourism industry, location of key industry clusters, growth markets, etc.) and describing the general trends and developments, the **sector as a whole** will be considered.
- For **in-depth analyses** on productivity, profitability, regulatory and other framework conditions, and for the strategic outlook, we **focus on two tourism industry sub-sectors: the accommodation industry and the tour operators and travel agents industry (TO&TA)**³⁶. Developments in other sub-sectors such as tourism transport, attractions and restaurants & cafés will only be discussed as far as they are relevant for the competitiveness analysis of the two sub-sectors we focus on.

Not only are these two sub-sectors well represented in the official statistics, two more arguments support the specific selection of these two segments as the ‘core’ of this study:

- Accommodation and travel organisers, intermediaries and destination tourism organizers are at the heart of the tourism industry and would not exist without tourists. This is less the case for each of the other sub-sectors.
- Economically speaking, these sub-sectors make up an important part of the tourism industry in terms of number of enterprises, employment, etc. The data can also be univocally seen as tourism activities.

³⁶ It is impossible to make in the NACE Rev. 1 classification a distinction between Travel Organizers and Intermediaries and Destination Tourism Organizations. They all are classified under NACE 63.3 (see elsewhere). However, Destination Tourism Organizations only account for a small part of NACE 63.3.

Figure 3.2 A workable definition of the tourism industry



The analysis at the sub-sector level allows us to better cope with the large diversity of enterprises that operate under the ‘tourism’ umbrella and **helps to come to a more focused analysis** of the competitiveness of the tourism industry.

3.1.3 Linkages with other sectors

Despite the fact that the focus of this study is on analysing the competitiveness of the EU tourism industry – and more specifically the competitiveness of the EU accommodation and TO&TA industries, we should keep in mind that **tourism is embedded in a large network of linkages** with many other economic sectors. The importance of these linkages with other sectors is also highlighted in the **Tourism Satellite Accounts (TSA)**.

The tourism industry is closely linked to the presence of adequate services and infrastructures to support the sector. This includes for instance transport services and infrastructures, telecommunication and financial services. Adequate consideration also needs to be given to construction, advertising and education. Tourism is a complex industry, **generating significant economic activity with other industries**, through two kinds of linkages²³:

- **Backward linkages:** Backward linkages relate to the importance of tourism as a consumer of inputs from other industries, including a wide range of agricultural and manufacturing goods, and a variety of services (e.g. construction and telecommunications)
- **Forward linkages:** Forward linkages relate to the importance of tourism as a supplier (or input) to other industries. The tourism industry that sells goods and services to tourists may have forward linkages by selling their products to businesses in other industries.

At the same time the degree to which tourism will act as a key driver of economic growth in a country or region will depend largely on the extent of so-called **tourism leakages**. These are defined as the amounts subtracted from tourist expenditures and can take the form of profits and revenues paid abroad to international tour operators and the cost of imported goods and services.

Despite the fact that the main goal of this study is to assess the competitiveness of the European tourism industry and the identification of potential barriers that might hamper it, events or characteristics from these other sectors can have an impact on the competitiveness of the tourism industry itself. Also in light of the current economic downturn, the multiple linkages with other sectors have an impact on the tourism industry.

4 Accommodation

4.1 Introduction

In this chapter we specifically **focus on the accommodation sub-sector**. Given that a tourist spends by definition at least one night in another location³⁷, accommodation is an essential part for any type of holiday. In the following paragraphs we describe the structure of the accommodation sector within the EU, its economic performance as well as the competitive position of the sector. To this end the most recent data available for the EU-27 will be used. Most data in the next chapter stem from Eurostat and refer to 2006 and 2001, unless mentioned differently. We do remark that Eurostat only collects data on the **commercial part** of the accommodation sub-sector (cf. Annex IV for a more detailed discussion on data limitations).

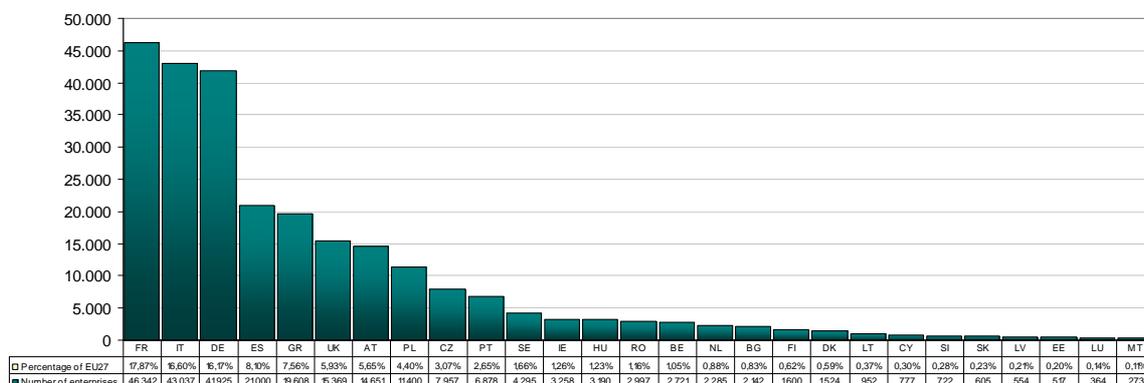
4.2 Structure of the commercial accommodation sector

4.2.1 Number of enterprises

According to Eurostat the accommodation sector in Europe in 2006 consists of **approx. 260,000 enterprises**. A vast majority of these enterprises (87%) are located in the EU-15. New Member States account for only 13% of the total number of enterprises in the EU. More than half of the enterprises is concentrated in only three countries: France, Italy and Germany. The number of enterprises in countries like Spain and the UK is significantly lower, although they are major destinations in Europe when it comes to the number of international tourist arrivals (see Figure 4.1). In the new Member States, Poland and the Czech Republic should be paid attention to. Their accommodation sector represents respectively 4.4 % and 3.1% of the total EU accommodation sector. Both countries account together for more than half of the accommodation industry in the new Member States.

³⁷ At the 1991 WTO Ottawa Conference on Travel and Tourism Statistics, tourism was defined as: 'the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.'

Figure 4.1 Accommodation: number of enterprises per Member State (in absolute numbers and % of EU-27), 2006

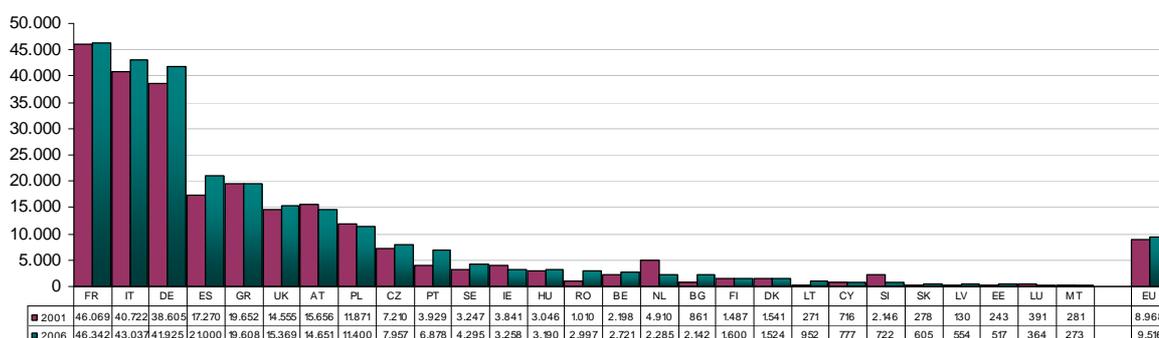


Source: SBS database, Eurostat

Development over time

Between 2001 and 2006, the number of EU accommodation enterprises increased by 6%, from 242,000 to 260,000 enterprises.

Figure 4.2 Accommodation: number of enterprises per Member State (in absolute numbers), 2006 compared to 2001



Source: SBS database, Eurostat

The average number of accommodations per country increased from 8,968 to 9,516 accommodations. In relative terms, the increase was highest in Latvia and Lithuania, whereas in absolute terms the increase in number of accommodations was highest in Spain and Germany. The Netherlands and Austria show the largest decrease.

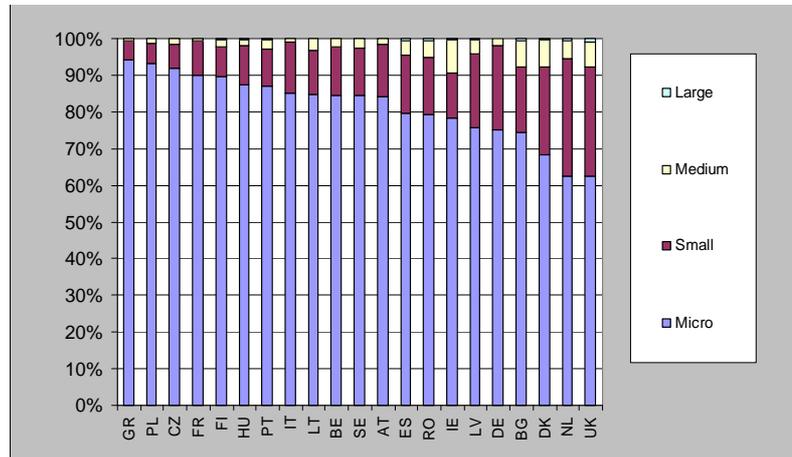
4.2.2 Size distribution

The accommodation sub-sector is **almost exclusively populated by SMEs**³⁸. Especially **micro-enterprises** (employing 1 to 9 employees) are strongly represented. This group of enterprises represents in all Member States, except for the UK, the Netherlands and Denmark – **at least 75% of the total number of enterprises** in the industry. In certain countries like the Czech Republic, Poland and Greece, the share of micro-enterprises in the total number of enterprises even exceeds 90%. In all countries, the share of medium

³⁸ We refer to http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm for the EU definition of SME

(employing more than 50 people) and large companies (employing more than 250 people) is below 10%. Ireland, as an exception, proves the general rule. In countries like France, Italy and Greece, these medium and large companies are almost non-existing.

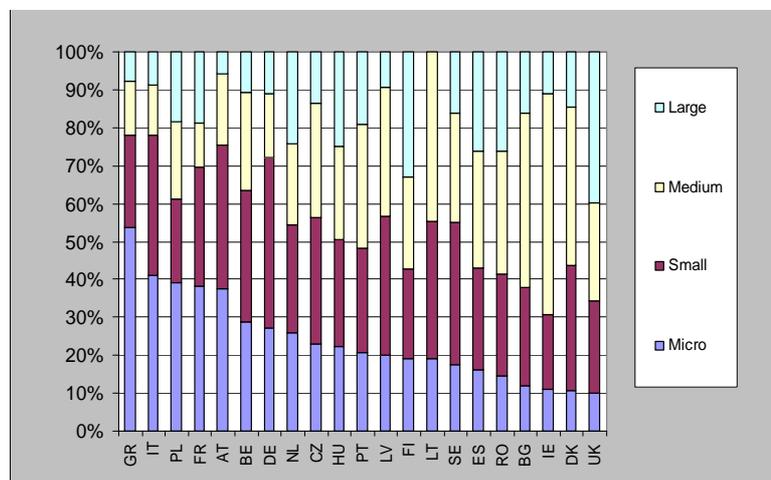
Figure 4.3 Accommodation: size distribution of enterprises per Member State (in %), 2006



Source: SBS database, Eurostat

Even though the share of **medium and large enterprises** in the total number of accommodation enterprises is low, those companies **account for an important part of employment** in the different Member States. As shown in Figure 4.4, large enterprises account for more than 30% of the total employment in countries like the UK and Finland. Apart from these large companies, medium-sized companies also generate an important part of the total employment in the industry. Even though the share of these companies in the total number of enterprises is lower than 10% in each of the Member States, their share in the total employment ranges from 10 to more than 50%. Especially in countries like Ireland, Lithuania, Bulgaria and Denmark, this group of medium sized enterprises accounts for a considerable amount of jobs. Micro-sized enterprises account for only 10 to 40% of the total employment within the industry.

Figure 4.4 Accommodation: size distribution of employment per Member State (in %), 2006



Source: SBS database, Eurostat

4.2.3 Large diversity of enterprises

The accommodation sub-sector is populated by a **very diverse group of enterprises**; each following very different business strategies and satisfying the needs of a very diverse group of consumers.

- **In the hotel segment** we find large multinational hotel chains alongside very small local establishments. Larger hotel chains like Hilton and Marriott are developed to meet the needs of business travellers. Other chains such as Club Med rather focus on leisure tourism. Alongside these international chains, very small independent hotels exist, ranging from little boutique hotels in cities to family hotels in non-urban areas. These establishments are mainly local players, offering one of the key elements in tourism demand: the personalisation of the tourism product.
- **Besides hotels and similar establishments**, the accommodation industry consists of establishments such as, rural gîtes, campsites, youth hostels and apartments for rent and other private accommodation facilities. UNWTO estimated that in 2005 worldwide only 36% of total tourist trips made use of hotels and similar establishments³⁹. In number of guest-nights this group of accommodation accounts for 70%. Over the years the relative importance of these other types of accommodation seems to have increased significantly⁴⁰. Especially in Europe, customers make more use of these types of accommodation, as they look more for ‘value-for-money’ and more diversified travel experiences. However, the exact importance of these other types of accommodation is very difficult to estimate as they are not always included in the official statistics on tourism (see for example Box 4.1).

Box 4.1

Rural tourism in Europe

Rural tourism in Europe: a sleeping giant?

It is difficult to provide exact figures – or even reliable estimates – on rural tourism. A large part of the bed capacity is simply not included in official statistics on tourism. The reason for that is that a vast majority of rural accommodation falls below the threshold of capacity that is used to include tourism services in official statistics. Even so, global estimates regarding the bed capacity in small, micro, or complementary accommodation⁴¹ in rural areas offer some interesting results for the whole of Europe (EU-27+others): more than 500.000 accommodation units, around 6.500.000 bed places and “Agrotourism” representing about 15-20% of this total. Data, gathered by Eurogites, indicates that the average annual growth over the past 10-15 years in demand and supply has been around 10-15%: a much higher value than for European tourism in general, where the rate has only been around 4-5% p.a.

Source: Perspectives of rural tourism in Europe, Eurogites

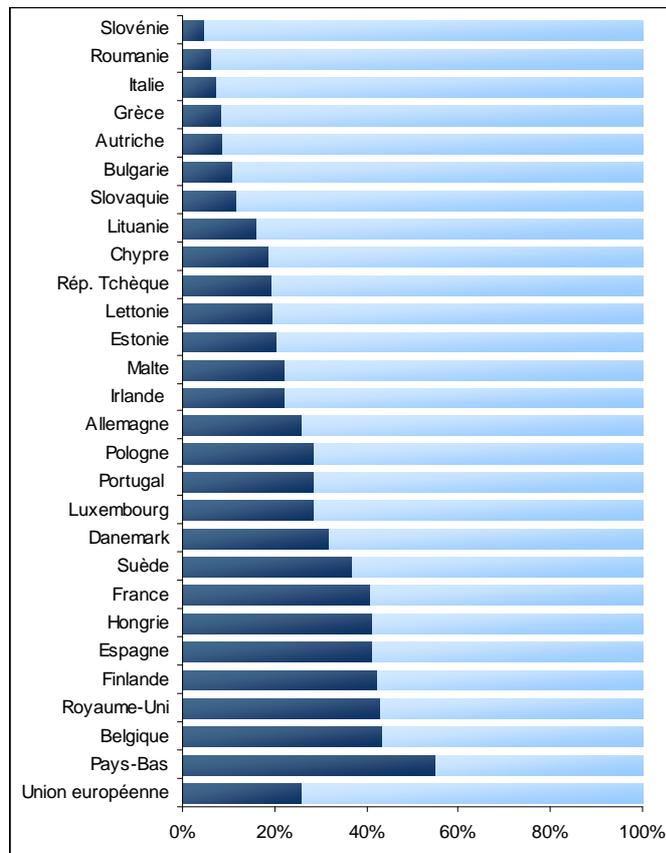
³⁹ UNWTO (2008), *Climate change and tourism – responding to global challenges*.

⁴⁰ Interview UNWTO, Eurogites

⁴¹ The European Federation of Farm and Village Tourism – EuroGites - has established 40 bed places as a tentative upper limit for accommodation to be considered Rural Tourism. The mean capacity in Europe would then be around 12-15 beds per unit.

There are **large differences in the penetration rate of different types** of accommodation across Member States. In the hotel segment, figures from MKG Hospitality⁴² show that the market position of integrated hotel chains ranges from 10% of the total market in countries like Slovenia, Italy or Greece up to more than 55% in a country like the Netherlands. On average integrated hotel chains are responsible for 25% of the total hotel market in the EU. Similar differences can be found when focusing on rural tourism: whereas out of all bed capacity in Europe, 80% is self-catering and 20% are rooms in private houses, this proportion is just the opposite in a country like Romania⁴³.

Figure 4.5 Accommodation: market share of integrated hotel chains in hotel segment by Member State (in %), 2009



Legend: dark blue = market share of integrated hotel chains in hotel segment in different countries.

Source : Database MKG Hospitality

4.2.4 Market concentration

The accommodation industry is not only characterised by a large diversity in companies, it is also **very fragmented in terms of ownership**. UNWTO estimates that the top 10 of the largest players in the industry have less than 5% of the total bed stock in Europe⁴⁴.

⁴² MKG Hospitality, European Hospitality Report, www.mkg-hospitality.com

⁴³ Interview Eurogites

⁴⁴ Interview UNWTO

During the second half of the 1990s the average capacity of bed places per establishment rose from 45.3 in 1995 to 48.0 bed places in 2000¹⁰. This indicates an **overall concentration process** in the accommodation sector in the period mentioned. We do remark that, as the official statistics in certain countries only record accommodation facilities with a certain minimum number of bed places or a certain quality standard, the structural change might have been more significant.

In the segment of hotel chains, the degree of concentration is high: the five major hotel groups dominate more than 70 % of the chain market in Europe. The development of hotel chains is not only a consequence of the globalisation process, the private sector also looks at meeting the consumer's wishes on standards and service quality.

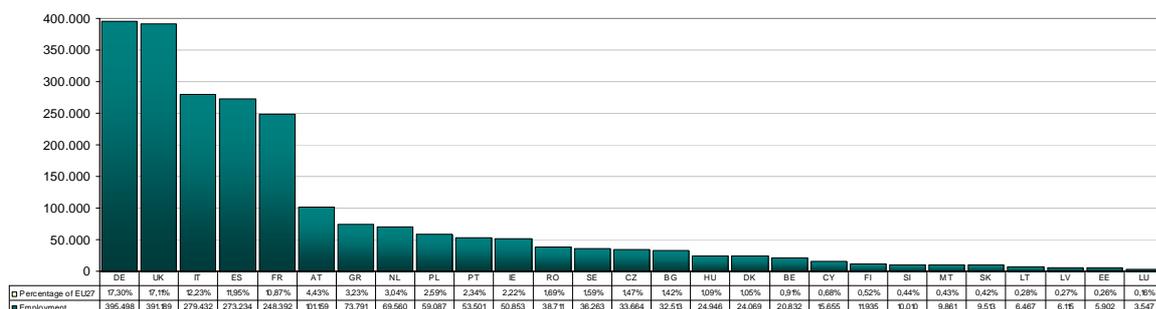
Although the level of concentration in the accommodation sub-sector does not reach the same degree as in the TO&TA sub-segment (see chapter 1), some tour operators and airlines have taken financial stakes in hotel chains in order to reduce the level of risk of seasonal price increases and scarcities. Such **strategies of vertical integration** suggest that the market might be more concentrated than the pure statistical evidence of market shares would lead one to suppose¹⁰.

4.3 Employment in the accommodation sector

4.3.1 Number of employees

According to Eurostat, **nearly 2.3 million people were employed in the accommodation sector** in Europe in 2006. A majority of this employment (70%) is concentrated in 5 countries: Germany, the UK, Italy, Spain and France. In the new Member States, approx. 250,000 people are employed in the accommodation sector (11% of EU-27 employment).

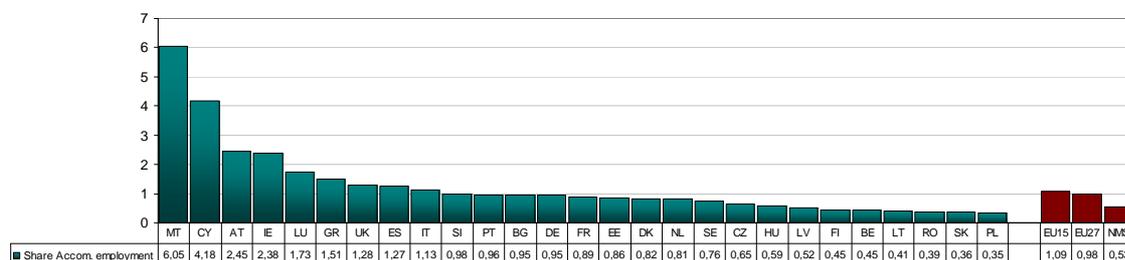
Figure 4.6 Accommodation: employment per Member State (in absolute numbers and % of EU-27), 2006



Source: SBS Database, Eurostat

Accommodation **accounts for a 1% of total employment in the EU-27**. This share is significantly higher in the old Member States than in the new Member States (respectively 1.09% and 0.53%). Exceptions are Malta and Cyprus, where the accommodation sector accounts for respectively 6% and 4% of total employment.

Figure 4.7 Accommodation: share of employment in total employment per Member State (in %), 2006

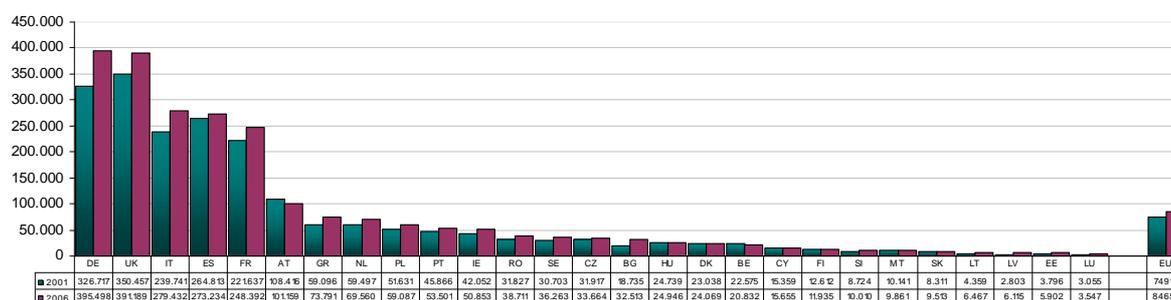


Source: SBS Database, Eurostat

Development over time

Between 2001 and 2006, the employment in the accommodation industry grew from 2 million to 2.3 million (+13%). The largest increase in absolute numbers was realised in Germany (+68,781) and the UK (+40,732). In the same period of time countries like Austria, Belgium, Finland and Malta showed a decrease in the number of persons employed in the sector.

Figure 4.8 Accommodation: employment per Member State (in absolute numbers), 2006 compared to 2001



Note: EU = average employment per EU country

Source: SBS database, Eurostat

4.3.2 Employment characteristics

In the next paragraph we discuss some relevant characteristics of employment in the accommodation industry. Our analysis is mainly based on data from the Labour Force Survey (LFS)⁴⁵ and refers to the year 2007.

⁴⁵ The Labour Force Survey (LFS) is yearly released on the basis of data provided by national labour force organisations. The principal legal act to safeguard the national input and coherence is the Council Regulation (EC) No. 577/98. The data and indicators of the LFS released by Eurostat do not cover each sector in the same detail. On one hand, indicators are available at the level of three NACE-digits within the sector of “hotels and restaurants”. On the other hand, indicators for the sector of “transport and communication” (to which the TO&TA industry belongs) is only available at a 2-digit level. For this reason we can proceed to more detailed analyses on employment characteristics in this chapter, but not in the next chapter covering the sub-sector “tour operators and travel agents”. At present (July 2009) the most recent year with LFS data available in Eurostat, is 2007. As the provision of data by the different countries is not equally fast, complete and accurate, there are differences in availability of the different indicators between countries.

New competencies in the HoReCa sector

According to Oxford Research⁴⁶ the most important new competencies in the HoReCa sector appear to emerge in the following areas:

Extended service skills and new thematic knowledge areas: While the age and lifestyles of the customers change, so do the demands posed in the Hotels and restaurants sector. Examples are stronger focus on health, language skills and intercultural competences.

Multi-skilling: An emerging trend is visible to extend existing employees work tasks. Multi-skilling might be seen as a solution to meet the needs of flexibility required by the nature of the sector. This trend can of course have negative effects, such as the risk of overusing employees and the lack of specialisation.

New management skills: Within the sector new management skills are required. Examples are the shift from resource management to contract management, the need for more financial skills and the growing need for middle managers as the size of the companies tends to grow.

Skills related to the area of ICT and digitalisation: The increased necessity and use of ICT and digitalisation require knowledge, skills and competencies.

Source: Oxford Research

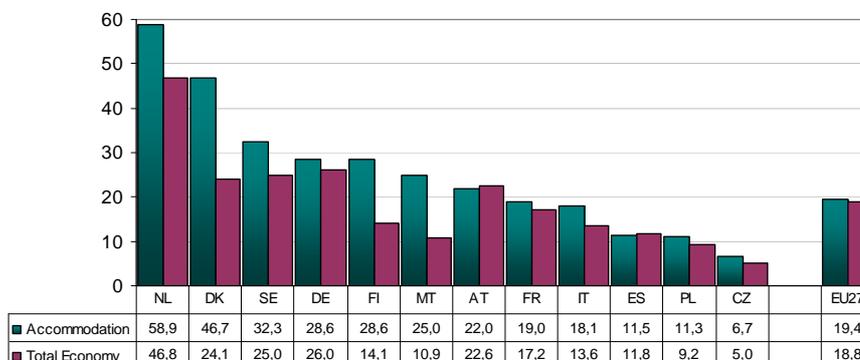
Part-time and seasonal work

Due to the seasonal nature of tourism in Europe (see paragraph 2.1.3), the employment in the accommodation sector is highly cyclical. Employment in the sector often has a part-time or temporary character to cope with this seasonality.

In almost all Member States for which data are available, the **share of part-time employment is significantly larger in the accommodation sector** than in the total economy. The degree to which part-time work is used, differs however between the different Member States. Whereas on average in the EU approx. one fifth are part-time jobs in 2007, this share ranges from almost 60% in the Netherlands to less than 7% in the Czech Republic (Figure 4.9). A recent study from Oxford Research⁴⁶ on the HoReCa sector indicates that the **new Member States tend to employ less on a part-time basis** than the old Member States.

⁴⁶ Oxford Research (2009), *Comprehensive sectoral analysis of emerging competencies and economic activities in the European Union*, report prepared for DG EMPL of the European Commission, April 2009

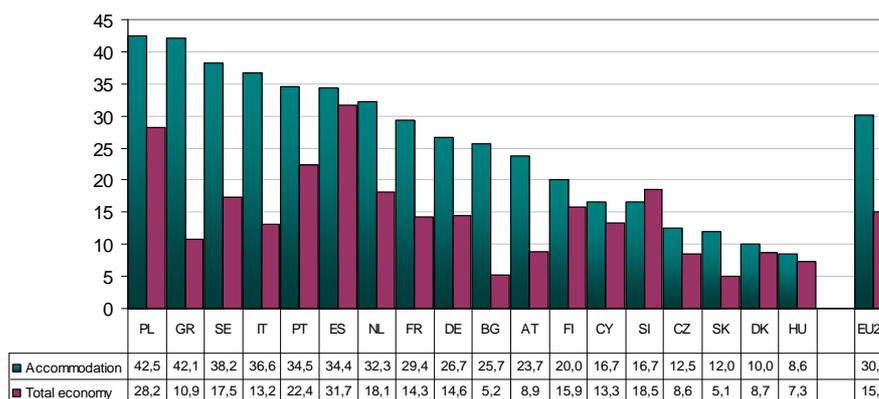
Figure 4.9 Accommodation: part-time employment per Member State (in % of total employment in accommodation), compared to part-time employment in total economy (in %), 2007



Source: Eurostat, LFS

Also apart from part-time employment **temporary employment** allows the industry to cope with the highly seasonal character of the industry. Whereas less than 15% of employment in the total EU economy was temporary in 2007, the percentage of temporary jobs amounts up to 30% in the accommodation sector. Similarly, the degree to which temporary employment is used differs between the different Member States. In Hungary only 8% of the employment in the accommodation sector is temporary; in countries like Poland and Greece it accounts to more than 40%. Oxford Research⁴⁶ reported that in the third quarter of 2006 some 2.3 million workers were employed in the accommodation sector, compared to less than 2 million in the first quarter of 2006.

Figure 4.10 Accommodation: temporary employment per Member State (in % of total employment in accommodation), compared to temporary employment in total economy (in %), 2007

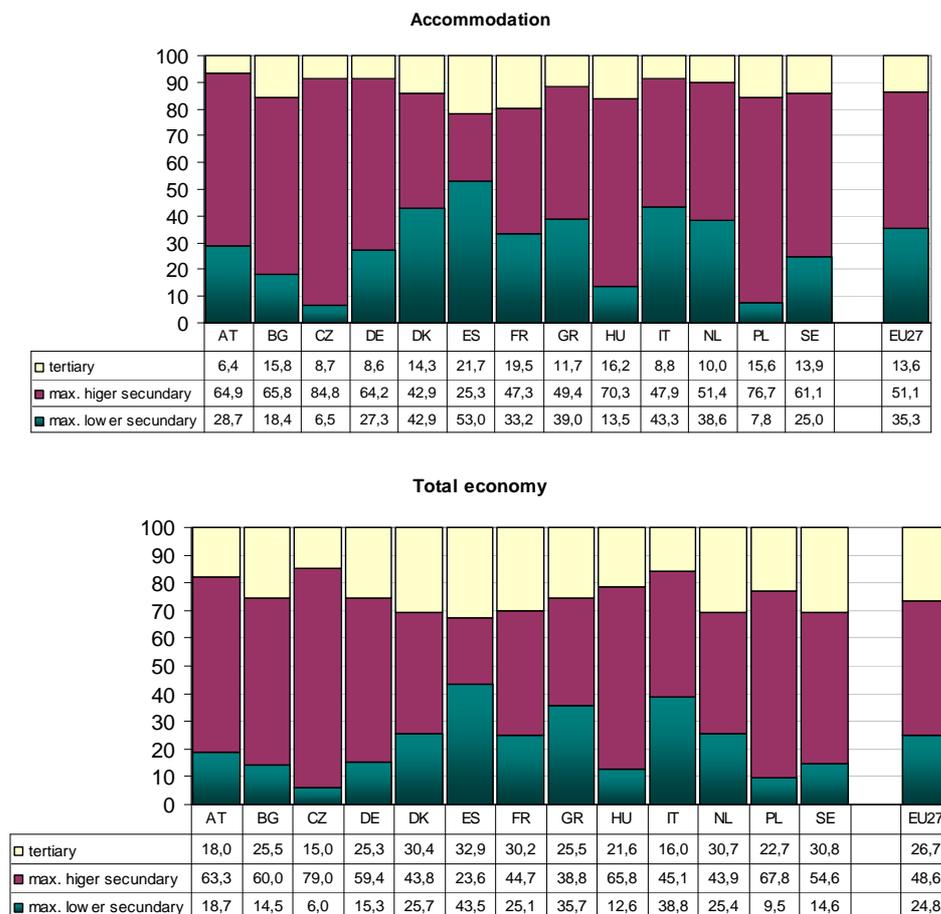


Source: Eurostat, LFS

Skills profile of employment

The average **level of education** in the EU accommodation industry is **significantly lower than in the rest of the economy**. Approx. one fourth of all employees in the total EU economy did not attain more than a lower secondary education degree in 2007. In the accommodation sector this percentage amounts to 35%. Alternatively, **employees with a tertiary education degree are strongly underrepresented** in the accommodation industry. Less than 14% of employees in this sector have a tertiary education degree, compared to an average of 27% in the total EU economy. The accommodation sub-sector is dominated by small (family) businesses, partly explaining the lower level of education in the sub-sector. Towards the future, the **need for additional trained people is growing**. We identify this need for more human capital as a major challenge for the future development of the sector (Cf. Chapter 9).

Figure 4.11 Accommodation: level of education per Member State (in %), compared to level of education in total economy (in %), 2007



Source: Eurostat, LFS

Share of young and female employees

The tourism industry is often cited as an industry providing **good job opportunities for groups of people that traditionally have a ‘weaker’ position in the labour market.** More specific reference is made to young people and females.

- **People under the age of 35** represent 34% of the workforce of the total EU economy. In the accommodation sector this percentage amounts to 43%. Especially in the Scandinavian countries, Germany and the Netherlands, the accommodation industry employs more young people. In Spain, Portugal, Greece and Italy the share of young people in the accommodation industry is significantly lower.
- **Female employees** are highly represented in the accommodation sector. Females represent 44% of the total workforce in the EU economy. In the accommodation sector this percentage rises to 60%. The overrepresentation of women in the accommodation industry is a general characteristic across Europe and particularly in Eastern Europe.

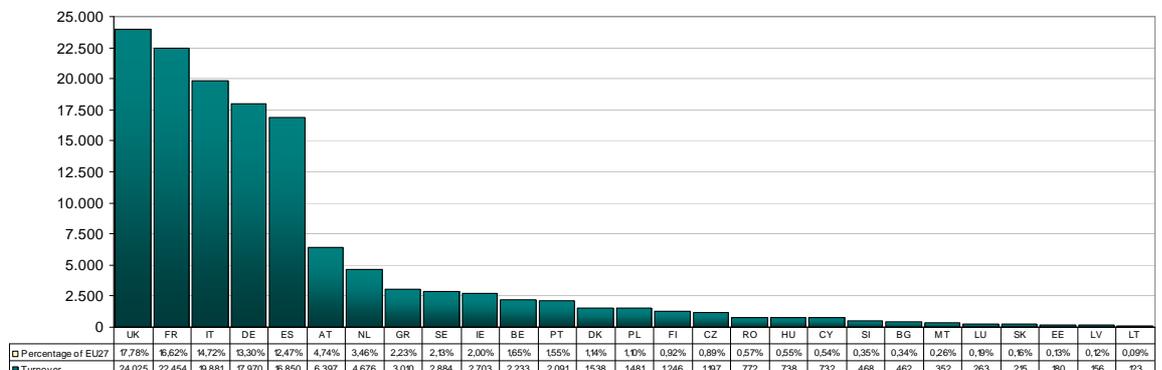
4.4 Economic performance of the accommodation sector

In the next paragraph we discuss different economic performance indicators: turnover, occupancy rates, profitability and productivity. The analysis is largely based on data from the Eurostat Structural Business Statistics database (SBS). The data refer to 2006 and 2001, unless indicated otherwise.

4.4.1 Turnover

In 2006, the accommodation sector realised a **turnover of approx. €135 billion.** The **old Member States accounted for nearly 95%** of it. The UK accommodation sector alone accounts for 18% of the total turnover. This is a remarkably high percentage, given the fact that the UK accounts for only 6% of enterprises.

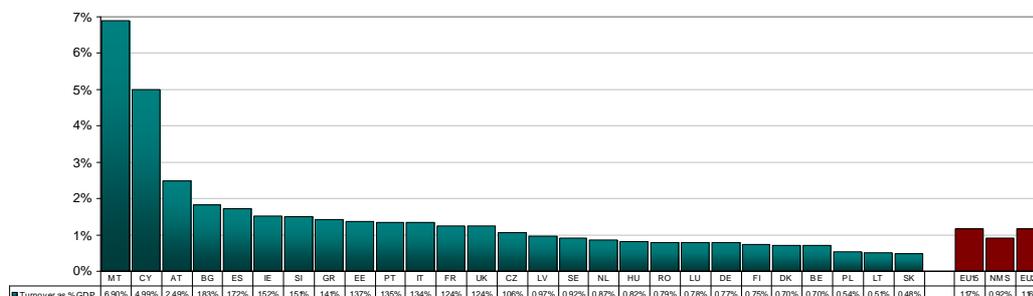
Figure 4.12 Accommodation: turnover per Member State (in Mio € and in % of EU-27), 2006



Source: SBS Database, Eurostat

In 2006, the accommodation sector accounts for **approx. 1.16% of GDP in the EU-27**. Exceptions are again Malta and Cyprus, where the accommodation sector accounts for respectively 6.9% and 5.0% of GDP.

Figure 4.13 Accommodation: share of turnover in GDP per Member State (in %), 2006

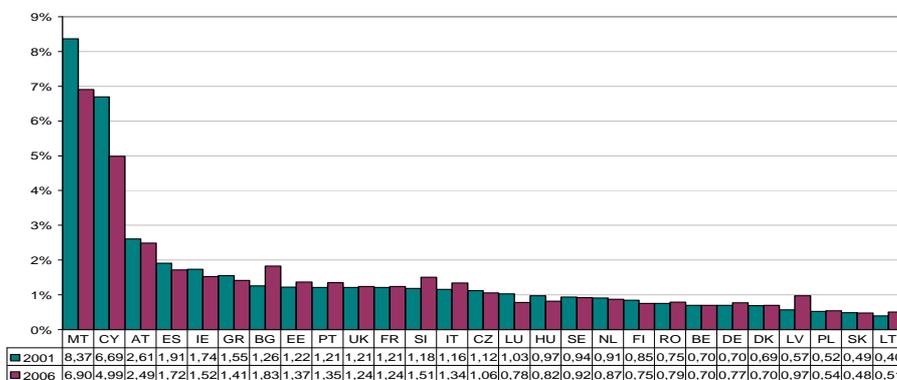


Source: SBS Database, Eurostat

Development over time

The total turnover of the accommodation sector in the EU-27 increased from €107 billion in 2001 to €135 billion in 2006. For some countries there is a decline in terms of its contribution to GDP (Cyprus, Luxembourg, Malta), while others, particularly in new Member States, show growth (Latvia, Bulgaria, Lithuania and Slovenia).

Figure 4.14 Accommodation: share of turnover in GDP per Member State (in %), 2006 compared to 2001



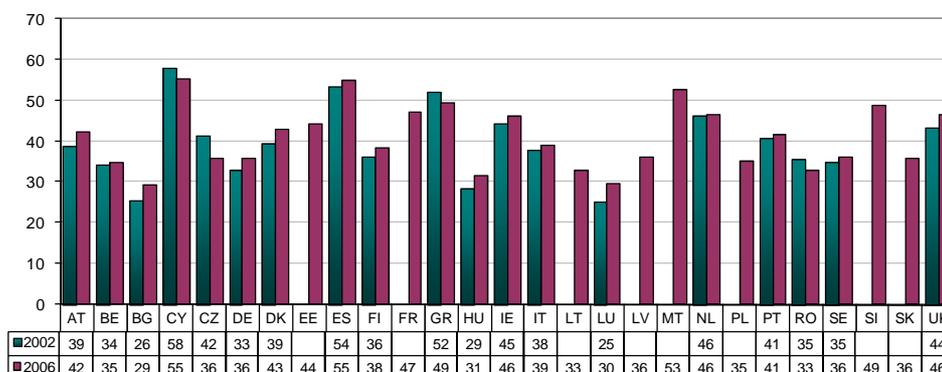
Source: SBS Database, Eurostat

4.4.2 Accommodation occupancy rates

Figure 4.15 shows the average net occupancy rates of bedplaces in collective accommodation establishments in 2002⁴⁷ and 2006. The countries with the highest average occupancy rates in 2006 are Cyprus, Spain, Greece and Malta, all showing an average occupancy rate of more than 50%. Luxembourg, Hungary and Bulgaria report the smallest average occupancy rates. For those countries where data is available for both years, there are only minor differences in average occupancy rate.

⁴⁷ Because of the lack of information for the year 2001, we used the more complete data of 2002.

Figure 4.15 Accommodation: average net occupancy rates of bedplaces (in %), 2006 compared to 2002



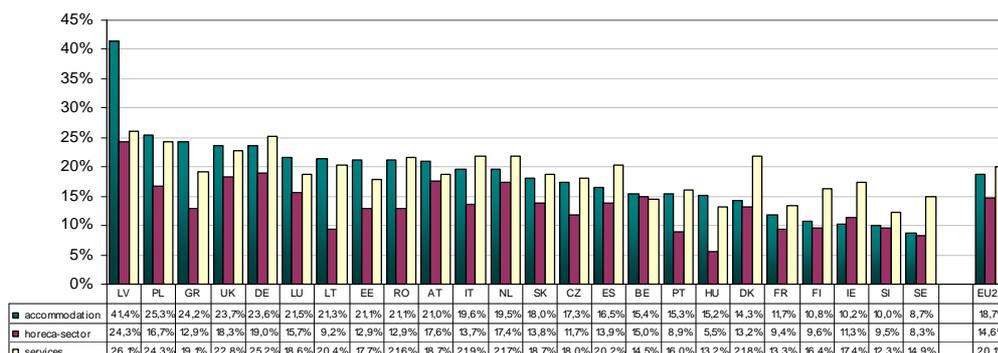
Source: Eurostat

4.4.3 Profitability

The average profitability ratio⁴⁸ in the EU accommodation industry was in 2006 18.7%. Compared to other sectors, the following can be concluded:

- The profitability ratio of the HoReCa sector as a whole⁴⁹ is 14.6%. As HoReCa also contains the accommodation sector, this implies that the difference in profitability between restaurants & cafés and accommodation is even larger.
- The profitability ratio of the services industry as a whole is equal to 20.1%. The accommodation profitability ratio is thus on average **lower than the services profitability** in the EU-27.

Figure 4.16 Accommodation: profitability ratio per Member State (gross operating surplus/turnover, in %), compared to HoReCa sector and services sector, 2006



Source: SBS Database, Eurostat

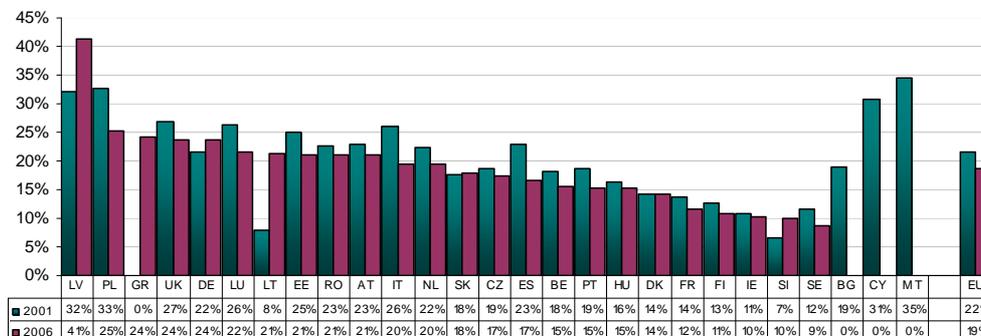
Development over time

In the EU-27, the **average profitability of the accommodation sector has decreased** between 2001 and 2006 from 22% to 19%. Poland and Spain show the largest decrease in profitability, while Latvia shows the largest increase (from 8% to 21%).

⁴⁸ The profitability ratio is defined as the gross operating surplus over the total turnover.

⁴⁹ i.e. Hotels, Restaurants and Cafés.

Figure 4.17 Accommodation: profitability ratio per Member State (gross operating surplus/turnover, in %), 2006 compared to 2001



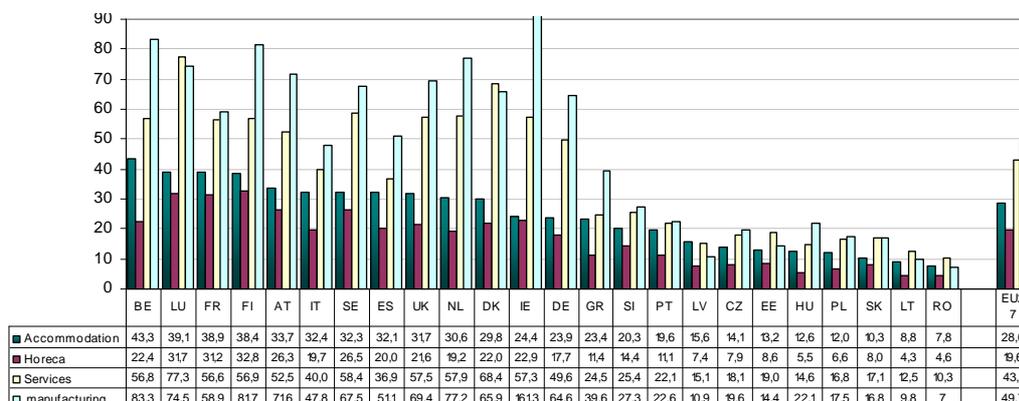
Source: SBS database, Eurostat

4.4.4 Labour productivity

The gross value added per person employed in the EU accommodation industry was in 2006 on average €28,600. With €43,300, gross value added per person employed is highest in Belgium. In Lithuania and Romania, gross value added per person employed is below €10,000.

Labour productivity in the accommodation industry is **significantly higher than the HoReCa labour productivity (€19,600), but far below the average labour productivity of services (€ 43,100)**. Apart from Latvia, this pattern is consistent across all Member States.

Figure 4.18 Accommodation: labour productivity per Member State (in Ths €), compared to HoReCa, services and manufacturing industries, 2006

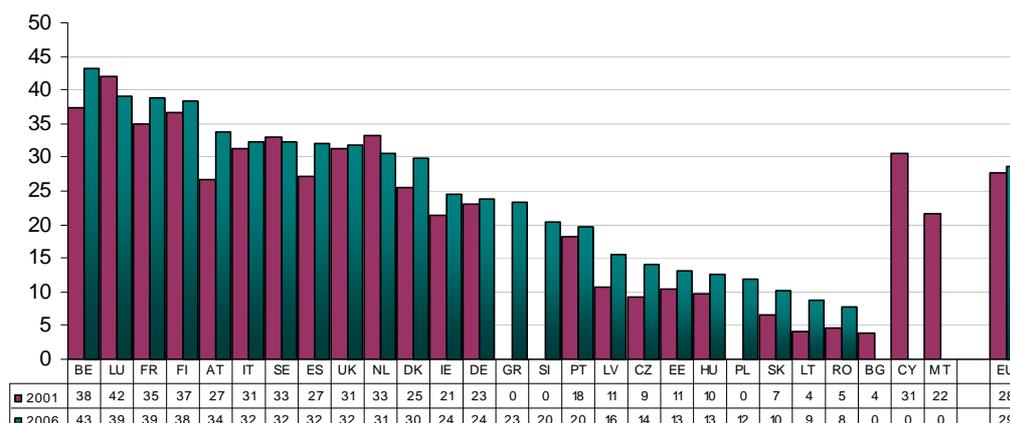


Source: SBS database, Eurostat

Development over time

Labour productivity in the EU-27 increased from €28,000 in 2001 to €29,000 in 2006 (+3%). Austria showed the largest increase in absolute terms, from €27,000 to €34,000 (+26%). Only in Luxembourg, the Netherlands and Sweden there is a decrease in labour productivity.

Figure 4.19 Accommodation: labour productivity per Member State (in Ths €), 2006 compared to 2001



Source: SBS database, Eurostat

4.5 Competitiveness analysis of Accommodation sector

4.5.1 Relevant strategies and business models

Horizontal and vertical integration

Horizontal and vertical integration of business activities is often seen in the segment of hotels.

- The Accor group for example is **horizontally integrated** and serves various niches in the market through the different hotel brands in its portfolio: Sofitel on the high-end side, Novotel offering medium quality service at a correspondingly lower price, etc. In opposition, the strategy of Intercontinental Hotel Group is to focus specifically on the mid-scale to luxury segment with brands as Crowne Plaza and Holiday Inn. Starwood also keeps the focus on mid-scale and upper scale hotels with its brands Le Méridien and Sheraton. Some chains even stick to one (main) brand, which is the case for the British ‘Western Union’ and the Spanish ‘NH Hoteles’
- Vertical integration** is a strategy sometimes seen with the large hotel chains. Since the 1990’s, tour operators in particular have entered the accommodation market by taking financial stakes in hotel chains to expand their control over the value chain. Although some tour operators have returned to a more ‘asset light’ model since then (holding no longer financial stakes in other travel activities, see also 5.5.1), they

continue having a large influence on hotels' operation through contractual agreements.

Nevertheless, we remark that within the accommodation sub-sector the **processes of integration are less intense when compared to the tour operators and travel agents sub-sector** for example.

Box 4.3

Market strategy of Accor

The strategy of Europe's market leader Accor: typical for all bigger chains?

With more than 2,000 hotels in Europe (and more than 4,000 worldwide), Accor is one of Europe's leading hotel chains. In 2006, a turnover of 5,172 millions euro was realised in Europe. Accor built up its brand portfolio throughout many years of acquisition. Nowadays, this portfolio consists of a wide range of brands, from basic pass-through hotels such as Etap and Formule1, over medium-class such as Mercure or Novotel, to upper-class hotels such as Sofitel.

Since Accor was founded in the 60's, hotel management has always been Accor's core-business. However, there have been acquisitions in other industries too. For example, Accor owns businesses in the industry of luncheon vouchers and catering, some hostels, casino's and conference centres. Aiming at returning to the core-business of "normal" hotels, the company downgraded its share of more than 30% to 6% in the resort-chain Club Med in 2006. Likewise, from the side of the chains with resort parks as a core-business (Sol Melia and Iberostar in Spain, Bourne Leisure in the UK) there is not too much interest in city-hotels or business-hotels.

At present, Accor is not aiming for further horizontal integration (e.g. Holidaybreaks) or vertical integration (e.g. TUI). It is however important for Accor to develop strategic partnerships with companies in the linked (tourism-) sectors. The strongest partnership is established with Air France and involves shared sales, distribution, marketing and communication initiatives. Joint loyalty programmes are set up with other airlines and rail companies. Further strategic partnerships are set up with companies from a wide range of industries: food (Danone), car rental (Europcar), financing (VISA), Telecom (Bouygues), and fuel (Total). This strategy is not only applied by Accor, but also used by Starwoods for example, which has partnerships with 32 airlines and American Express.

Source: adapted from Accor annual reports and interview

Clustering and networking

Clustering and networking **become important and even vital for creating a total tourist experience**. It is a mean to differentiate the activities of an enterprise, through the provision of value-added activities and collaboration across the value chain. As customers expect more quality, accommodation managers realise they **need to build linkages with other players in the value chain**.

Outsourcing

The **concept of franchising hotels** is already half a century old. But it has received a further boost in the past few years, as the biggest international hotel chains, under pressure from shareholders to return capital, have put many of their properties up for sale. Hotel chains are now mainly franchisers and managers, rather than owners. They charge a fee to the hotels' owners, and in return they provide the brand name and a steady stream of bookings from their online reservations systems. This model is called the 'virtual-hotel' model⁵⁰.

Box 4.4 Outsourcing in the accommodation industry

Outsourcing as you sleep

Among the keenest adopters of this virtual-hotel model, also called "asset-light", is InterContinental, a British-based company which, in addition to its hotel chain, owns the Holiday Inn and Crowne Plaza brands. InterContinental was formed from a demerger in 2003, just as the business emerged from the dotcom bust. Even then, it owned only around 200 of the 3,500 hotels that bore its brands. But during the recent boom it sold most of the remainder, while expanding worldwide through new franchising and management contracts with hotel developers. It now owns only 16 of the 4,186 hotels in its system. But InterContinental certainly is not the only accommodation company making use of the franchising model. In the Accor Group more than 25% of the hotels are run by franchising, the same way Mac Donald's runs its restaurants: the franchisee/owner of an Accor-hotel pays for the wide range of know-how, management methods, services, marketing,... provided by Accor. He also has to subscribe to strict brand standards. In turn, he receives parts of the profit realised in his hotel unit. The goal of Accor is to shift more and more from ownership to franchising. American hotel chains such as Hilton or Marriott are also known for using it, whereas Starwood sold 38 hotels in 2006 to make a shift to franchising. The aim of this strategy is mostly to create new capital to further develop the brands, and to become less dependent from fluctuations in real estate markets.

Sources: adapted from The Economist February 21st 2009 and Accor website

Countertrend: small scale accommodations

As a countertrend to concentration through integration and the creation of large scale accommodations, many other people look for smaller (and personalised) accommodations in quieter areas. These may be boutique hotels, rural gîtes or Bed & Breakfasts, all serving smaller niche markets. Many of these alternative accommodations – especially in more rural areas – once started as a strategy to raise income and the entrepreneurs often have no specific educational background in business management or tourism. As hotels are being taken over by a next generation of entrepreneurs, it is expected that

⁵⁰ The Economist, February 21st 2009.

professionalism will increase. This next generation is often better trained and educated for running this type of business⁵¹.

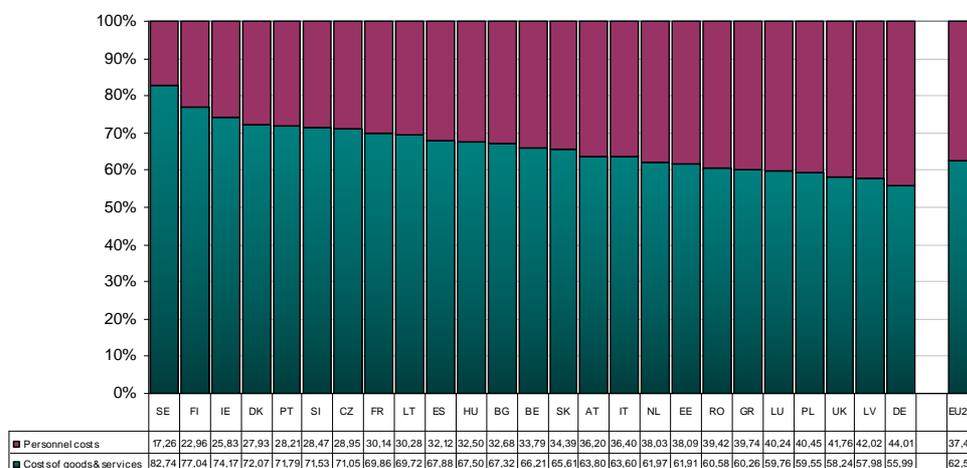
4.5.2 Labour supply, costs and conditions

Labour costs in total cost of business

In 2006, labour costs make up approx. 37% of the total business costs (i.e. costs of goods & services and personnel costs) in the EU accommodation industry. Compared to the total economy, where labour costs make up approx. 19% of the total business costs, the **share of labour cost is particularly high** in the accommodation industry. The share of labour costs is however lower in the accommodation industry than it is in the service sector (excl. financial services), where costs on average make up 41% of total costs.

The proportion of labour costs in total business costs is highest in Germany, Latvia and the UK (more than 40%), whereas in Sweden or Finland labour costs only make up less than 25% of total business costs. The tourism industry in general and the accommodation sub-sector in particular is very labour intensive, so that the expensive labour force in the EU compared to other regions in the world might have a negative impact on the sectors' competitive position.

Figure 4.20 Accommodation: share of labour cost in total cost of business per Member State (in %), 2006



Source: Eurostat

Labour conditions

Labour conditions in the accommodation sub-sector are **not always perceived as favourable**. And indeed, a number of elements make working in the accommodation industry – as in other industries that face many of the same problems (e.g. nursery) – less attractive to many people:

⁵¹ Interview ETAG, Exceltur

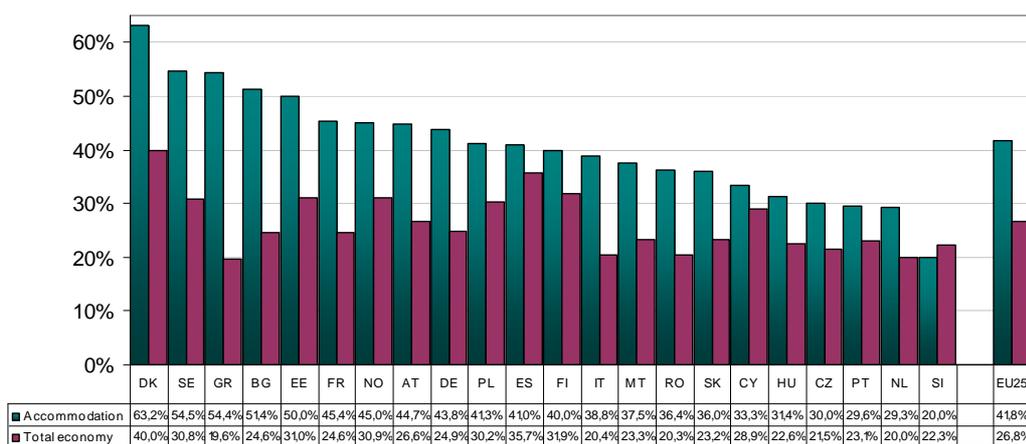
- **Long working hours:** the number of working hours per week in the accommodation industry is 2.2 hours above the average of other sectors in the EU. The number of average working hours shows a clear North–South increase, with less working hours in Northern countries and more in the Southern countries.
- **Temporary working contracts:** As indicated in paragraph 4.3.2 the accommodation sector is characterised by a high share of temporary work. These types of contracts are by many people perceived as providing more financial insecurity and a less stable income over time.
- **Relatively low remuneration:** The accommodation sector and the tourism industry in general is said to give relatively low remuneration. An employee with the right skills to work in the tourism industry might earn significantly more in other sectors of the economy.

Several of the problems discussed above are highly **interlinked with the strong seasonal pattern** of tourism in Europe. This seasonality has a large impact on employment and the competitiveness (see paragraph 7.2.1 in Chapter 1).

High personnel turnover

As a result, personnel turnover in the accommodation sector is extremely high. Except for Slovenia, the percentage of employees with seniority of less than two years in the tourism industry is much higher compared to the total economy (Figure 4.21). This high turnover **makes it very difficult for companies to build up a good knowledge base**. Moreover, due to the high turnover, companies are reluctant to invest in training of personnel.

Figure 4.21 Accommodation: share of employees with seniority less than 2 years per Member State (in %), compared to total economy, 2007



Source: Eurostat

Social dialogue

At management level, companies in the accommodation industry start to become more aware of the role of employees in providing a total experience. Employees are the face of the company and providing high quality services becomes an important element to

differentiate as competition in the industry rises. It is therefore expected that social dialogue will remain very important for the further development of the industry in Europe. However, a trend in the industry is that employers do not manage the hotel anymore (see paragraph 4.5.1 on outsourcing). Therefore, management cannot directly influence the working conditions and as such, workers have no rights to participate in the European Council Works for example.

4.5.3 Innovation and productivity enhancement

In view of the constantly changing requirements of visitors, suppliers of tourism products and services must update them regularly.

Need for innovation

Over time tourism products come to the end of their life cycle. Destinations can go ‘out of fashion’. To avoid this, entrepreneurs need to explore new markets and target groups, develop new products, and invest in new installations and equipment, while improving production structures and constantly seeking to innovate⁵². It is felt that innovation often **receives too little attention** in the tourism industry in general, in the accommodation sub-sector and especially with SMEs⁵². Due to the structure of the accommodation industry, clear growth strategies and financial reserves to allow for innovation are often lacking. Where innovation happens, it is often very small in terms of scope and scale.

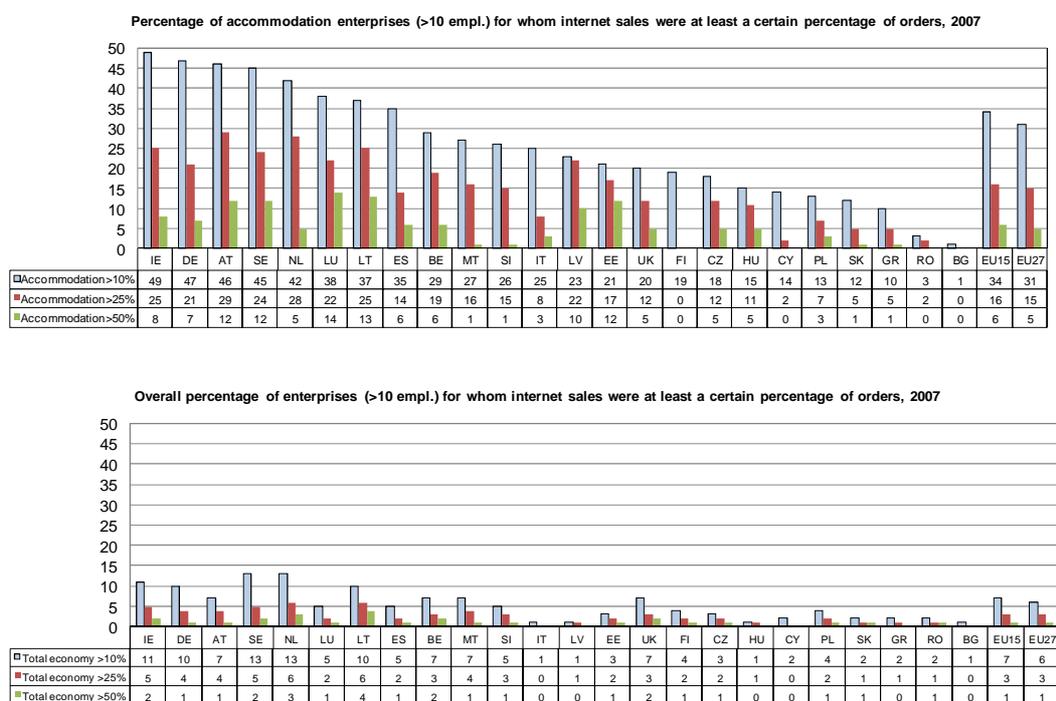
Internet opportunities

The rise of internet clearly **created new opportunities** for the accommodation sector. By using the internet, customers all over the world can be reached in a direct, cost efficient and time effective way. For smaller hotels the internet often means a first **significant distribution channel**. Data show that over the past few years an increasing share of total turnover for accommodation services is generated via internet. Moreover, the accommodation industry – in 2004 still far behind other industries in using the internet to generate turnover – has closed the gap: in 2004 the accommodation services generated 3% of their turnover via the internet, while the equivalent share for the business economy was 9%. In 2005, the share passed to 8% for accommodation services, closer to the average for the business economy recorded at 10% and in 2006 the accommodation industry almost completely closed the gap with the rest of the business economy⁵³. Figure 4.22 shows that in all Member States, internet sales are part of received orders in accommodation, and in most countries, this percentage is higher than in the total economy.

⁵² Interviews UNWTO, ETAG, Exceltur

⁵³ European Business – facts and figures

Figure 4.22 Accommodation: share of enterprises (> 10 employees) from whom internet sales were at least a certain percentage of orders (in %), compared to total economy, 2007



Source: Eurostat - ISOC

4.5.4 Internationalisation

Internationalisation of the accommodation sector is driven by the fact that customers want to lower uncertainty. When travelling, they look for brands and products they know. This means that accommodation companies practice a **‘follow the consumer’ strategy**, whereby, for example, hotel chains from the US enter the EU market (Marriott, Hilton, Best Western, etc.) and vice versa. The offer is a **standardised product** of which the customer knows what he gets. This strategy is seen in most international hotel chains. This type of product is however **only sought by a specific type of travellers**. Many other travellers avoid these standardised products; they prefer ‘couleur locale’ and look for differentiated, country specific products. In this segment, internationally active companies are almost non-existent.

4.6 Impact of the financial crisis on the accommodation sector

Complementing our assessment of the impact of the financial and economic crisis on the tourism industry as a whole (see paragraph 2.3), in this paragraph we specifically focus on the impact of the crisis on the accommodation industry. Since the second half of 2008 the industry’s performance suffers because of a slowing demand. The economic slowdown has especially influenced the accommodation segment focusing on business travel.

4.6.1 Number of nights spent⁵⁴

Whereas in the period from January to April 2008, the number of nights spent in the EU-27 still went up by 1.6% compared to the same period in 2007, a decline of -0.5% was reported for the period May-August. In the last four months of the year, the total number of nights spent even contracted by 3.2%. Especially nights spent by non-residents went down significantly. Overall, **in 2008** and in contrast to 2007, the **number of nights spent in the EU decreased by 0.5%**. This is **mainly due to the nights spent by non-residents**, which has decreased by -1.5% but was partly compensated by the slight increase of 0.3% in nights spent by residents.

Between 2008 and 2007, the negative change in number of nights spent was the most severe in Greece, the Netherlands, Luxembourg, and Cyprus as the only new Member State with a fall back of more than 4%. The highest increases are mainly observed in the new Member States such as Latvia, Slovakia and Poland. In the EU-15, Austria accounts for the highest growth. Most other countries are characterized by stagnation or a (strong) decline. The **first two months of 2009 show a decrease by 9.1% in hotel nights** in contrast to the same period of 2008. A fall has been observed in all 27 European countries except for Italy, Ireland and Luxembourg for which data is not available. The number of nights spent by non-residents has decreased more compared to the number of nights spent by residents (respectively -11.4% and -7.2%). Four new Member States - Latvia, Lithuania, Romania and Slovakia - faced the most severe declines (-20% or more).

⁵⁴ Eurostat, Statistics in Focus 13/2009

Table 4.1 Accommodation: change in number of nights spent in hotels and similar establishments in European countries (in %), 2008 compared to 2007

Member State	2008/2007 change (in %)		
	Total	Non-residents	Residents
EU-27	-0.5%	-1.5%	0.3%
BE	1.5%	0.7%	3.3%
BG	1.6%	-1.9%	10.3%
CZ	1.4%	-0.5%	5.2%
DK	-2.2%	-1.8%	-2.6%
DE	2.0%	1.8%	2.0%
EE	0.1%	2.2%	-4.7%
IE	-1.5%	-2.2%	0.0%
EL	-5.0%	-5.3%	-4.2%
ES	-1.2%	0.2%	-3.1%
FR	-1.0%	-2.0%	-0.4%
IT	-3.6%	-5.2%	-2.3%
CY	-4.3%	-4.1%	-7.1%
LV	3.5%	7.5%	-3.9%
LT	0.4%	2.3%	-2.3%
LU*	-6.2%	-6.6%	-0.4%
HU	-0.8%	-2.5%	1.0%
MT	-2.1%	-2.2%	-0.3%
NL	-4.5%	-8.4%	-1.0%
AT	4.0%	4.5%	2.9%
PL	3.8%	-5.6%	8.8%
PT	-1.1%	-1.3%	-0.8%
RO	0.4%	-7.0%	2.0%
SI	1.0%	-1.3%	5.7%
SK	5.9%	0.2%	12.9%
FI	1.8%	2.7%	1.5%
SE	2.0%	0.6%	2.4%
UK	1.6%	-1.2%	3.3%
HR	-1.9%	-2.1%	-0.2%
CH	2.7%	2.8%	2.5%
IS	1.5%	2.5%	-1.7%
LI	4.6%	4.0%	35.6%
NO	-1.7%	-3.6%	-1.0%

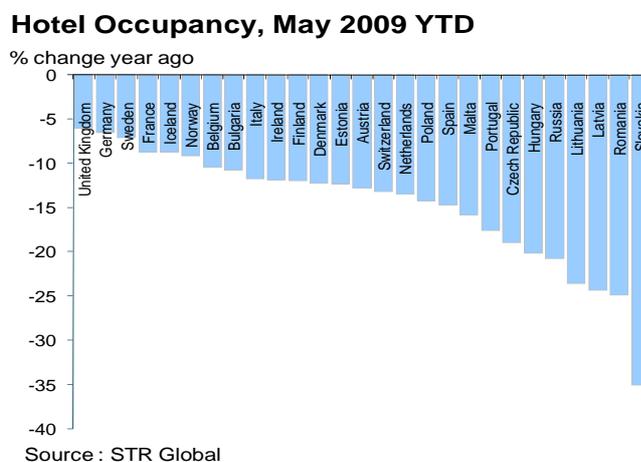
* LU: Estimation based on 9 months data

Source: Eurostat, Statistics in Focus 13/2009

4.6.2 Hotel performance

As a consequence of the decline in the number of nights spent, the hotel performance in Europe **also deteriorated**. In May 2009, based on data from STR Global, occupancy rate declined in all Member States. Only six countries were able to restrict the decline to a single digit one. **Occupancy decline** is the most severe for Slovakia.

Figure 4.23 Accommodation: change in hotel occupancy per Member State (in %), May 2009 YTD compared to May 2008 YTD

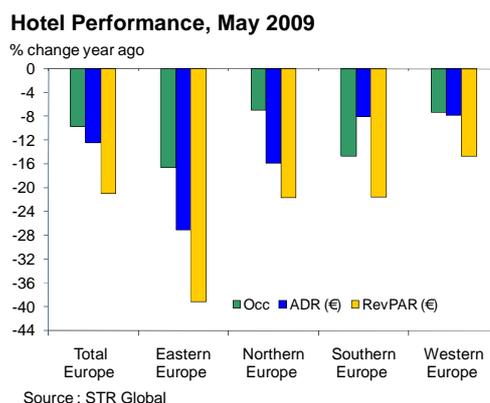


Source: Tourism Economics⁵⁵

Eastern and Southern Europe showed the greatest fall back. Both regions reported around 15% decrease in occupancy rate in May 2009 as compared to May 2007 (cf. Figure 4.24). Not only did the occupancy rate decline: **revenue per available room (RevPAR) also decreased** across Europe. In Eastern Europe the decrease in revenue was the most pronounced with the largest decline seen in the following new Member States: Slovakia, Latvia and Lithuania. (-30% in revPAR compared to 2008).

Looking at the different accommodation types, **especially the 5 star luxury hotels have been hit hard**. In October 2008, occupancy rates in this segment went down by 14% worldwide. RevPAR went down by 17%, compared to 10% for the 4 star segment.

Figure 4.24 Accommodation: change in hotel performance per European region (in %), May 2009 compared to May 2008



Occ: occupancy rate; ADR (€): average daily rates; RevPAR (€): revenue per available room

Source: Tourism Economics⁵⁵

⁵⁵ Tourism Economics, *The Financial Crisis and Implications for European Tourism*, report prepared for the European Travel Commission, Dec. 2008

At the other end of the accommodation spectrum, most members of EFCO&HPA (camping and caravanning industry) report an increase in the number of bookings. **Budget accommodation seems to be positively affected** by the economic downturn.

4.6.3 Financing problems

Access to finance is an overall issue for the tourism industry, but especially in times of crisis it becomes a major challenge. A direct consequence of the financial crisis is the **major difficulty to raise capital in the current market**. The financial situation makes it very difficult for companies to obtain loans. A recent survey of 261 European hotel executives done by DLA Piper⁵⁶ pointed out that lack of liquidity was the most important reason for pessimism over the 12-month outlook for the hospitality industry in Europe. In this same survey, almost 80% of respondents see a widespread risk of bankruptcy for European hotel chains, 39% expect 1 to 5 hotel chains to file for bankruptcy during the next 12 months, 17% of respondents even foresee 10 hotel chains or more filing for bankruptcy within the next year.

Not only loans to finance day-to-day operations are difficult to get; Also loans to finance new projects are difficult to find. In that context, Andrew Cosslett – CEO of InterContinental Hotels Group – recently pointed out that unless you have one of the big brands on the front of the application form, banks are unwilling to provide you with money for new projects⁵⁷. Also the International Hotel & Restaurant Association (IH&RA) reports that the construction of new projects will be delayed as banks become restricted to give loans. The hotel financing barometer of KPMG⁵⁸ in Hungary in December 2008 confirms the above mentioned issues. The banks surveyed in the barometer pointed out that hotels are down on their investment priority list. When they will finance hotel projects, the most important criteria to evaluate the dossier positively, are 1) reliability and references of the developer, 2) location of the project and 3) brand name of the operator/management. Moreover, the **financing conditions will be harder than before**: risk premiums are expected to be considerably higher and significantly higher equity participation will be required.

4.6.4 SMEs: impact and short-term prospects in light of the financial crisis: results SME panel survey

The **SME Panel survey from the EC** in the tourism sector (see also 2.3.3) has 1,166 responses from businesses in the accommodation sub sector. Over two third of these businesses comes from Old Member States. Hungary (7%), Czech Republic (7%) and Romania (6%) are represented best among the New Member States. In general, there is no difference between responses from Old and New Member States. Although the results of the survey are not representative for the EU accommodation sector, it is the most recent data source available to capture the impact of the economic crisis.

⁵⁶ DLA Piper, 2009 Europe Hospitality Outlook survey, March 2009, <http://www.dlapiper.com/Global/Media/detail.aspx?news=2904>

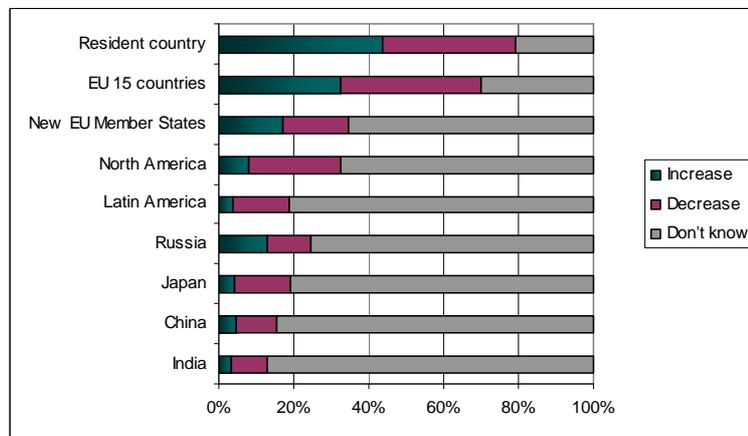
⁵⁷ See <http://www.cnn.com/2008/BUSINESS/10/16/Cosslett.Interview/index.html>

⁵⁸ See http://www.kpmg.hu/dbfetch/52616e646f6d495619edcfa95fd448ae855db340111d5a99/hotel_financing_barometer.pdf

Demand / consumption trends and changes

The survey shows that 38% of respondents faced a decrease in demand over 2008. A little less indicate that they saw an increase in demand. Figure 4.25 shows that most companies indicated that **demand from resident countries increased**. This confirms the trend that many people choose for a holiday in their resident country as opposed to a destination further away. Demand from other EU Member States increased as well according to 20 to 30% of respondents. For the other countries more enterprises say that demand decreased compared to those who said it increased. This is especially the case for Latin America and Japan.

Figure 4.25 Accommodation: changes in demand from different (groups of) countries (% of respondents)

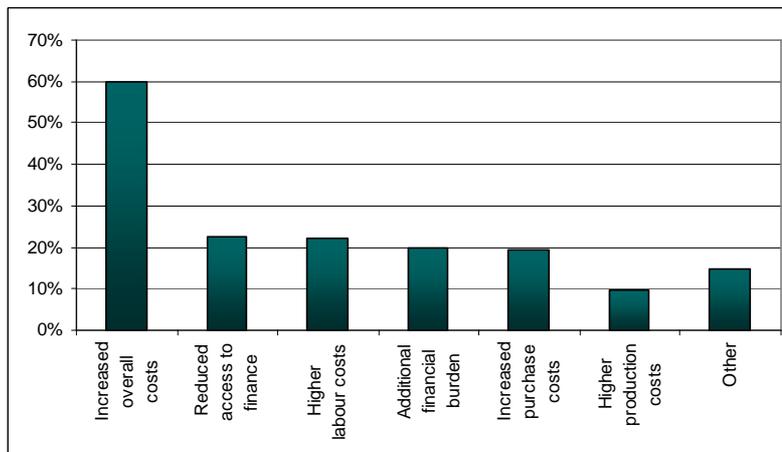


Source: SME Panel Survey 2009

Apart from decreasing demand, 75% of SMEs in the accommodation sub-sector noticed **changes in consumption patterns** of their clients. Two-thirds of respondents say that clients became **more price conscious** and **spent less money** in the past six months. Over 20% indicate that clients became more quality conscious. On the contrary, 3 to 4% notice that clients became less price conscious or spent more money.

Of the SMEs in the accommodation sub-sector, 70% notice **an impact of the current economic situation on their business** and another 20% say there is a possible impact. The majority of respondents **faces increased overall costs**, while more than 20% notice reduced access to finance (Figure 4.26). Among those who answered 'other', a large majority mentions a decrease in demand, but also a diminishing purchasing power of clients.

Figure 4.26 Accommodation: type of impacts on business due to current economic situation (% of respondents*)

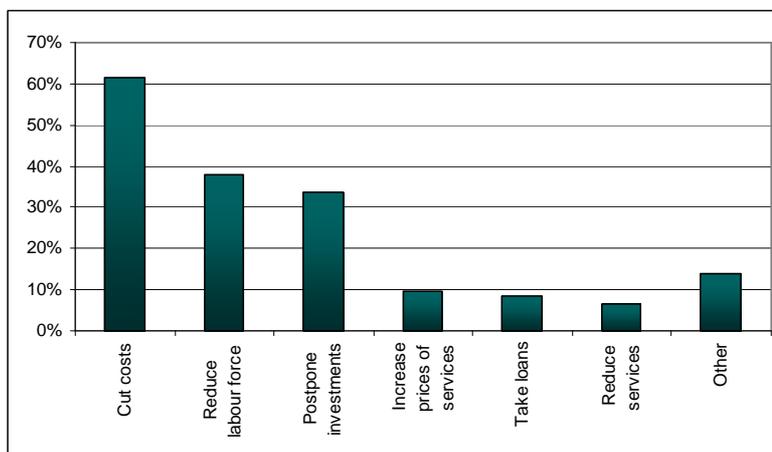


*: the results refer to the group of respondents that answered “yes” to the question “Does your business face any impacts due to the current economic situation?”

Source: SME Panel Survey 2009

Almost 80% of the SMEs has undertaken **major actions to address impacts of the economic crisis. Cutting costs and reducing the labour force** are mentioned most often (Figure 4.27). ‘Other’ actions to address the impact of the crisis are the introduction of ‘special offers’ (eg. low prices) and an increase in activities of marketing and promotion.

Figure 4.27 Accommodation: actions undertaken to address the economic crisis (% of respondents*)

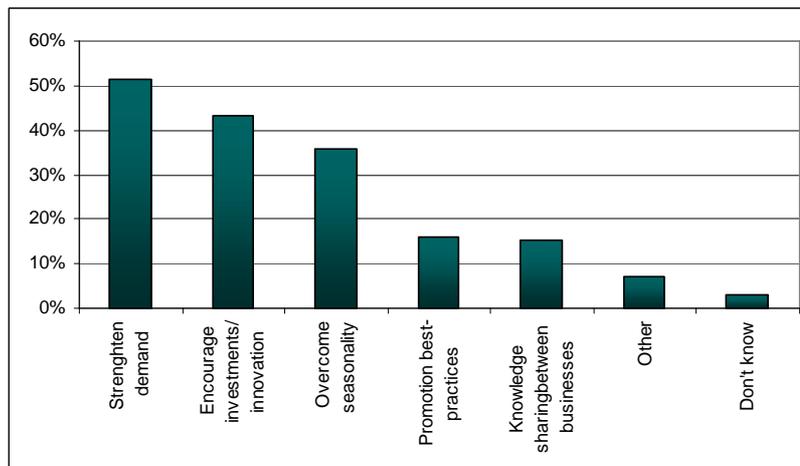


*: the results refer to the group of respondents that answered “yes” to the question “Have you already undertaken major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

The SME panel was also asked what **support actions at European level** they would consider most important. The ones mentioned most frequently are **measures to strengthen demand and measures to encourage investments and innovation** (Figure 4.28). Among the group which answered ‘other’, measures to reduce VAT and a more even distribution of taxes among countries and sectors are cited the most.

Figure 4.28 Accommodation: support actions at European level (% of respondents)



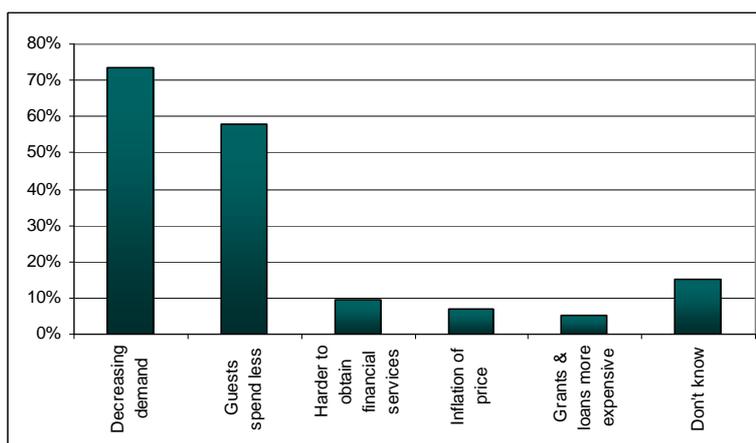
Source: SME Panel Survey 2009

Future outlook (2009)

For 2009, 47% of SMEs in the accommodation sub-sector foresees **rather negative impacts** of the current economic situation. Another 30% even expect substantial negative impacts. Only 7% think that the economic situation will have positive effects and 6% expect no impact at all.

The nature of the expected impact is most often a decrease in demand, followed by guests spending less money (Figure 4.29).

Figure 4.29 Accommodation: expected impact of economic crisis on business (% of respondents*)

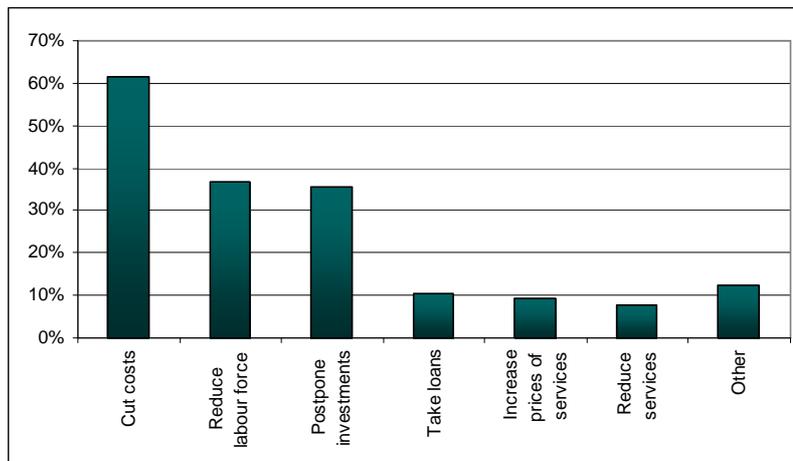


*: the results refer to the group of respondents that answered “yes” to the question “Do you expect any impacts of the current economic situation on your business in the near future?”

Source: SME Panel Survey 2009

Over half of the respondents **expect the need to undertake major actions** to be able to address impacts of the economic crisis and more than a quarter thinks this is possibly the case. Both groups of respondents mention **cutting costs** most frequently (Figure 4.30), followed by reducing the labour force and postponing investments.

Figure 4.30 Accommodation: measures to be undertaken in near future to address economic crisis (% of respondents*)



*: the results refer to the group of respondents that answered “yes” to the question “In the near future (in 2009), will you have to undertake major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

The business outlook for 2009 is negative for over 40 percent of SMEs in the accommodation sub-sector, but on the other hand almost 30 percent thinks it is positive. Only 9 percent says their outlook is very negative.

5 Tour operators and travel agents

5.1 Introduction

This chapter focuses on the tour operators and travel agents (TO&TA) sub-sector. This sector includes a **wide variety of enterprises** which could be classified as follows:

1. Tour Operators - ranging from the large international tour operators to the small independent niche operators (mainly B2C)
2. Travel Management Companies (TMC) - which mainly focus on business travel as intermediaries and which serve primarily corporate customers (B2B)
4. Travel agents - covering mainly the leisure market as intermediaries. Travel agents can operate as “brick & mortar” enterprises or as “online” agents or both (mainly B2C)
5. Destination Management Companies (DMC) - which are mainly operating in the inbound segment (mainly B2B)⁵⁹
6. MICE organizers, i.e. Meeting, Incentives, Conference and Events organizers - mainly in the corporate segment (B2B)

In this chapter the structure and economic performance of the TO&TA industry will be analysed in depth, as well as different aspects influencing the competitiveness of these TO&TAs. For this analysis data stemming from Eurostat in general – and the SBS database in particular – are being used, except when indicated differently. Most data refer to the year 2006, as this is the last year for which data are available for all Member States.

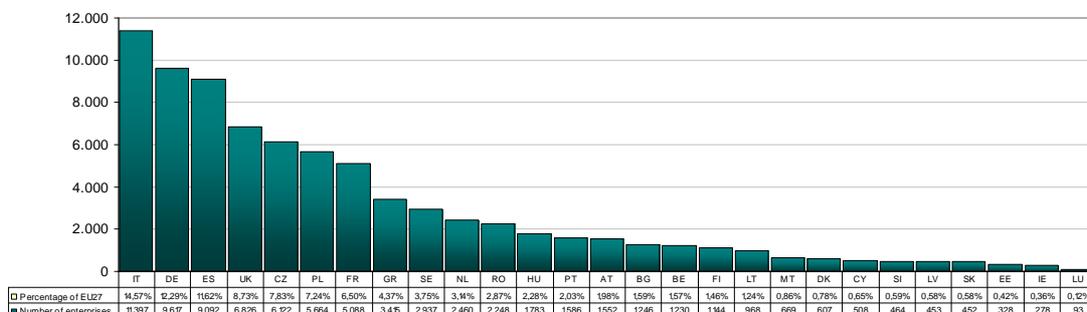
5.2 Structure of tour operators and travel agents industry

5.2.1 Number of enterprises

The EU tour operators and travel agents industry consists of **approximately 78,000 enterprises**. Unlike the accommodation industry, geographical concentration of the TO&TA industry in the EU-15 in terms of number of enterprises is less outspoken. Whereas only 13% of all accommodation companies are located in one of the new Member States (NMS), in the TO&TA industry this amounts to 27%. Both Poland and Czech Republic host more tour operators and travel agents companies than does France.

⁵⁹ In the study the concepts of outbound (outgoing), inbound (incoming) and intra-European (inkeeping) tourism are defined from a European point of view, unless mentioned otherwise. Outbound tourism = EU tourists travelling outside of the EU; Inbound tourism = non-EU tourists travelling to the EU; intra-European tourism = EU tourists travelling within the EU. Domestic tourism refers to EU tourists travelling within their own country.

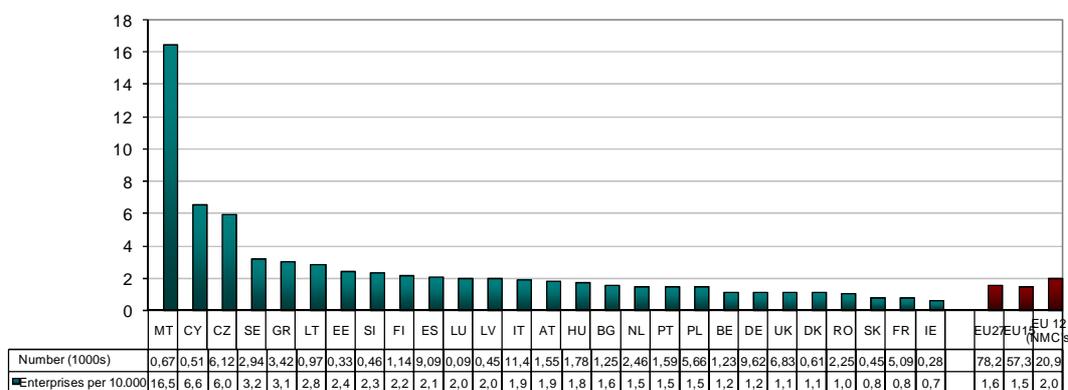
Figure 5.1 Tour operators and travel agents: number of enterprises per Member State (in absolute numbers and in % of EU-27), 2006



Source: SBS Database, Eurostat

Looking at the number of tour operators and travel agents per capita, several new Member States show relatively high numbers of enterprises per 10,000 inhabitants. With more than 16 enterprises per 10,000 inhabitants – ten times the EU-27 average, Malta has by far the highest density of TO&TA enterprises. Cyprus and Czech Republic follow with densities of around 6 enterprises per 10,000 inhabitants. Concerning Malta and Cyprus, it should be noted that a number of enterprises operate mainly as DMC. Their core business is to arrange packages or manage the logistics for inbound visitors from other EU or third countries. They are active in the B2B market, rather than in the B2C market.

Figure 5.2 Tour operators and travel agents: number of enterprises per 10,000 inhabitants per Member State, 2006



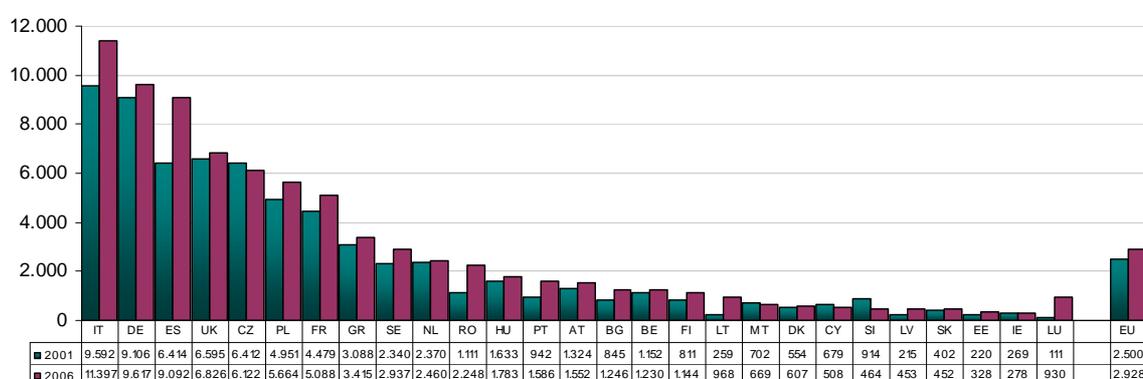
Source: SBS Database, Eurostat

Contrary to the accommodation industry where the number of enterprises per 10,000 inhabitants in the old Member States is higher than in the new Member States, this is not the case in the tour operators and travel agents industry. For the latter the **number of enterprises per inhabitant in the new Member States lies markedly above the EU-27 average**. Considering that the largest markets for tour operators are still located in the old Member States, this suggests a considerable **pressure for more concentration** in this sector in the new Member States (see also paragraph 5.2.4).

Development over time

Between 2001 and 2006, the average number of enterprises per country increased from 2,500 to 2,900 (+16 percent) in the EU-27. The largest increase in absolute terms is shown in Spain and Italy, with respectively 2,600 and 1,800 more tour operators and travel agents companies. In relative terms, Lithuania and Latvia show the largest increase, but they come from a small base. On the other hand, in Slovenia and the Czech Republic the decrease in number of tour operators and travel agents companies was largest (a respective decline of 450 and 290 companies).

Figure 5.3 Tour operators and travel agents: number of enterprises (in absolute numbers) per Member State, 2006 compared to 2001



Source: SBS Database, Eurostat

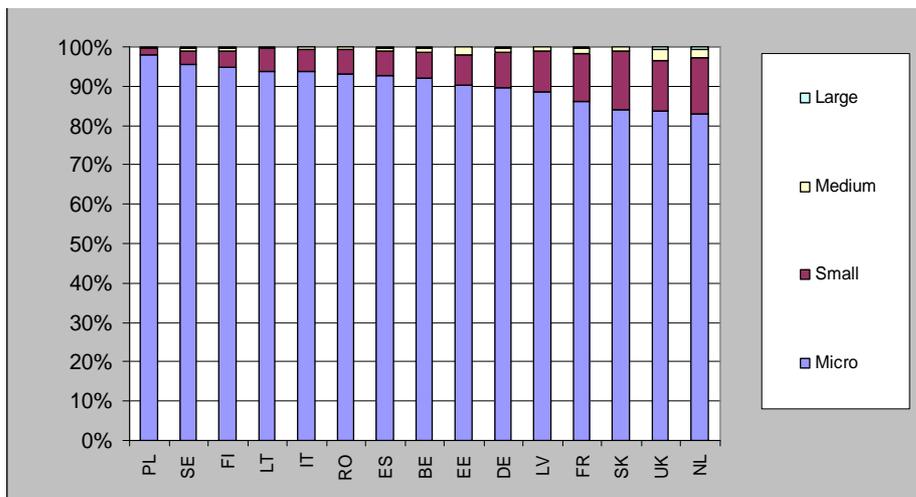
Even though the TO&TA industry is characterised by a process of consolidation, the number of enterprises still grew in the EU-27 between 2001 and 2006. According to both OECD²³ and ECTAA⁶⁰ however, **especially the number of independent travel agents has been declining** in many countries. The reason for the decline is the new competition they are facing from actors such as airlines and accommodation suppliers, who are reducing or eliminating commission payments as well as targeting customers directly instead of working with an intermediary organisation such as travel agents.

5.2.2 Size distribution³⁸

Even more than in the accommodation industry, the tour operators and travel agents industry is **dominated by micro-sized enterprises**. For all the Member States where data are available, the percentage of micro-enterprises exceeds 80%. In most Member States this proportion even exceeds 90%. Only in Slovakia, the Netherlands and the UK the number of micro-sized enterprises is smaller than 85%. In none of the Member States medium and large enterprises represent more than 3% of the tour operators and travel agents.

⁶⁰ Interview ECTAA

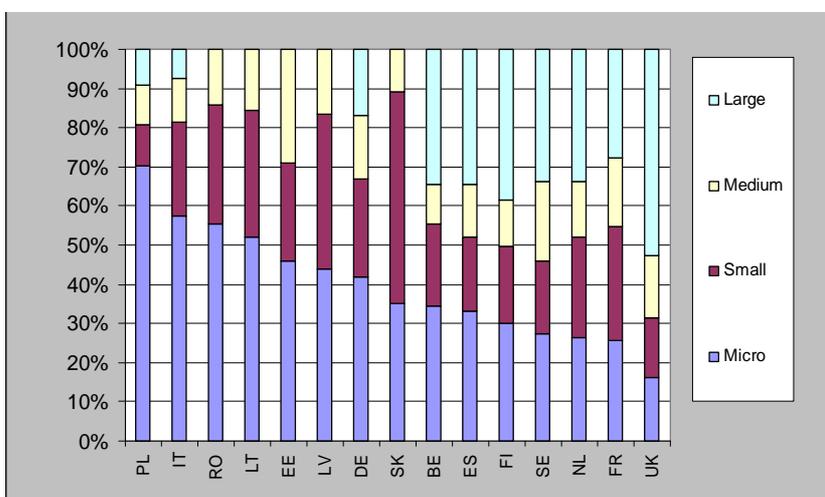
Figure 5.4 Tour operators and travel agents: size distribution of enterprises per Member State (in %), 2006



Source: SBS Database, Eurostat

In terms of employment the importance of medium and large enterprises is much higher – as it was also the case in the accommodation industry. Although marginal in terms of number of enterprises, they do account for 10% to almost 70% of the total employment in the industry. Especially in the Northern and Western European countries, employment in medium to large enterprises tends to account for more than 40% of the total employment. Particularly the share of large companies is high in those countries. Whereas medium-sized companies generate approx. 10% to 15% of the total employment, the large companies generate 25% to even 50% of employment. This is in clear contrast with the situation in the new Member States and in Italy where the relative importance of medium and large enterprises in terms of employment is rather limited. In those countries more than 80% of the total employment in the industry is generated in micro- and small enterprises.

Figure 5.5 Tour operators and travel agents: size distribution of employment per Member State (in %), 2006



Source: SBS Database, Eurostat

In the tour operators and travel agents industry more people are employed in both micro-sized and large companies, whereas in the accommodation industry the employment tends to be more concentrated in small and medium-sized companies. This **dichotomous structure of employment in the tour operators and travel agents industry** can be explained by the co-existing of both (very) large tour operators and (very) small travel agents within one industry.

5.2.3 Large diversity of enterprises

As mentioned in the introduction of this chapter, the TO&TA industry consists of a **very diverse group of enterprises, playing different roles in the tourism value chain**.

- A first group of enterprises are the tour operators. They organise and provide package holidays. They make contracts with hoteliers, airlines and ground transport companies, and print brochures advertising the holidays that they have assembled. They often operate on a large (international) scale. Within the group of tour operators, we distinguish companies that mainly focus on intra-European and outbound tourism (e.g. Thomas Cook, TUI Travel) and companies that focus on inbound tourism (e.g. Europe Incoming, Gulliver's Travel Associates)⁶¹. Within the industry, large integrated groups offering a wide range of products (e.g. TUI Travel, see Box 5.1) are found alongside tour operators that focus on a very specific niche market (e.g. travel tours to Antarctica, jungle tours). The niche players operate mostly on a much smaller scale. Most tour operators focus on leisure tourism, whereas the TMCs focus on business travel (e.g. AMEX, BCD Travel, Carlson Wagonlit).
- A second group of enterprises are the travel agents. They provide customers with travel advice and sell and administer the bookings for a number of tour operators and other suppliers such as airlines, hoteliers, car rental companies, railways, cruise lines, etc. Also here the size can vary greatly, from travel agents having several hundred outlets to the single outlet travel agents. These large travel agencies are often part of an international integrated group that also organises packaged tours, owns accommodation, etc. The 127 travel outlets 'Jetair Center' in Belgium for example are part of TUI Belgium, the largest tourism group in Belgium. In recent years, a number of independent travel agents have joined forces in consortia or networks. These networks combine the capacity of their members on the purchase side as well as in providing services to the members of the consortium (HR management, taxation consultancy, etc).
- A quite recent group of enterprises active in the industry are the online travel agents (OTAs). Even though most package holidays are still sold through travel agents, a significant and growing percentage is sold directly to the consumer through the internet. So far these OTAs are mostly rather limited in scale and on a regular basis new players enter the market. But as this segment of the market is growing, larger players are emerging. Well-known OTAs are for instance Expedia, Travelocity or Lastminute.com. In some Member States these new players have conquered a non-

⁶¹ See footnote 59 on the definition of the concepts inbound, outbound and intra-European tourism

negligible market position (e.g. in the UK and the Netherlands). Due to their lower cost structure, they seem to be able to operate alongside the major travel groups.

- Another segment of the industry is focusing on MICE (Meeting, Incentives Conferences, Events). This typical B2B business has been growing considerably over the recent years. MICE organisers are often specialised in that specific segment, although most of the large TMCs have developed their own MICE department as well.
- Finally, DMCs focus on inbound tourism. They cater services for both tour operators focusing on leisure tourism and TMCs. These services can be transportation, hotel accommodation, activities, excursions, conference venues, themed events, etc. DMCs differ from tour operators in that DMCs do usually not deal directly with end-clients, but trade through agents (mostly tour operators). A large DMC active in Europe is Allied Europe, with branches in four different EU Member States. Many other DMCs are niche players, focusing on one specific destination.

Differences in the market structure in the TO&TA industry between Member States can often be **explained by different travel habits and traditions** in those countries. German tourists for instance are prepared to pay more for a package holiday than, for example British tourists, but at the same time they do expect higher comfort standards. Tourists in Southern countries travel more independently, while Scandinavian tourists largely travel via organized packages. Those differences are translated not only into the product range being offered by tour operators and travel agents, but also into the market structure of the sector itself. In opposition to Nordic countries, tour operators in countries like Spain, France and Italy tend not to be among the larger players. Although more or less equal in number of inhabitants, tour operators in the UK do sell more than 40 million travel packages, while in France the local tour operators' production does not exceed 8 million packages⁶².

Box 5.1

Wide product offering in the TUI Travel plc group

TUI Travel plc targeting different segments

TUI Travel plc is the result of the merger between the tourism division of TUI AG and First Choice Holidays PLC. Through more than 200 products and brands, the group provides its customers with a wide choice of differentiated ways to travel in order to meet their changing needs. TUI Travel plc is therefore structured in four sectors: mainstream, specialist & emerging markets, activity and online destination services. Each sector contains different brands. Mainstream for example is the biggest sector of the group and meets the demand of people seeking package or self-package sun and beach holidays. Jetairfly and Thomson are probably the most known brands in this sub-sector. Further, TUI Travel plc operates in specialist & emerging markets, meaning North America & Europe and emerging market including China and Russia. In this sub-sector the group comprises over 40 specialist companies, primary selling direct to the customers. Aventuria and Mostravel are brands in this sector. As well, the activity lifestyle travel companies and brands such as World Challenge and Quark Expeditions operate in the

⁶² Interview ECTAA

market segments of Adventure, ski, sport etc. Finally, the online destination services supply online and offline hotel accommodation and destination services worldwide. TUI España and Hotelopia are examples of brands in this particular sector.

Source: adapted from TUI website

5.2.4 Market concentration

In contrast with the accommodation industry, the TO&TA industry is **increasingly concentrated**. With the consolidation process that has been going on in the industry since the mid 1990s, about **70% of the market is currently taken by the five largest companies** in Europe. All those companies have their corporate seats in either Germany or the UK¹⁰. Even a very traditional market as the UK is now dominated by the two major travel groups, Thomas Cook (after acquiring My Travel Group plc) and TUI Travel (after acquiring First Choice Holidays).

Box 5.2 Concentration of the UK tour operator market

Thomas Cook UK & Ireland – concentration & integration

Tour operators nowadays are operating on a greater scale and at more than one level in the market. Thomas Cook plc, of which Thomas Cook UK and Ireland is part, can be described in more detail as an example of the concentration and integration process that is going on in the tour operator sub-sector.

In 2007, Thomas Cook UK & Ireland was UK's largest travel company, employing almost 10,000 employees. Moreover it was one of the largest vertically integrated travel groups in the UK and Ireland. To end up being all that, Thomas Cook UK & Ireland acquired Sunworld and Flying Colours travel group. Later it merged its business with the UK travel interests of Carlson Companies Inc., with AT Mays Travel shops and the Caledonian Airways airline.

Today, Thomas Cook UK & Ireland is the second largest leisure travel group in the UK with around 19,000 employees. It is part of Thomas Cook plc, formed by the merger of Thomas Cook AG and My Travel Group plc in June 2007.

Thomas Cook UK & Ireland operates a fleet of 45 aircrafts, has a network of more than 800 high street stores, its own television channel and many well known travel brands such as Airtours, Thomas Cook, Sunset, Sunworld Holidays etc.

Source: adapted from Thomas Cook website

This consolidation process has led to a **stronger market position of fewer players** over time. The Belgian subsidiary of TUI Travel, for example, counted approx. 200,000 customers in 1985 compared to approx. 1.8 million customers in 2008⁶³. Many of the major groups have grown by acquiring other players in the market. At the moment, 20% of the enterprises represent approximately 80% of total turnover.

This increasing degree of concentration is not only observed in the segment of tour operators focusing on intra-European / outbound tourism, but also in the group of tour operators focusing on inbound tourism and in the sub-sector of travel agents. Due to the increased market concentration, a **number of large takeovers have been critically reviewed** by the EU antitrust authorities (see for example Box 5.3).

Box 5.3

Consolidation in the UK travel market

First Choice Holidays and TUI, which owns Thomson Holidays, have been given conditional clearance by the European Commission to merge.

The merged company will have to sell TUI's Irish business: Budget Travel. The European Commission ruled that the combination with First Choice's Falcon/JWT business would give the group too much of the Irish market. The new company, TUI Travel, will be listed in London and have 27 million customers and £12bn in annual sales. The clearance followed the Commission's decision last month to allow Thomas Cook to buy the package holiday company MyTravel.

Source: BBC News, 4/6/2007

Whereas the **market concentration is especially high in Northern Europe and in the old Member States**, this is **much less the case in Southern Europe and the new Member States**. At present, a consolidation wave is taking place in the new Member States at a national level: TOs and TAs in one country merge or are taken over by another player from the same country. So far the larger (multinational) groups adopt a 'wait and see' attitude and will most probably enter those markets, once a first wave of national mergers and acquisitions has taken place.

The **online travel business** is still a very young business and new OTAs can still easily enter the market. This results in a large number of smaller enterprises. Only a few larger players exist at the moment (e.g. Expedia). But although it is still a very **fragmented market**, successful companies are being taken over by larger ones (e.g. Tripadvisor recently taken over by Expedia), also resulting in an increasing degree of market concentration.

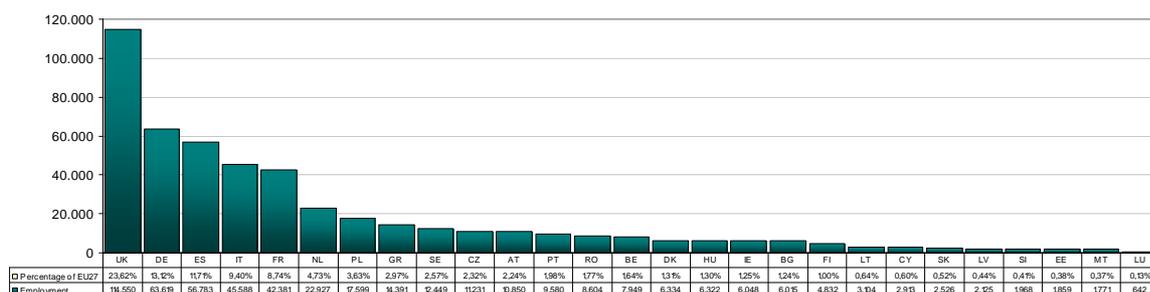
⁶³ Interview ABTO

5.3 Employment within tour operators and travel agents industry

5.3.1 Number of employees

In 2006, some **485,000 persons** were employed in the EU tour operators and travel agents industry, representing **0.2% of the total employment in the EU-27**. Compared to the accommodation industry, this is a considerably smaller percentage. More than 85% of this employment is concentrated in the EU-15, whereas only 73% of the enterprises are located there. Therefore, the average size of enterprises active as tour operator or travel agent is larger in the old Member States than in the new Member States. A similar distinction can be made when comparing the average number of employees per enterprise. Tour operators and travel agents in the EU-15 employ on average 7.3 persons, compared to only 3.2 employees in the new Member States.

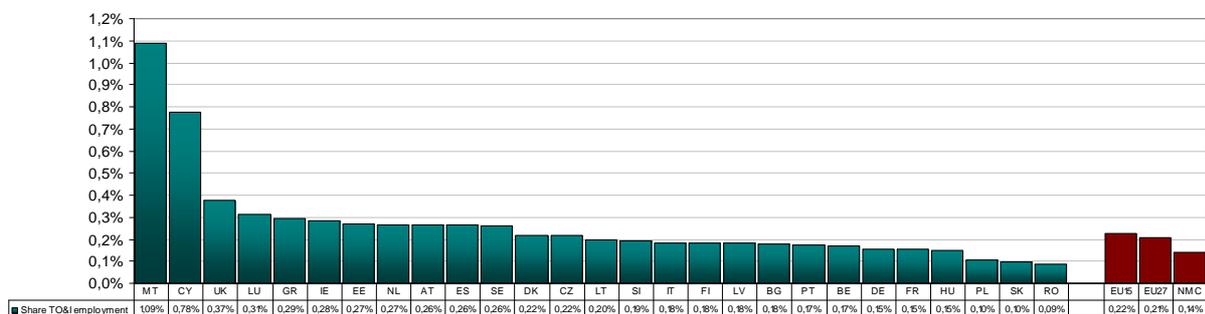
Figure 5.6 Tour operators and travel agents: employment per Member State (in absolute numbers and in % of EU-27), 2006



Source: SBS Database, Eurostat

- Once more the **UK** is responsible for a large share of the total employment in the EU-27. TO&TAs in the UK employ around 115,000 people, representing almost one fourth of the total employment in this sector in Europe. The UK together with Germany, Spain, Italy and France account for about two third of the total employment in the TO&TA industry in the EU.
- With 2.3% of the total TO&TA employment in the EU-27, the **Czech Republic** has a higher share in the EU TO&TA employment than for instance Austria, Portugal or Belgium. But with an average size of 1.8 employees per enterprise active in the industry, the average Czech TO&TA enterprise is very small - even smaller than the average TO&TA enterprise size in the new Member States.

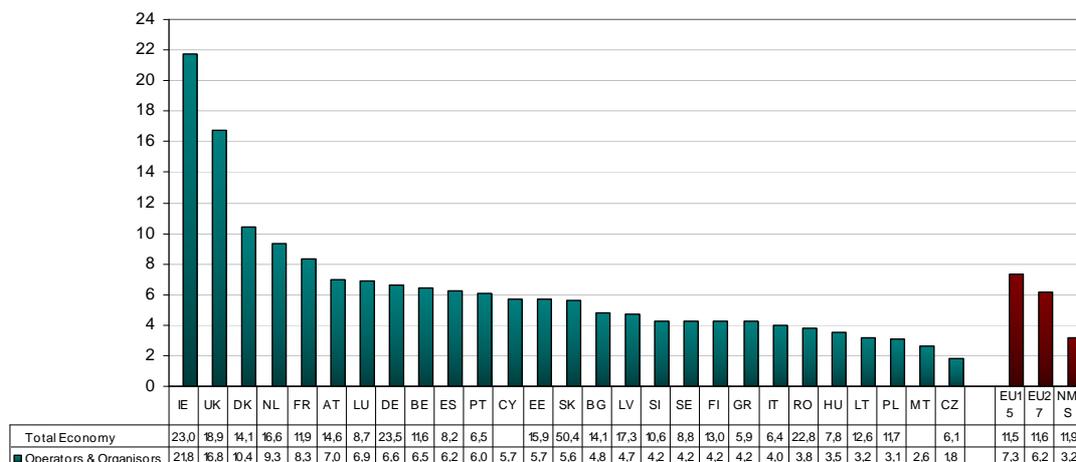
Figure 5.7 Tour operators and travel agents: share of employment in total employment per Member State (in %), 2006



Source: SBS Database, Eurostat

In terms of contribution to the total employment in the different Member States, the tour operator and travel agent industry has the highest share in Malta and Cyprus (respectively 1.1% and 0.8% of total employment). In all other Member States the contribution to the total employment in a country ranges from less than 0.1% (Romania) to 0.4% (the UK).

Figure 5.8 Tour operators and travel agents: average employment per enterprise per Member State (in absolute numbers), 2006



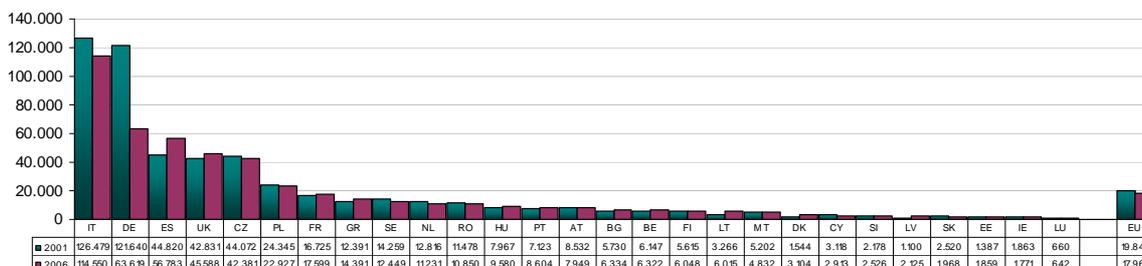
Source: SBS Database, Eurostat

Development over time

Whereas in 2006, some 485,000 persons were employed in the tour operator and travel agents industry in Europe, this number was significantly higher in 2001. The **total number of employees has dropped** from 535,000 persons in 2001 to 485,000 in 2006. Looking at the different Member States individually, our attention is attracted to Germany. In 2001, about 120,000 employees were working in the TO&TA industry. In 2006, this number has dropped to around 63,000 employees, a decrease of about 47%. Contrary to the old Member States, the total **TO&TA employment is still growing in some of the new Member States**. The largest increase in persons employed is seen in Lithuania, where the employment in the industry has doubled within the period under revision. Countries like Bulgaria and Latvia also show large increases in the number of

persons employed (respectively +84%.and +93%). Although the market for tour operators and travel agents is rather small in absolute numbers in these countries, the industry is in full development.

Figure 5.9 Tour operators and travel agents: employment per Member State, 2006 compared to 2001



Source: SBS Database, Eurostat

5.4 Economic performance of tour operators and travel agents

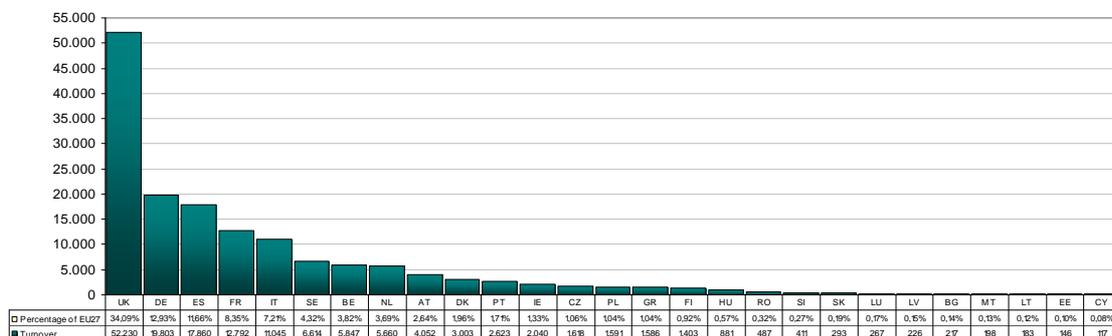
5.4.1 Turnover

Based on the Eurostat data for 2006 the EU tour operators and travel agents industry realised a total turnover of **approx. €153 billion⁶⁴**. Even though this industry counts less than one third of the total number of enterprises operating in the accommodation industry, the turnover in the TO&TA industry is 13% higher. It is clear that both sub-sectors are operating according to very different business structures.

- As can be seen from Figure 5.10 the **UK** represents a huge share in the total turnover of the TO&TA industry in Europe. With €52 billion, the UK accounts for more than one third of the total EU turnover.
- The industry in countries like **Germany and Spain** accounts for less than half the amount of the UK.
- Even though the **new Member States** host 27% of the total number of enterprises in this industry, they account for not more than 4% of the total turnover of the EU TO&TA industry. As highlighted in paragraph 5.2, in many new Member States this industry is still almost exclusively populated by micro-sized companies, while the industry has gone through a wave of consolidation in the old Member States.

⁶⁴ This figure on total turnover is based on Eurostat data. In the view of ECTAA however the consolidated turnover of all segments of this industry reaches approx. €300 billion.

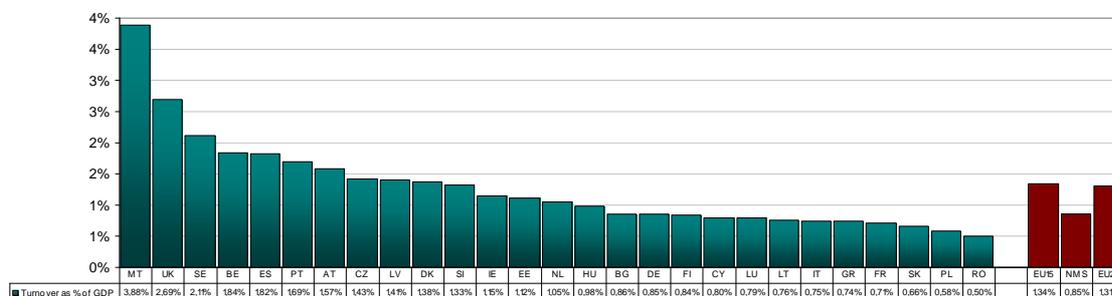
Figure 5.10 Tour operators and travel agents: turnover per Member State (in Mio €), 2006



Source: SBS Database, Eurostat

The total turnover of approx. €153 billion in the TO&TA industry represents **1.3% of GDP in the EU-27**. Similar to the accommodation sub-sector, the relative importance of the tour operators and travel agents industry is clearly higher in the old Member States than in the new Member States. Among the new Member States, the share of the industry in GDP only exceeds the EU-27 average in Malta, the Czech Republic and Latvia. Nevertheless, Figure 5.11 also shows that the relative importance of the sub-sector in the total GDP is also remarkably low in some old Member States such as Italy or France⁶⁵.

Figure 5.11 Tour operators and travel agents: share of turnover in GDP per Member State (in %), 2006



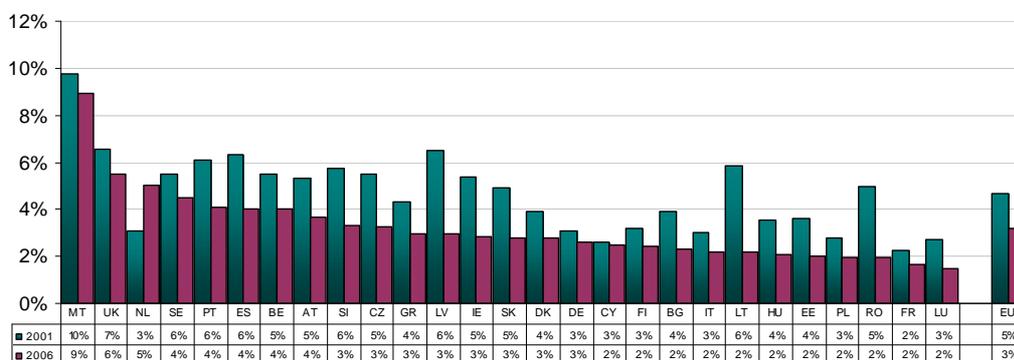
Source: SBS Database, Eurostat

Development over time

Between 2001 and 2006, the turnover of the tour operators and travel agents industry as a share of GDP has fallen in the EU-27 from 5% to 3%. This decline is observed in every single country, except the Netherlands where the turnover has grown remarkably: +64% in absolute terms or +2% in share of GDP. On the other side of the spectrum, the largest decrease is seen in Lithuania where absolute turnover figures decreased by 66% in five years.

⁶⁵ A possible explanation can be found in the consumer habits in those countries when it comes to travelling. Especially in France, consumers still mostly travel independently and make thus little use of packaged travel arrangements sold via travel agents and tour operators. This is in contrast with countries like for instance Belgium, Sweden or the UK. In those countries many more customers organise their holidays via travel agents and tour operators.

Figure 5.12 Tour operators and travel agents: share of turnover in GDP per Member State (in %), 2006 compared to 2001

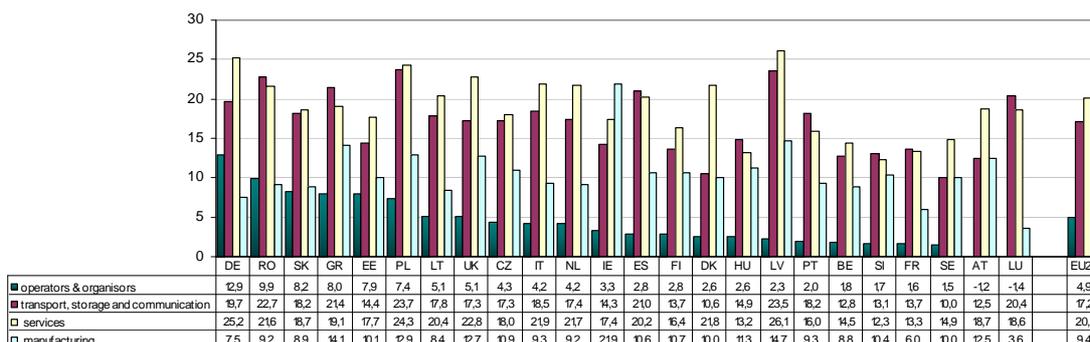


Source: SBS Database, Eurostat

5.4.2 Profitability

The profitability ratio relates the gross operating surplus to the turnover of an industry. This ratio was in 2006 on average 4.9% for the tour operators and travel agents industry in the EU. The profitability ratio of the tour operators and travel agents industry is not only low compared to the ratio of both services (20.1%) and manufacturing (9.4%), but is as well far below the profitability ratio in the accommodation sub-sector (18.7%). Only in two European countries, Germany and Romania, the profitability in the TO&TA industry exceeds that of manufacturing. As shown in Figure 5.13 the profitability of the sub-sector under revision was in 2006 even negative in Luxembourg and Austria.

Figure 5.13 Tour operators and travel agents: profitability ratio per Member State (gross operating surplus/turnover, in %), compared to transport, storage & communication industry, services and manufacturing industry, 2006



Source: SBS Database, Eurostat

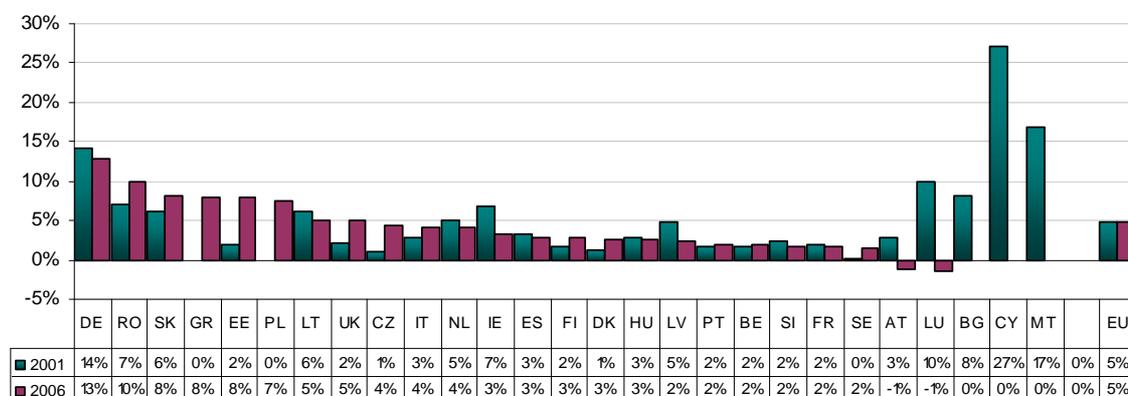
Within a diverse group of TO&TAs, especially the tour operators are dealing with a relatively high share of fixed costs in the total cost structure. Examples are here costs connected to head office staff or costs related to reserved seat or bed capacity. It is therefore rather difficult to manipulate the cost structure in order to improve the profitability within the sub-sector. A strategy to obtain acceptable levels of profitability is by serving larger volumes. This need for large volumes has been an

important driver for the concentration wave in the industry since the 1990's⁶⁶. **Another strategy** to obtain higher levels of profitability is **improving quality of services and products**. This could lead to higher prices for a product and thus to higher total sales. But since customers are told everywhere that tourism services are available at ever lower prices (low cost companies, last minute deals), the principle of paying for quality is strongly decreasing in tourism, unless there is a clear value added to the service. Concept innovations focusing on real value added to customers are therefore needed when following this strategy to improve profitability.

Development over time

Between 2001 and 2006 the profitability ratio remained stable in the EU-27 at 5%. Nevertheless, large differences can be seen when comparing the individual Member States. Both Austria and Luxemburg showed a positive profitability ratio in 2001. By 2006 however, this ratio has dropped seriously and became even negative. The profitability ratio in Austria declined by 141%, while profitability in Luxemburg decreased by 114%. Opposite to these two countries, Sweden showed a large increase in profitability between 2001 and 2006. Also in Estonia, the Czech Republic and Denmark, profitability ratios rose considerably between 2001 and 2006.

Figure 5.14 Tour operators and travel agents: profitability ratio per Member State (gross operating surplus/turnover, in %), 2006 compared to 2001



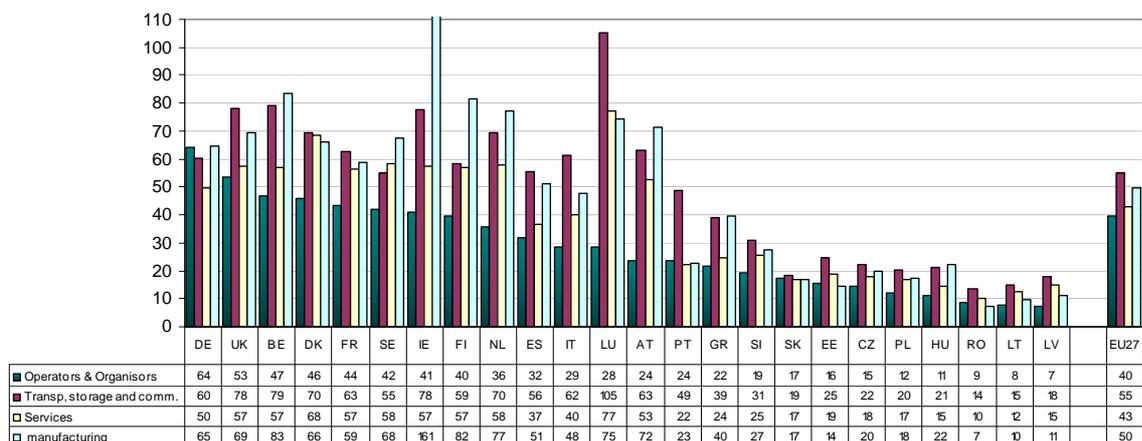
5.4.3 Labour productivity

In 2006 the **average labour productivity** in the EU tour operators and travel agents industry amounts to €39,800. This is **significantly more than** the €28,600 gross value added per person employed **in the accommodation industry**. The labour productivity is reported to be the highest in Germany (€62,500). In this country, the labour productivity in the sub-sector under revision is even exceeding the average labour productivity in the German services industry. Countries like Latvia, Lithuania and Romania show all a gross value added per person employed below €10,000.

⁶⁶ Interview ABTO

Despite the much higher labour productivity compared to that in the accommodation industry, labour productivity in the EU TO&TA industry is **still lower than the average labour productivity in both manufacturing and services industries.**

Figure 5.15 Tour operators and travel agents: labour productivity per Member State (in Ths €), compared to transport, storage & communication industry, services and manufacturing industry, 2006

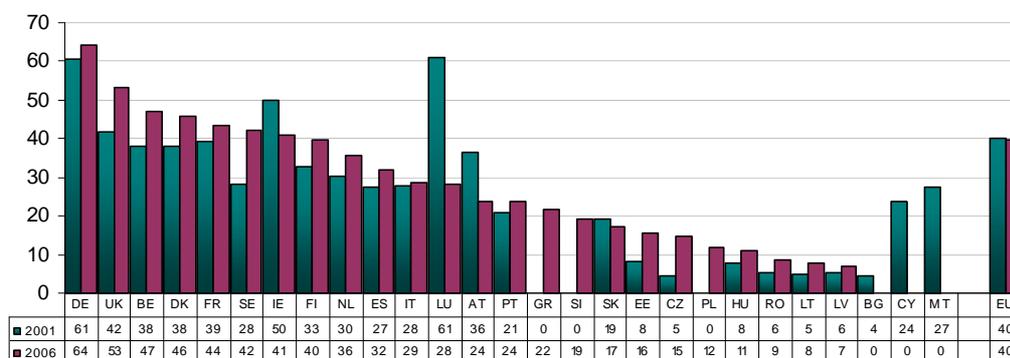


Source: SBS Database, Eurostat

Development over time

Between 2001 and 2006 the labour productivity within the industry decreased slightly from €40,200 to €39,800. As shown in Figure 5.16 Luxembourg noted a serious decrease in labour productivity. Generally, the new Member States show lower labour productivity levels than the old Member States. The labour productivity has however increased significantly over the last five years in these new Member States. Increases in labour productivity can be mainly obtained through a process of automation. In the old Member States this process of automation has probably reached its limits, while there is still room for improvement in the new Member States. Even when the success of online travel agents might prove that the limits of automation are not obtained yet, the tourism industry will always remain depending largely on personal interaction. This might especially be true for the travel agent business, the most outspoken ‘people business’ in the TO&TA industry.

Figure 5.16 Tour operators and travel agents: labour productivity per Member State (in Ths €), 2006 compared to 2001



Source: SBS Database, Eurostat

5.5 Competitiveness analysis of the tour operators and travel agents industry

Whereas the previous paragraphs focused on the ‘outcomes’ layer of the TO&TA industry’s competitiveness (see Figure 1.3 in Chapter 1), this paragraph focuses on the underlying competitiveness layers. We discuss the relevant processes, structure and input factors, as well as the different strategies and business models that we see in the industry.

5.5.1 Relevant strategies and business models

Horizontal and vertical integration

The segment of tour operators and travel agents has undergone important changes over time. Until the mid 1990s this market was characterised by a large number of players, mainly nationally based and individually owned enterprises. **From the mid 1990s on** the market became dominated by **fewer yet bigger players**. These dominant corporate groups are active in all key European horizontally integrated markets and often also vertically integrated throughout the value chain.

Especially the **process of vertical integration** followed by West- European players turned out to be a successful strategy in the 1990s to enlarge the profit margins realised on the activities undertaken. Until 2001, many tour operators invested in **expanding their portfolio to different non-core activities**, for example retail (travel agent), hotel, airline and DMC. **After 9/11** however, tour operators were facing important losses on their non-core activities, leading to the **divestment of (parts of this) non-core activities**. For example, tour operators that disposed of a flight or hotel capacity to cover the high season peak before 2001, reduced their maximum capacity to 70% or 80% of the maximum capacity needed after 2001. Fluctuations in demand are now countered with additional capacity from elsewhere.

Changing roles of tour operators and travel agents

Tour operators have traditionally played the role of wholesale companies by bundling airline seats, hotel rooms and coach transfer facilities into travel packages. The consumer can purchase these packages with the local travel agent. Besides selling the holidays packages composed by tour operators, a travel agent can also buy products directly from the suppliers (airline companies, accommodation, etc.) and sell them to customers. Travel agents act as intermediaries between the consumer on one hand and the supply side on the other hand (tour operators, airline companies, etc.). As an intermediary, travel agents do not dispose of material stocks themselves. This is in contrast with the tour operators that do need to invest in seat capacity on air planes, bed capacity in hotels, etc., before bookings are made.

Because of the increased competition and the **widespread adoption of ICT**, the clear distinction between a tour operator and a travel agent is disappearing. Tour operators are increasingly selling their packages directly to customers, trying to reduce the final costs for the consumer by cutting out the intermediaries. Additionally, the suppliers themselves such as airline and accommodation companies are selling their products directly to customers, bypassing travel agents and even tour operators.

New businesses have also emerged. Since the liberalisation of air transport, consolidators are now acting as wholesalers intermediaries between airlines and retail agents. More recently wholesalers in the accommodation segment, the so called “bed-banks”, are also distributing via retail agents or directly to the customers, mostly online (cf. the hotel.com sites).

Strong pressure on profit margins

The marketplace for tour operators and travel agents is becoming **progressively more competitive**. Consumers do not only become more price-conscious, the number of channels through which customers can be reached has grown rapidly. This results in prices going down, making it difficult, particularly for smaller companies, to maintain their market share. As a consequence, the enterprises in all sub-sectors are forced to reduce prices and thus costs, but maintain their quality standards at the same time. In the sub-sector of tour operators and travel agents this has **led to low profit margins**.

But companies in this sub-sector are **dealing with considerable risks**. This is especially the case for tour operators. The price for a holiday package is calculated more than a year before the packages are offered for sale. The total cost of such a package can however be subject to considerable fluctuations - especially exchange rates and aviation fuel. Moreover, it remains very difficult to estimate the demand for different destinations in advance, as the attractiveness of a destination is largely influenced by external factors not controlled by the tourism industry (cf. Chapter 1). Remembering the small profit margins, for many companies operating as a tour operator or travel agent such adverse fluctuations might make the difference between profit and deficit of the business.

Tour operators are trying to cope with these small profit margins by ‘buying forward’. This remains however risky and accurate forecasts remain vital: unnecessary costs are incurred if too much is “hedged”. As will be discussed in the next paragraph a strong market position can significantly reduce the risks and costs by negotiating better deals with individual suppliers.

Risk sharing in the tourism value chain

In many ways the TO&TA business can be described as relatively flexible, especially when compared to the accommodation sector. Tour operators and travel agents are for example not committed to one destination or one hotel. This flexibility together with the presence of fewer but bigger players in the market can easily lead to a relatively strong bargaining position vis-à-vis the more “static” accommodation sector. The role as intermediary between the tourist and his destination obliges tour operators however to reserve capacities well in advance. This implies relatively high risks: once a contract is negotiated, it is the tour operators’ responsibility to fill this reserved capacity.

A possibly strategy to reduce the price risks is the integration of bed portfolios or transportation capacities in the activities of tour operators. But this strategy is only preferable in periods of increasing demand, whereas in other periods the higher fixed costs connected to this strategy weight upon the competitiveness of enterprises involved. This has been the reason for larger tour operators such as Thomas Cook to adopt a new strategy by reducing their involvement in accommodation and transport.

The strong market position allows the (large) tour operators to achieve better contractual conditions, helping them to reduce their own risks. They include long-term reservations of bed and transport capacities, including the possibility of withdrawal with up to a few days’ notice. Only larger hotel chains can resist this bargaining pressure.

Strong focus on intra-European and outbound tourism

As already mentioned, the tour operator segment in Europe is dominated by a limited number of larger players such as TUI Travel and Thomas Cook. **Most of these larger players are almost exclusively active in intra-European and outbound tourism⁶⁷.** Very little attention is paid to inbound tourism from third countries to the European Union.

5.5.2 Labour costs and conditions

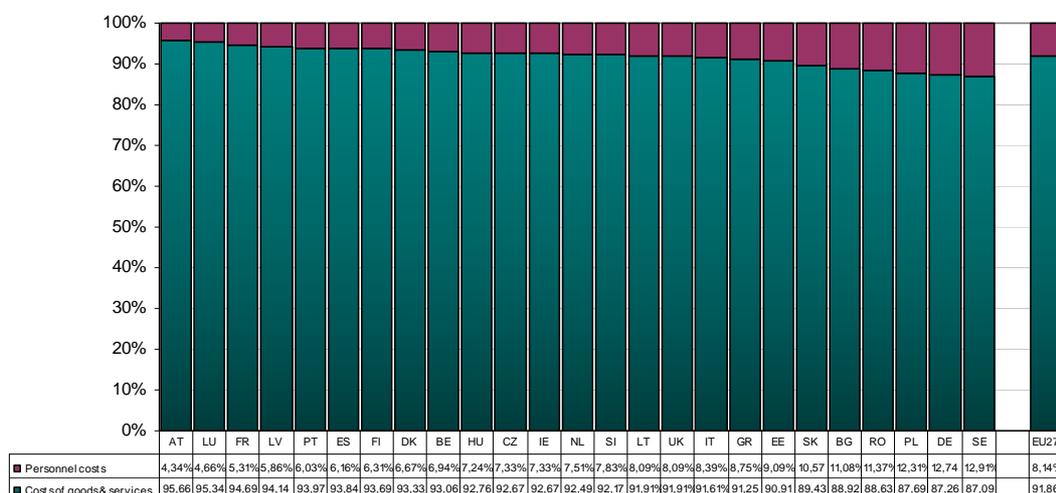
Labour cost in total cost of business

The share of labour costs in the total cost of business is **significantly smaller in the TO&TA industry than in the accommodation sector.** On average, personnel costs in the TO&TA industry make up only 8% of total business costs. Compared to the average share of personnel costs in services (41%), this is remarkably low.

⁶⁷ In this paragraph the concepts of outbound (outgoing), inbound (incoming) and intra-European tourism (inkeeping) are defined from a European point of view. See also footnote 59

- In the TO&TA industry, the **cost structure of tour operators** in particular is largely determined by the cost of purchasing capacity in air transport and accommodation, thus explaining the low share of personnel costs in total business costs.
- The **cost structure of a travel agent** on the other hand, is completely different. As explained earlier, they act on behalf of tour operators or other suppliers of tourism services and have no inventories. For travel agents the most important operating costs are normally staff costs and rent of premises. Therefore, one would expect that the share of personnel costs in total business costs is much higher in this segment. Unfortunately, the data do not allow us to separate both groups of enterprises from each other.

Figure 5.17 Tour operators and travel agents: share of labour cost in total cost of business per Member State (in %), 2006



Source: Eurostat

Labour conditions

The TO&TA industry is characterised by relatively low wages. However, the very low average profit margins leave little room for higher wages, leading to a high turnover of employees. **Finding and keeping good and qualified employees is therefore a major challenge** in the sector⁶⁸. On one hand, the sector is evolving towards a high service economy (see next paragraph), but on the other hand the margins to invest in labour and knowledge are very limited. This is seen as a real structural problem.

⁶⁸ Interview ECTAA

5.5.3 Innovation and productivity enhancement

ICT and organisational innovation

Two of the most important innovations influencing the structure of the tourism industry over the last 15 years are without doubt the rise of low cost carriers and internet. With an increased **access to internet**, consumers suddenly were able to book, for instance, transport or accommodation online, almost at the same price as a tour operator. These innovations had an **important impact on the structure of the industry**. **New concepts** such as ‘dynamic packaging’ (consumers can put together their own holiday) have been introduced by tour operators and travel agents as a reaction to this evolution⁶⁹. So far this concept is especially used in more mature markets like Northern and Western Europe.

The **role of a travel agent needs to adapt** to this new reality. The focus of their activities needs to shift gradually towards bringing more added value: not only selling tickets but as well being ‘travel consultants’. This will result in a major reorganisation of the sector⁷⁰. According to ECTAA travel agents will need to work more intensively in accordance with the ‘AAA-model’: Advice before the trip, Assistance during trip and After sale service. Many travel agents, however, have not made this transition yet, which will be the challenge of the coming years.

Over time, the **importance of networking has increased**. For different travel agents it is in many ways interesting to work together with other players within the same sub-sector. Examples are the collective purchase of products and sharing certain services like management tools, education, advice, visa services. Moreover, travel agencies may join cooperative agreements with other partners in the tourism value chain such as tour operators. It is expected that these aspects will increase in importance over time.

New product developments

Although tour operators constantly bring ‘new’ products on the market (new destinations, hotels, etc.), it is felt⁷¹ that the **TO&TA industry in Europe lags behind other regions in terms of developing new concepts**. Opportunities for a more specific market segmentation, such as the development of specific and new products targeting specific groups (e.g. active seniors, single parent families,...), are not being fully exploited by TOs at the moment.

5.5.4 Internationalisation

Until the mid-1990s the tour operators and travel agents’ market largely consisted of independent nationally based companies. After that period, horizontal integration started. In a first stage, this consolidation took place within domestic markets, but after a while

⁶⁹ Interviews ECTAA, IACA

⁷⁰ In spite of the enlargement of the EU from 12 to 27 Member States the number of enterprises didn't grow proportionately. Twelve years ago there were approx. 70,000 enterprises in 12 Member States, while the countries of the EU-27 counted approx. 80,000 TO&TA enterprises in 2006.

⁷¹ Interviews UNWTO, ETAG, ABTO

large national companies started to look abroad for further expansion opportunities. Without doubt the completion of the EU internal market contributed to this **rapid internationalisation of ownership** in the TO&TA industry. This **process started in the old Member States**, most markedly in Germany and the UK which are the largest outbound markets. In 2009, horizontal integration at national level is a typical strategy for Eastern European players. The major Western European players are also exploring opportunities in the new Member States, but have so far taken a rather defensive ‘wait and see’ attitude.

Although the internationalisation process has **mostly been limited to the European area**, Thomas Cook and TUI Travel are nowadays expanding their activities to emerging markets such as China, Russia and India. **Developing a more global strategy** is driven by a strong need to reach larger volumes, to better negotiate deals with accommodations and airline companies⁷².

5.6 Impact of the financial crisis on tour operators and travel agents

Similar to our analysis in the accommodation industry, the tour operators and travel agents industry shows a number of effects of the financial and economic crisis specifically linked to this industry, in addition to the general assessment of the impact of the crisis done in paragraph 2.3.

5.6.1 More resistant to the crisis?

Following the general trend, tour operators and travel agents are also feeling the consequences of the financial and economic downturn. But based on the most recent information available, **the industry seems to be less affected compared to other sectors**. Both ABTO and ECTAA confirm that hitherto the number of package holidays effectively realised is comparable to the same date last year.

- **Leisure travel** has been good during the Christmas Holidays 2008, Spring half-break 2009 and Easter 2009. Bookings for the upcoming holiday season (summer 2009) however clearly stay below the numbers of previous years (see next paragraph).
- **Business travel**, has been more significantly affected by the crisis so far. Many corporate businesses have reduced their travel budgets for 2009 and travel management companies are observing decreases in turnover up to 20-25 % for the first quarter of 2009. This observation is also confirmed by figures from the airlines’ industry, where strong decrease of premium passengers is observed.

⁷² Interview ABTO

5.6.2 Changing consumer behaviour

Notwithstanding the fact that customers do not appear to travel less for leisure purposes, the **booking behaviour of consumers has clearly changed** since the beginning of the financial crisis. Changes do not only refer to a shift from long haul to short haul trips, shifts in mode of transport or between individual destinations. Consumers also tend to **wait as long as possible before booking** a holiday. The travel market has become a real 'last minute' market over the last few months. When comparing the number of bookings for the upcoming summer season 2009, the number in 2008 was significantly higher in March 2008 compared to March 2009⁷³. This makes forecasts about the expected business in the summer season very uncertain. Optimists believe, however, that although consumers are **cutting in secondary trips** such as city breaks and other short trips, the main summer holiday will be kept and last-minute bookings will partly compensate the low figures of the first months, even though the **length of stay will be most probably shorter and spending lower**.

Although the past holidays (Christmas, Spring half-break and Easter) did not show significant declines in business, the most recent Eurobarometer Survey found that only in six Member States a clear majority of respondents with holiday plans were confident in affording to take a holiday in 2009: Finland, the Netherlands, Sweden, Luxembourg, Denmark and Austria. About half of Belgian and German respondents also felt similarly. In the other Member States, less than half claimed they would have no financial problems. Bulgaria, Lithuania, Estonia, Hungary and Romania had the lowest share of such optimistic replies (all around 20%). The survey indicates that especially in the new Member States tour operators and travel agents might still be confronted with a decreasing demand over the coming months.

This **high uncertainty about the future demand** due to the last minute booking behaviour of customers does have an **important impact on the whole chain of activities** in the industry. At present, tour operators face renegotiation of contracts between tour operators and carriers, hotel, etc. Given the strong market position of the large tour operators, it allows them to spread the risk across all actors in the tourism value chain and avoid having to bear any negative consequences of a possible decrease in demand on their own.

5.6.3 Access to finance

Similar to the accommodation industry, access to finance is an important issue in the current economic situation. The financial structure of tour operators and travel agents (very low profit margins) does not facilitate their access to finance. Generally, financial institutions still consider tourism to be a cyclical and vulnerable industry. **Getting loans is an important point of attention**, but given the financial and economic crisis the problem has stepped in the limelight.

TO&TA enterprises are not only dealing with problems to get access to finance. Other **organisations like IATA are increasing the pressure on businesses as well**. In recent

⁷³ Interview ABTO

months IATA has raised the financial criteria and bonding requirements for the IATA accredited agents. Consequently, an increasing number of retail agents, and not only SMEs, cannot comply with these new criteria and may be simply excluded from the specific air ticketing activity.

In general, it is expected that the financial crisis will lead to a higher rate of bankruptcies, reorganising and integration. The **sector will continue to consolidate**, resulting in fewer yet stronger players. The economic crisis will probably speed up the transition in the new Member States and horizontal integration will go faster after 2009⁷⁴.

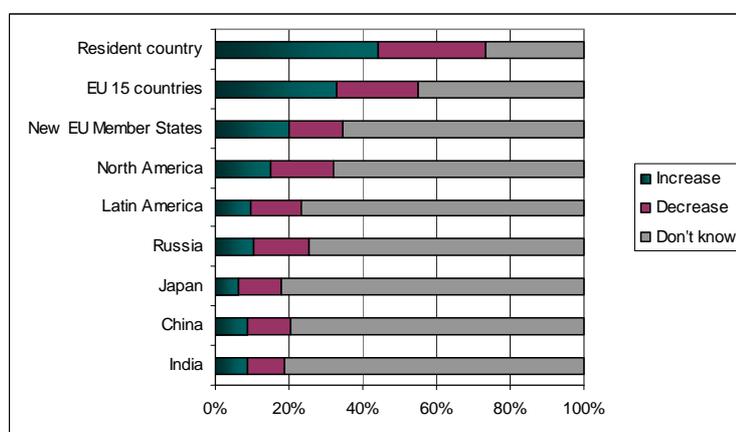
5.6.4 SMEs: impact and short-term prospects in light of the financial crisis: SME panel survey results

The EC panel survey among SMEs in the tourism sector had 551 responses from businesses in the tour operators and travel agents sub sector. Over half of these businesses (56%) came from old Member States. Romania (10%), Poland (7%) and Hungary (7%) are best represented among the new Member States. In general, there is no difference between responses from old and new Member States. Although the results of the survey are not representative for the EU TO&TA sector, it is the most recent data source available to capture the impact of the economic crisis.

Demand/ consumption trends and changes

Within the tour operators and travel agents sub-sector, almost 45% of respondents claimed they saw **an increase in demand** over 2008. Even though a third of respondents indicated they faced decreasing demand, these numbers are a somewhat more positive than in the accommodation sub-sector or in the tourism sector as a whole. **Especially domestic demand and demand from EU-15 countries** increased, as well as from new Member States (Figure 5.18). For the other countries, more respondents said tourism demand decreased compared to those who said it increased.

Figure 5.18 Tour operators and travel agents: changes in demand from different (groups of) countries (% of respondents)



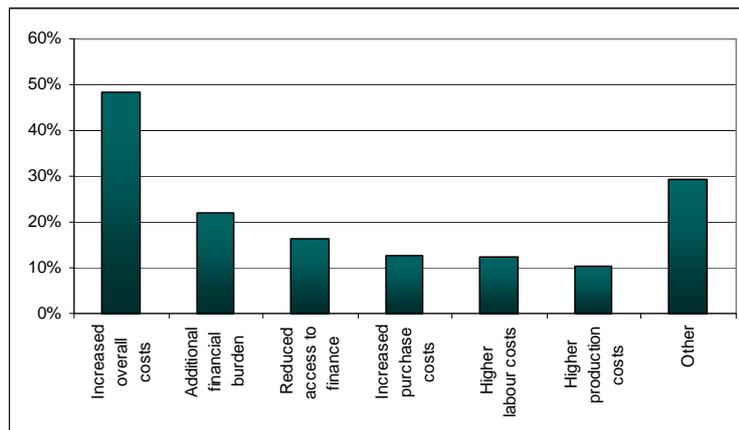
Source: SME Panel Survey 2009

⁷⁴ Interview ECTAA

However over 80% of TO and TAs saw a **change in the consumption pattern** of their clients. Two-thirds of respondents said clients became more price conscious and spent less money in the past six months. Over 20% indicated that clients became more quality conscious. On the contrary, 6% noticed that clients were spending more money. Compared to the full year 2007 35% of respondents claimed their clients spent more money in 2008 than in 2007. This is a higher percentage than in the tourism sector as a whole (25%) or the accommodation sector (20%).

Out of the TO & TA SMEs in the sample, 72% noticed an **impact of the current economic situation on their business** and another 17% said there is a possible impact. The majority of respondents that indicated to see a clear impact face increased overall costs, while more than 20% face an additional financial burden (Figure 5.19). Almost 30% of respondents answered ‘other’. Comments in this category mostly refer to decreasing demand, fall in clients spending and clients postponing their decisions.

Figure 5.19 Tour operators and travel agents: type of impacts on business due to current economic situation (% of respondents*)

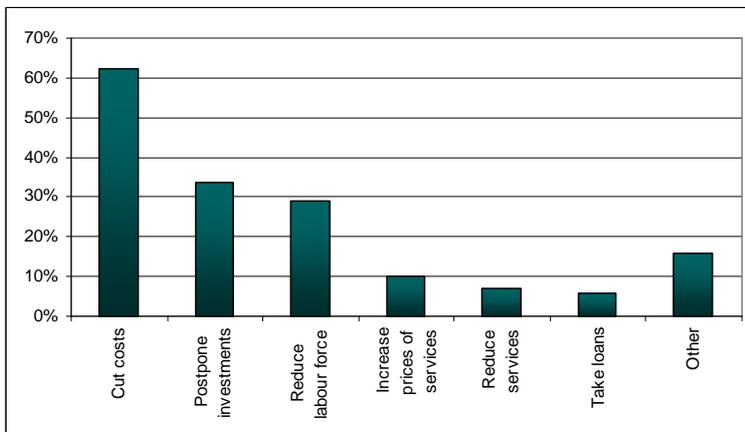


*: the results refer to the group of respondents that answered “yes” to the question “Does your business face any impacts due to the current economic situation?”

Source: SME Panel Survey 2009

Nearly 70% of SMEs have undertaken **major actions to address the impacts of the economic crisis**. This is 10% less than enterprises in the accommodation sector, whereas the number of enterprises acknowledging an impact of the current economic situation is the same. Cutting costs and postponing investments are usually mentioned as actions to address the crisis (Figure 5.20). ‘Other’ actions include offering a broader range of services or new products, more (and targeted) promotion and special offers/ discounts.

Figure 5.20 Tour operators and travel agents: actions undertaken to address the economic crisis (% of respondents*)

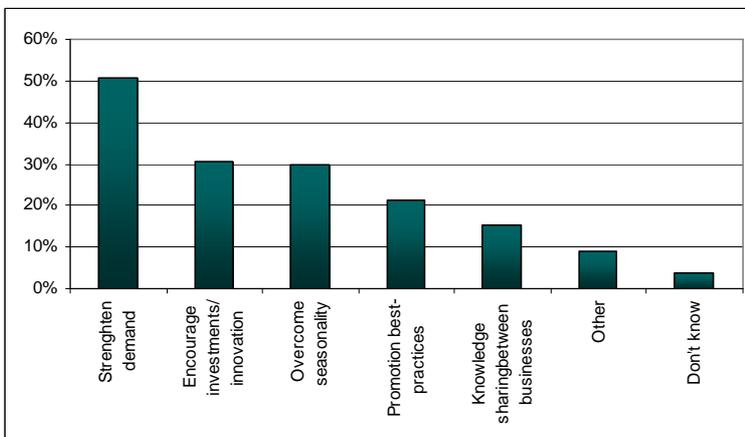


*: the results refer to the group of respondents that answered “yes” to the question “Have you already undertaken major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

The SME panel was also asked what **support actions at European level** they would consider most important. The ones mentioned most frequently are measures to strengthen demand and measures to encourage investments and innovation (Figure 5.21). In the category ‘other’, a majority asks for reduction and harmonisation of taxes.

Figure 5.21 Tour operators and travel agents: support actions at European level (% of respondents)



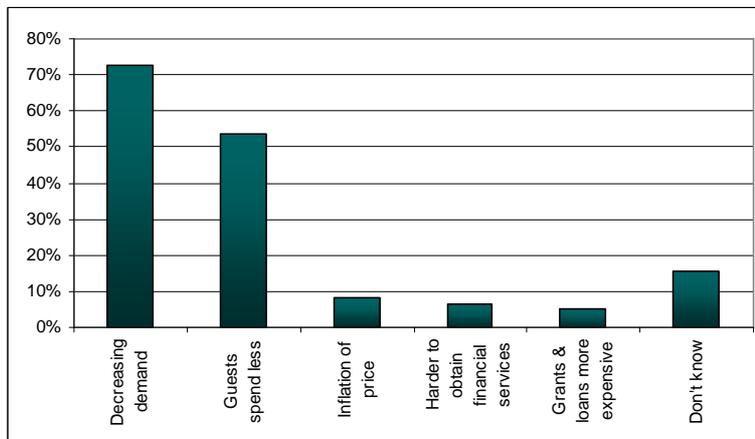
Source: SME Panel Survey 2009

Future outlook (2009)

For 2009, almost half of the SMEs in the TO&TA sub-sector expects rather negative impacts of the current economic situation and a quarter expects substantial negative impacts. On the contrary, 9% expect rather positive impacts and 6% expects no impact at all.

The nature of the impact expected is in most cases a decrease in demand, followed by guests spending less money (Figure 5.22).

Figure 5.22 Tour operators and travel agents: expected impact of economic crisis on business (% of respondents*)

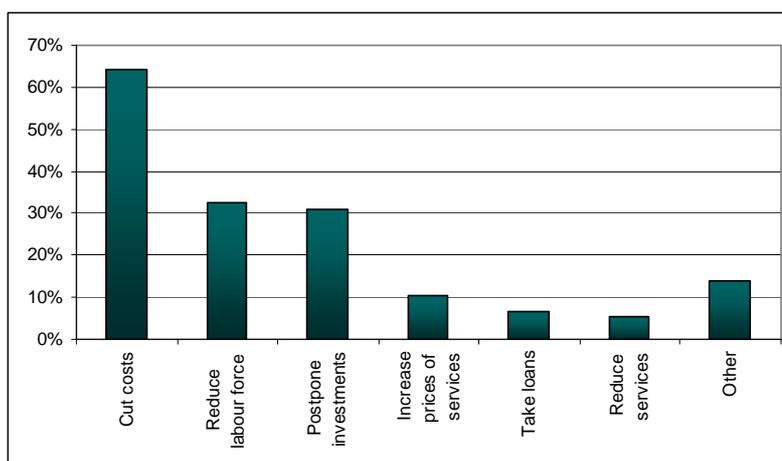


*: the results refer to the group of respondents that answered “yes” to the question “Do you expect any impacts of the current economic situation on your business in the near future?”

Source: SME Panel Survey 2009

Half of the respondents expect the need to undertake major actions to be able to address impacts of the economic crisis and more than a quarter thinks this would possibly be the case. Both groups of respondents mention cutting costs most frequently (Figure 5.23), followed by a reduction in the labour force and the postponing of investments.

Figure 5.23 Tour operators and travel agents: measures to be undertaken in near future to address economic crisis (% of respondents*)



*: the results refer to the group of respondents that answered “yes” to the question “In the near future (in 2009), will you have to undertake major actions in order to be able to address impacts of the current economic situation?”

Source: SME Panel Survey 2009

The **business outlook for 2009** is negative for 38% of TO & TA SMEs in the survey, but on the other hand a third thinks it is positive. Almost 5% has a very negative outlook. **Tour operators and travel agents are more positive in this regard than the accommodation sub-sector, but in line with the tourism sector as a whole.**

6 Developments in other relevant sectors

In this sixth chapter we consider the developments in some sectors with an impact on the competitiveness of the tourism industry in general and the accommodation and tour operators and travel agents sub-sector in particular. This chapter largely builds on different face-to-face interviews with major stakeholders of the EU tourism industry and the specific sectors. The sectors which will be discussed in this chapter are:

- Transport sector in general, with particular focus on air transport
- Attractions
- Restaurants and cafés

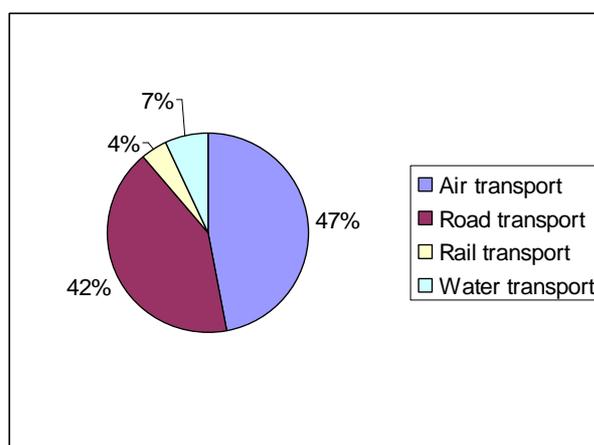
6.1 Transport sector

Tourists are using several modes of transport to reach their destination. This first section will discuss some major developments of the transport sector and then more particularly of the air transport.

6.1.1 Relative importance of different modes of transport

In 2007, about half of arrivals in Europe travelled by air (47%), while the remaining arrived by surface transport (53%) – by either road (42%), rail (4%) or water (7%).

Figure 6.1 Transport sector: international tourist arrivals in Europe by mode of transport (in %), 2007



Source: UNWTO (2008), Tourism Highlights

Over time, air transport grew at a faster pace than surface transport, leading to a **gradual increase in the share of air transport**⁷⁵. For a more detailed discussion on the major characteristics and challenges of the different segments within the transport sector, refer to IRU, AEA and IACA interviews in Annex III. Based on these, we limit ourselves here to some general trends in different surface transport modes⁷⁶: The segment of air travel will be discussed with more detail below.

- As for **rail travel**, it is expected that government investments in new high-speed lines in Western Europe will bring lower prices, improving services and increasing speed of travel. On shorter distances high-speed trains may start to compete with planes, but the implementation of projects takes time. If the number of projects would be substantially higher, high speed trains might become more competitive for travels with less than 3 hours. Eurostar, the cross-Channel rail operator, saw for instance an increase over 10% in the number of tickets sales and passenger numbers¹⁹. There is a large difference in rail road development between different regions within Europe. Whereas the development of a high speed network has received considerable attention in Western Europe and has been successful in Spain for example, it involves high investments and further development of rail road infrastructure in Central and Eastern Europe is not considered so far. Some argue that the upgrade of dilapidated trains in Central and Eastern Europe would provide greater benefit to the society, curbing the downward rail trend.
- Transport by land is partly referring to **coach travel**. This segment is largely characterised by small and family owned businesses. In recent years, however, the sector has been characterised by a consolidation and diversification process. As discussed with IRU a further professionalisation of the sector will become important as well as will be the adaptation the overall image of the sector towards both potential consumers and employees. Despite the fact that the economic crisis together with the pressure from taxation and regulation is troubling the future outlook of the sector the overall expectations are positive. This is mainly connected to the flexibility of coach travel vis-à-vis air transport and the absence of the necessity of big infrastructures like airports. Surely, coach travel will have to compete with both low cost carriers and high-speed trains.
- **Sea and inland waterways**: Over the last 30 years, the global cruise industry has grown by an average of 10% per year, making it the fastest growing sector of travel industry. The main cruise regions are the Caribbean (45%), Mediterranean (13%), Northern Europe (10%), Mexico/Panama (10%) and Alaska (8%)⁷⁷. In 2008⁷⁸, over 4.4 million European residents booked cruises, representing more than a quarter of all cruise passengers worldwide. This number increased by 10.5% over 2007. Nearly 4.7 million passengers embarked on their cruises from a European port, with over 75% of these being European nationals. The vast majority of these cruises visited ports in the Mediterranean, the Baltic and other European regions. The economic importance of

⁷⁵ UNWTO (2008), Tourism Highlights 2008 edition.

⁷⁶ European Travel Commission (2006), Tourism Trends for Europe.

⁷⁷ The NSW cruise market – a discussion paper, Tourism New South Wales, 2007

⁷⁸ Data based on GP Wild (International) Limited and Business Research and Economic Advisors (2009), *Contribution of Cruise Tourism to the economics of Europe*, study on behalf of the European Cruise Council and its partners Euroyards, Cruise Europe and Medcruise.

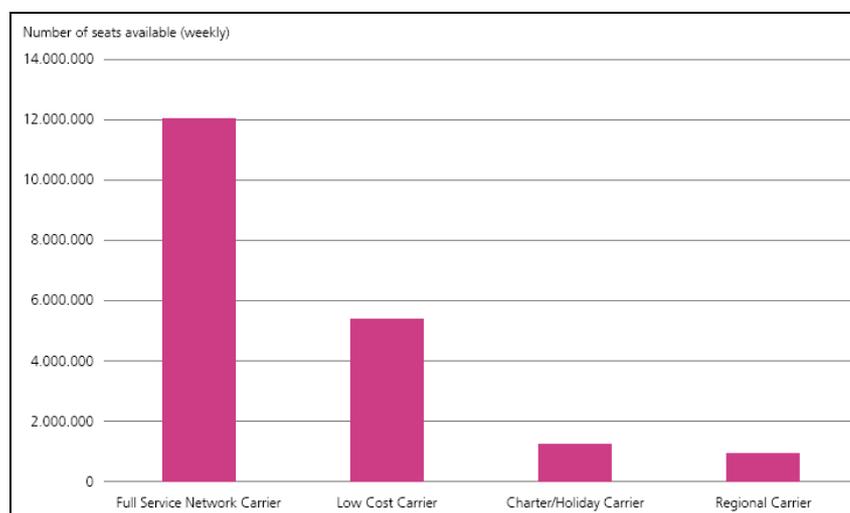
cruise tourism in Europe is shown in the following figures: €14.2 billion in direct spending by cruise lines and their passengers, €322 billion in total output, 311,512 jobs and €10.0 billion in employee compensation. In a report of DVB Research & Strategic Planning⁷⁹ the main challenges for the cruise industry worldwide have been identified. Those are: oil price (when oil prices range between \$50 and \$60, fuel costs amount to 10-11% of vessel operating costs), regulations (including taxation and environment), piracy (the persistent threat of Somalia is of increasing concern to cruise lines), health care (health care remains an important consideration given e.g. the significant number of older people), strong Euro (the US/Euro exchange rate is influencing the building industry as well as the number of passengers from the US and elsewhere) and cost control (as in other parts of the industry, the costs to operate a vessel can quickly increase because of various reasons such as toll, energy, fuel, etc.)

6.1.2 Key characteristics of air transport

Capacity available per type of carrier

Figure 6.2 shows the distribution of European air transport expressed as the number of weekly seats available by carrier type. **Charters/ holiday carriers represent only a small part (less than 10%) of the total capacity** of air transport.

Figure 6.2 Transport sector: distribution of European air transport by carrier type (number of seats available per carrier type), 2007

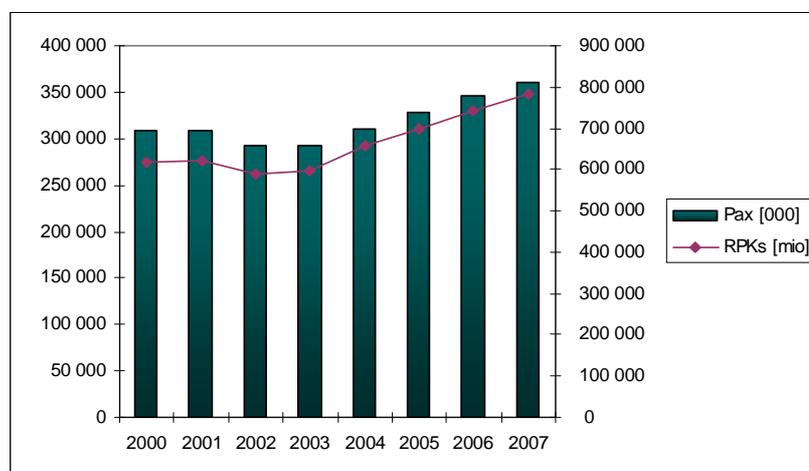


Source: DLR, 2008

Data from the Association of European Airlines (AEA) show that the **number of passengers has increased from 2004 onwards**, after several years of decline (see Figure 6.3). The decline in the period 2000-2003 is explained by 9/11, SARS and the war in Iraq. The same trend is visible for the revenue passenger-km.

⁷⁹ DVB Research & Strategic Planning, The Cruise Industry and its outlook 2009-2013: The Secret to Dancing with Waves, February 2009

Figure 6.3 Transport sector: number of passengers (left vertical axis, in Ths) and revenue passenger km (right vertical axis, in Mio km) of European airlines, 2000-2007



PAX: Number of passengers; RPK: Revenue Passenger km [Paying passenger x km flown]

Source: AEA, 2008

Passenger traffic in Europe, expressed in RPK, increased by 6.0% in 2007, compared to a worldwide increase of 7.4%. This, actually, was slightly better than the 5.3% increase in 2006. Between 2006 and 2007, AEA member airlines report a 5% increase in their number of passengers carried, up to 361 million, and a 5% increase in RPK. Their average passenger load factor rose to 77.0% (see Table 6.1).

Table 6.1 Transport sector: European Airlines passenger operations, 2000-2007

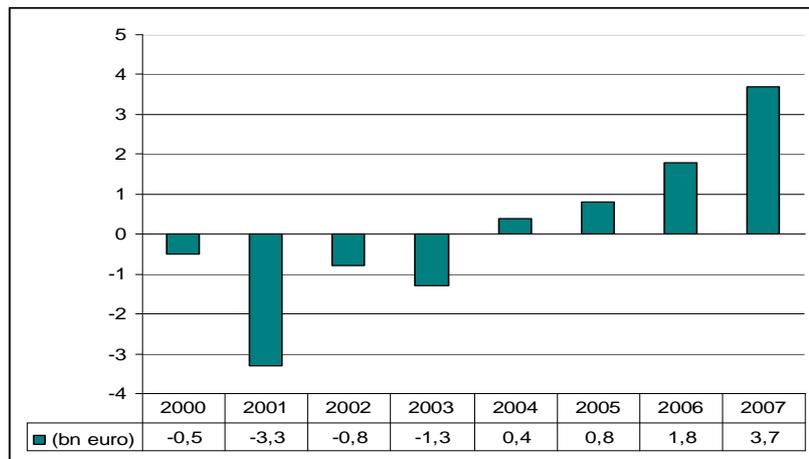
Year	Nº of carriers	Pax (000)	RPK (Mio)	ASKs (Mio)	PLF (%)
2000	30	309 002	617 654	849 397	72.7
2001	31	307 668	620 089	878 594	70.6
2002	30	293 162	589 575	801 370	73.6
2003	30	292 717	598 454	815 998	73.3
2004	30	310 358	656 677	880 085	74.6
2005	30	329 014	699 515	922 077	75.9
2006	32	345 636	741 606	970 717	76.4
2007	32	361 418	781 165	1 015 004	77.0

PAX: Number of passengers (in Ths); RPK: Revenue Passenger km [Paying passenger x km flown] (in Mio km); ASK: Available Seat km [Available seats x km flown] (in Mio km); PLF: Passenger Load Factor [RPK / ASK] (in %)

Source: AEA, 2008

With the rise in average load factor, the profitability of European airlines also continued to improve. In 2007, the net profit for European carriers was at 5.1 billion dollar while in North America this was 2.8, Asia Pacific 0.9 and the Middle East 0.3. Total results for operators in Latin America and Africa were negative. For Europe, the 5.1 billion dollar profit (3.7 billion Euro) was the best result in a long time (see Figure 6.4). Obviously, a downturn in the industry's profitability in 2008 is foreseen.

Figure 6.4 Transport sector: operating result for European air carriers after interest (in bn €), 2000-2007

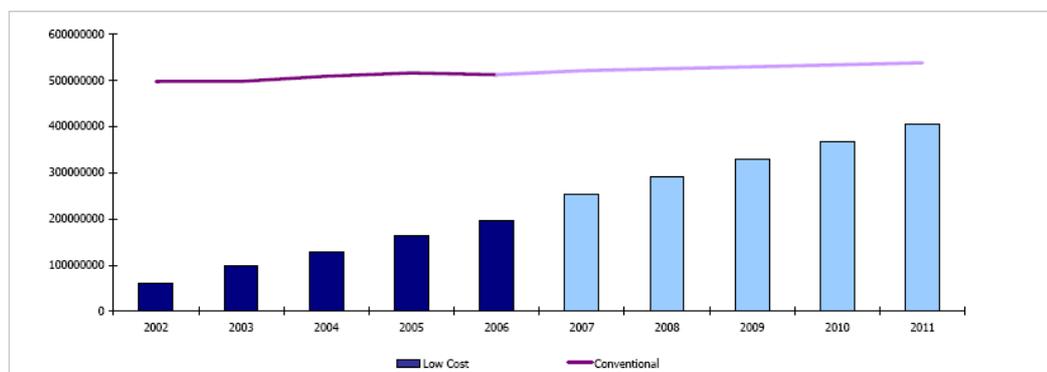


Source: AEA, 2008

Low cost carriers

An important change over the past years has been the rise of low-cost carriers (LCCs) in addition to the traditional carriers. In what way the LCC are actually competing with more traditional airlines might be a point of discussion. Nevertheless, it is clear that **LCCs have introduced lower prices in the airline industry and opened up many remote areas.** Figure 6.5 shows the increasing capacity of low-cost airlines worldwide.

Figure 6.5 Transport sector: seat capacity of low-cost and traditional airlines worldwide (in absolute numbers), 2002-2011*



*: dark purple/blue = real figures, light purple/blue = forecasts

Source: Schedule Reference Service (2007), Low-Cost Monitor 2007

Growth among LCCs has been 26% in 2005 and 21% in 2006, whereas the capacity of traditional airlines remained more or less the same. In 2006, the sector accounted for 28% of all intra-European capacity. Furthermore, the graph shows that by 2011 for the first time, over half of all Intra-European point-to-point passengers will be carried by LCCs. Based on data from Amadeus three LCCs, Ryanair, EasyJet and Air Berlin are figuring in the top ten largest airlines in Europe.

The rise of LCCs is however **not a univocally positive story.** Important remarks refer to operations in the so-called “grey areas” and the granted subsidies in order to attract LCCs as instrument for regional development. The scope of this study is however not to reflect

the debate on the role and importance of the LCC. We limit ourselves here to a number of general remarks which might be relevant for analysing the competitiveness of the EU tourism industry:

- LCCs have not only led to **increased competition between airlines** (for example leading to full-service carriers adopting low-cost pricing models), but also **between different modes of transport** (e.g. air and rail, air and car).
- Traditional airlines are, given their business models, largely focused on feeding a hub, while low-cost carriers depart from different airports all over Europe. Even though LCCs serve the same airports as traditional air carriers the **LCCs have opened up new routes to and from secondary airports** away from the main hubs used by traditional air carriers. This has expanded the potential traveller market by bringing air travel closer to where people live. Moreover, this means that new destinations are being created through improved accessibility⁷⁶. Secondary cities such as Dublin, Strasbourg and Valencia have become important destinations.
- LCCs have **created an additional tourism demand**. They attract new groups of travellers with limited budgets.
- LCCs have **made mid-week holiday travel more attractive**, since lowest fares are offered during off-peak travel times. This allows for example hotels or restaurants to maintain higher booking rates during weekdays⁸⁰.
- LCCs have contributed to a **more even traffic distribution of tourists throughout the year**, especially vis-à-vis charters. Very bluntly, we could state that charter airlines largely concentrate on Mediterranean destinations during summer or ski destinations during winter. LCCs on the other hand offer year round flights to the destinations they serve. However, charter airlines are only a small proportion of total airline transport; the effect remains therefore modest. Also, the main capacity is still concentrated in the group of traditional scheduled air carriers.

Hitherto LCCs have been focusing on intra-European travel. The LCC have not penetrated the intercontinental market yet. While it is rather easy to obtain substantial economies running a European network, these economies of scale are less easy to achieve when competing with network carriers on long haul destinations. Therefore, at the moment, most attempts to run a long haul LCC have failed. It might be interesting to see what will happen when the new transatlantic single sky will be functional. The current trends are not auspicious for a LCC to start long haul operations.

6.1.3 Trends and developments in air transport sector

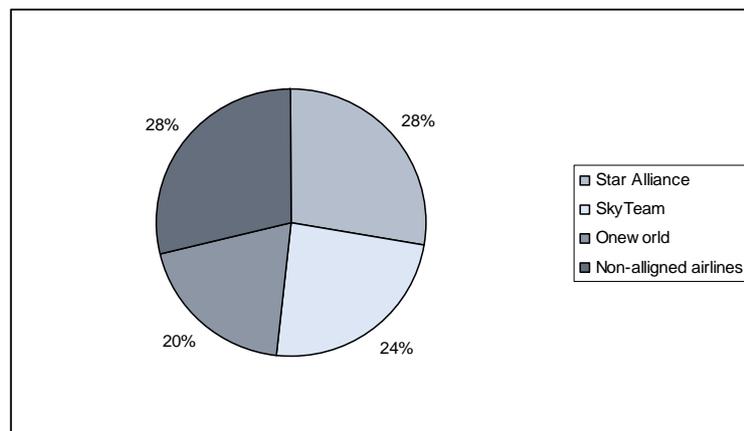
Major changes in the past

The aim of this study is not to analyse the competitiveness of the airline industry as such. We will however list the main characteristics of the airline business that have an influence on the tourism business and the competitiveness of the EU tourism industry as a whole:

⁸⁰ European Low Fares Airline Association (2004), Liberalisation of European Air Transport.

- **Low Cost Carriers:** the rise of LCCs has clearly made tourism available for a greater share of the population. It has also opened up new market segments, for example citizens who were not travelling by air before the rise of LCC.
- **Consolidation:** The ongoing process of consolidation and integration resulted in three major alliances with a global coverage: Star Alliance (17 members), SkyTeam (11 members) and Oneworld (10 members). Star Alliance's market share among all IATA carriers (measured by passenger-kilometres), has reached 28% in 2007, followed by SkyTeam with 24% and Oneworld with 20% (Figure 6.6). The role of alliances is expected to increase even more.
- **Additional regulation:** EU legislations and regulations have a large influence on the operating costs of air carriers. European legislation has for instance regulated many aspects of consumer protection. Since the events of 11 September 2001, security has become a very important issue for airline operators.
- **Impact of ICT:** ICT has a major impact on the sector. The best known example is probably the system of e-ticketing. Information availability has improved a lot and passengers have the opportunity to book online directly by airlines. Another example is the possibility of online check-in, which is saving time for consumers and costs for companies.
- **Monopolistic market structure for service providers:** Over the last decade, competition among airlines has increased enormously but the market of service providers (aircraft manufacturers, airport authorities, air traffic control, etc.) has still a monopolistic structure. The airline market has been liberalised, which led to a strong increase in competition and high pressure on prices, but at the same time the monopolistic position of service providers remains intact.

Figure 6.6 Transport sector: market shares major airline alliances (passenger-kilometres, in %), 2007



Source: DLR, 2008⁸¹

New initiatives with potential impact on tourism industry

At present, new initiatives are being discussed at the level of the European Commission, which might have an impact on the competitiveness of the EU tourism industry. We mention here the following three initiatives which have been highlighted at different interviews with stakeholders of the tourism industry:

⁸¹ DLR - German Aerospace Center (2008), Annual Analyses of the European Air Transport Market: Annual Report 2007.

- **Single European Sky (SES)**: Mainly due to historical reasons the European sky is very fragmented. According to AEA, the cost to the airlines of €9,5 billion per year for European Air Traffic Management (ATM) could be approximately €3,3 billion per year lower if the system were operated more efficiently. Major initiatives have been taken to create a Single European Sky. The original SES I package focused on congestion in the air and subsequent delays and safety. In March 2009 an updated, far reaching aviation package of measures has been agreed upon. This SES II package consists of four pillars⁸². The first pillar introducing several enhancements to the original SES legislation, the second introducing state-of-the-art technology with the SESAR programme bringing together all aviation stakeholders to develop a new generation, Europe-wide air traffic management system. The third safety pillar implies increased responsibilities for the European Aviation Safety Agency and the last airport capacity pillar tackles the shortage of runways and airport facilities, which currently threatens to become a major bottleneck. This package of measures will enable aircraft to fly the shortest routes possible (and thus shorter travel times for customers) in line with growing environmental requirements.
- **Emission Trading Schemes (ETS)**: The EU ETS is an international company-level 'cap-and trade' system of allowances for emitting carbon dioxide (CO₂) and other greenhouse gases. The EU ETS should allow the European Union to achieve its emission reduction target under the Kyoto Protocol at a cost of below 0.1 % of GDP, significantly less than would otherwise be the case. The system will also be key to meeting the EU's more ambitious emission reduction targets for 2020 and further into the future.⁸³ The airline industry is often named as an important source of pollution. In January 2009 a directive to include aviation into the EU Emissions Trading Scheme (ETS) is published in the Official Journal⁸⁴. Within this ETS virtually all airlines with operations to, from and within the European Union will come under the scope of the EU's emissions trading scheme.
- **Denied boarding compensation**: The denied boarding compensation for circumstances out of the airline control (i.e. political instability, meteorological conditions incompatible with the operation of the flight, security, unexpected flight safety shortcomings and strikes) is currently being discussed at political level. Experience shows that airlines in most cases invoke these extraordinary circumstances when facing a cancellation, being the subject of many customers' complaints. In 2005 the Commission advised all Community carriers that such a practice cannot be abused.⁸⁵ Should this compensation also be approved in these extraordinary circumstances, the costs of compensation and the responsibility for airlines will increase, leading to decreased competitiveness.

⁸² http://ec.europa.eu/transport/air/single_european_sky/ses_2_en.htm

⁸³ EU against climate change: The EU emission Trading Scheme, brochure 2009

⁸⁴ http://ec.europa.eu/environment/climat/aviation_en.htm

⁸⁵ Communication from the Commission to the European Parliament and the Council pursuant to Article 17 of Regulation [EC]261/2004 on the operation and the results of this regulation establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights, 2007

Impact of increased energy prices and financial crisis

Since the inception of the air transport industry in the 1950s, passenger traffic has grown constantly, with the strongest growth between 1980 and 2004. This period is characterised by stable and relatively moderate oil prices⁸⁶. Recently, however, this trend altered with a peak in the **oil prices** in the summer of 2008, **largely affecting the cost of flying**. Moreover, in the second half of 2008 the economic and financial crisis added to the negative impact on the airline industry. The figure below shows the international air passenger growth by region until October 2008, when the effects of the economic and financial crisis were about to become observable.

Figure 6.7 Transport sector: international air passenger growth by region (RPK, in % year), Jan-Oct 2008 compared to 2006 and 2007



Source: ETC Financial Crisis – Tourism Economics 2008

The **financial and economic crisis is resulting in a sharp decline in the demand for air transport**. Growth rates are showing a decline of 20% and more compared to same months one year ago. The decline in demand is attributable to a combination of higher fares, declining wealth/incomes, declining business and reduced air service for certain routes. An important decision has been taken by the European Commission concerning the time slots, in order to support the air carriers.

⁸⁶ Tourism in OECD countries (2008) and TTCI (2009)

Time slots allocation at Community airports

According to the Slots Regulation⁸⁷, each air carrier has been allocated certain time slots on individual airports. The highest prices are charged to the most popular slots. Slots are attributed to carriers for winter and summer seasons. The right to use allocated slots remains intact as long as an air carrier uses these slots for at least 80% of the time during the season for which the slots have been allocated. The slots laps, however, when operated below this percentage. This entails the risk that in periods of lower demand (e.g. current economic crisis) carriers organise flights even when they tend to be unprofitable, just to avoid losing the allocated slot. Therefore, in the context of the economic crisis, the European Commission has installed an exemption rule concerning the slots for the summer of 2009. Moreover, in 2008, the Commission adopted a Communication on the application of the slot allocation Regulation⁸⁸ which clarifies a number of issues in order to ensure a better implementation of the existing rules and to improve the efficient use of scarce capacity at congested Community airport, signaling, in particular, the acceptance of "secondary trading" of airport slots between air carriers.

6.2 Attractions

Europe as a tourist destination offers a **wide diversity of attractions**. These attractions cover for example culture, amusement parks, festivals, museums and gastronomy. Besides these attractions, which build the basis for tourism development, product segments, which are gaining in importance, are for example health and wellness tourism, ecotourism and active tourism. Even if most attractions only have a limited reach in attracting tourists, most tourists visit a region because of the diversity of or specific attractions offered.

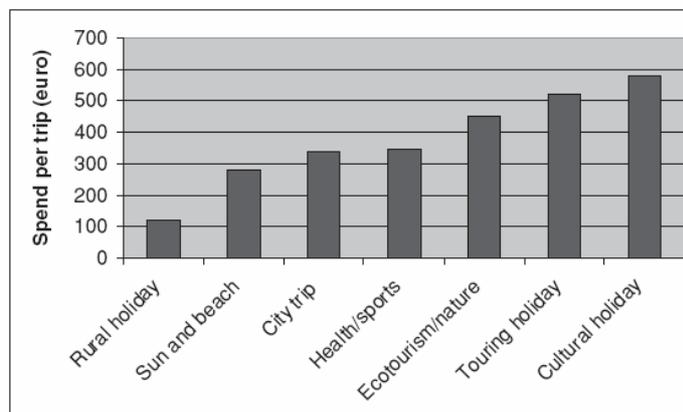
6.2.1 Culture as tourism product

Cultural tourism is one of the largest and fastest growing global tourism markets and the cultural and creative industries are increasingly being used to promote destination and to increase their competitiveness and attractiveness. In general, the proportions of tourist on a cultural holiday have worldwide grown from around 17% up to more than 30% (ATLAS, in the OECD report). Hence, **culture is increasingly seen as an important element of the tourism product**. At the same time, tourism provides an important means of enhancing culture and creating income that can preserve, support and strengthen cultural heritage. Strengthening the relationship between tourism and culture can therefore help destinations to become more attractive and competitive as locations to live, visit, work and invest in. Moreover, cultural tourism is attractive for destination countries given that **tourists on a cultural trip spend on average more than other tourists**.

⁸⁷ Regulation (EC) 793/2004 of the European Parliament and of the Council of 21.04.2004 amending Council Regulation (EEC) 95/93 on Community rules for the allocation of slots at Community airports

⁸⁸ COM(2008) 227final

Figure 6.8 Attractions: spending by holiday per trip (in €), 2006



Source: OECD/ATLAS surveys 2009

The OECD report stated that “culture in all its forms is likely to feature strongly in the tourism product and promotion of most regions, even those which have traditionally relied on their natural assets, such as sun and beach or mountains for their attractiveness”. Hence, regions are attractive to tourists due to the full pallet of attractions available, like cultural issues in their broadest sense as well as the natural conditions.

The most successful destinations are those, which recognise the wider implications of the relationship between tourism and culture. The main factors linking tourism and culture to competitiveness and attractiveness include the ability of culture to provide distinctiveness for tourism. Policy makers are nowadays aware that **investments in cultural heritage can support the development of the tourism sector**. Large investments are being made, also with the help of the EU Structural Funds, to develop and market the cultural attractions. Projects in this fields show that these investments often lead to an increase in attracting foreign tourists.

In Europe, cultural heritage forms an important competitive advantage. Compared to other regions in the world, the **dense supply of cultural heritage in Europe is a key strength**. In contrast to other continents, Europe’s attractiveness is dominated by history and culture going back many centuries. For numerous visitors, an ‘Old Town’ tour is attractive enough. For Member States, it is very important to invest in the quality and marketing of these towns, in order to optimally position it in the tourism market. Cultural heritage loses its attractiveness if it deteriorates and active maintenance of the quality is therefore important. Furthermore, its potential can be extended through better promotion by national marketing organisations.

Cultural tourism within the European Union

During most of the 20th century, cultural resources were largely related to education and the underpinning of local or national cultural identities. Tourism was largely viewed as a leisure-related activity separate from everyday life. From 1980s onwards, cultural tourism became viewed as a major source of economic development for many destinations. An OECD study indicated that in several major economies the value of the cultural industries varies between 3% and 6% of the total economy. The combination of tourism and culture is therefore an extremely potent economic engine, leading to jobs and businesses, tax revenues, opportunities for partnerships, etc. Culture is an increasingly important element of the tourism product as it creates distinctiveness in a crowded global marketplace. Thus, culture can strengthen the attractiveness and competitiveness of places, regions and countries. Based on data from 2007, the UNWTO estimates that cultural tourism accounts for 40% of international tourism.

Source: impact of culture on tourism, OECD

6.2.2 Nature and environment as precondition for tourism

Just as with cultural heritage, environment/ nature is a precondition of which the amount cannot be influenced, but where quality is very important. If nature is on its decline (e.g. due to pollution, erosion), less tourists will visit a region, leading to lower receipts and in turn to lower income for conservation. As environmental sustainability, water and nature become more important values, countries can make use of their potential by active promotion of their landscapes.

Although the concept of eco-tourism is difficult to define, it however does have some consistent features:

- The destination itself is usually an unpolluted natural area.
- Its attractions are the flora and fauna, and its entire bio-diversity.
- Eco-tourism should support the local economy and its indigenous atmosphere.
- It should contribute to the preservation of the environment, and promote the importance of conserving nature.
- 'Eco-trips' often include a learning experience.

The special asset of European eco-tourism is the unique combination of nature and culture, managed through sustainable producing agriculture. This economy has produced an amazing diversity of relatively undisturbed natural environments, such as national parks, nature parks and protected areas. This **natural and cultural diversity within a destination** can be considered as the most important attraction of many European tourism destinations. Similar findings have also been stated by the recent work of the Council of Europe⁸⁹.

⁸⁹ UNWTO: Ecotourism in Mountain Areas - a Challenge to Sustainable Development, European Preparatory Conference for 2002

Europe has a number of Unesco Natural World Heritage sites (29 natural and natural/cultural sites out of 199 world wide). These sites are presented in the table below.

Table 6.2 Attractions: Unesco Natural Heritage sites in Europe, 2009

Site	Country
Pirin National Park	Bulgaria
Srebarna Nature Reserve	Bulgaria
Plitvice Lakes National Park	Croatia
Ilulissat Icefjord	Denmark
High Coast / Kvarken Archipelago	Finland
Gulf of Porto: Calanche of Piana, Gulf of Girolata, Scandola Reserve	France
Pyrénées - Mont Perdu ¹	France/Spain
Lagoons of New Caledonia: Reef Diversity and Associated Ecosystems	France
Messel Pit Fossil Site	Germany
Meteora ¹	Greece
Mount Athos ¹	Greece
Caves of Aggtelek Karst and Slovak Karst	Hungary/Slovakia
Isole Eolie (Aeolian Islands)	Italy
Belovezhskaya Pushcha / Białowieża Forest	Poland
Laurisilva of Madeira	Portugal
Danube Delta	Romania
Primeval Beech Forests of the Carpathians	Slovakia
Škocjan Caves	Slovenia
Garajonay National Park	Spain
Doñana National Park	Spain
Ibiza, Biodiversity and Culture ¹	Spain
Teide National Park	Spain
Laponian Area ¹	Sweden
High Coast / Kvarken Archipelago	Sweden
Giant's Causeway and Causeway Coast	UK
St Kilda ¹	UK
Henderson Island	UK
Gough and Inaccessible Islands	UK
Dorset and East Devon Coast	UK

¹ Mixed cultural and natural site

Source: Unesco (<http://whc.unesco.org/en/list/>)

6.2.3 Manmade attractions

There are **only a few super-regional and international attractions in the world**. Examples of international attractions are the Olympic Games, the World- and European Soccer Championships, amusement parks such as Disneyworld and some museums like the Louvre in Paris. The most important large attractions are presented with more detail below.

Cultural and art attractions

Apart from the fact that old cities tours are one of the major attractions, there are several attractions in European cities that relate to cultural heritage and art, that attract large number of visitors. The **main manmade attractions** are presented in the following table.

Table 6.3 Attractions: main manmade attractions in Europe by number of visitors, different years

Attraction	Location	Number of visitors	Year (most recent)	
Kaiser Wilhelm Memorial Church	Berlin, Germany	1.500.000	2005	Cultural Heritage
Notre Dame Cathedral	Paris, France	13.000.000	2005	Cultural Heritage
Sacr�-Coeur Montmartre	Paris, France	8.000.000	2005	Cultural Heritage
Eiffel Tower	Paris, France	6.719.200	2006	Cultural Heritage
Memorial to the Murdered Jews of EU	Berlin, Germany	3.500.000	2005	Cultural heritage
Reichstag (German Parliament)	Berlin, Germany	2.700.000	2005	Cultural Heritage
Schlo�	Vienna, Austria	2.590.000	2007	Cultural heritage
Sch�nbrunn/Schaur�ume				
Prague Castle	Prague, Czech Rep.	2.100.000	2005	Cultural heritage
Tower of London	London, U.K.	2.064.126	2007	Cultural heritage
St Paul's Cathedral	London, U.K.	1.623.881	2007	Cultural Heritage
National Portrait Gallery	London, U.K.	1.607.767	2007	Cultural Heritage
Basilika Mariazell	Mariazell, Austria	1.500.000	2008	Cultural Heritage
Louvre Museum	Paris, France	7.553.000	2005	Museum
British Museum	London, U.K.	5.400.062	2007	Museum
Centre Pompidou	Paris, France	5.341.064	2005	Museum
Tate Modern	London, U.K.	5.200.000	2007	Museum
National Gallery	London, U.K.	4.159.485	2007	Museum
National History Museum	London, U.K.	3.652.003	2007	Museum
Orsay Museum	Paris, France	2.929.282	2005	Museum
Victoria and Albert Museum	London, U.K.	2.809.900	2007	Museum
Science Museum	London, U.K.	2.712.824	2007	Museum
Swedish Exhibition and Congress Hal	G�teborg, Sweden	2.376.780	2005	Museum
State Art Collection of Dresden	Dresden, Germany	2.040.238	2005	Museum
Principe Felipe Museum	Valencia, Spain	2.023.524	2008	Museum
Ashton Court Estate	Bristol, U.K.	1.742.709	2007	Museum
Tate Britain	London, U.K.	1.600.000	2007	Museum
City of Science la Valette	Paris, France	3.186.000	2005	Other

Xscape Castleford	United Kingdom	3.742.081	2007	Sports
Schönbrunn Zoo	Vienna, Austria	2.453.987	2007	Zoo
Zoo Zurich	Zurich, Switzerland	1.700.000	2005	Zoo
Berlin Zoo	Berlin, Germany	1.571.000	2005	Zoo

Source: Compilation of data from Tourmis 2000-2008

Other sources, such as tripadvisor, mention also the Vatican museums in Italy and the Prado museum in Spain as main attraction in terms of visitors. According to this source, these museums even belong to the Top 10 museums in the world. (cf. Table 6.4). The Louvre museum in Paris ranks first. Furthermore, six out of the top ten museums are situated in Europe. **With respect to art and museums, Europe has a strong position compared to other continents.**

Table 6.4 Attractions: top 10 of museums in the world, 2009

Rank	Museum and location
1	MUSEE DU LOUVRE , Paris, France
2	VATICAN MUSEUMS , Vatican City, Rome, Italy
3	METROPOLITAN MUSEUM OF ART , New York, New York
4	J. PAUL GETTY CENTER , Los Angeles, California
5	MUSEE D'ORSAY , Paris, France
6	UFFIZI GALLERY , Florence, Italy
7	ART INSTITUTE OF CHICAGO , Chicago, Illinois
8	TATE MODERN , London, England
8	PRADO MUSEUM , Madrid, Spain
10	NATIONAL GALLERY OF ART , Washington, D.C.

Source: Tripadvisor

Box 6.3 Cities as attractive environment

The Major 'honeypots' in Europe

Ranking the most important attractions is difficult because tourists tend to be attracted in the greatest numbers to clusters of attractions, accommodation and other facilities. This makes it difficult to know whether a general area or a specific attraction is the main source of appeal (and vice versa). Apart from the largest theme parks, which exert their own peculiar magnetism (led by Disneyland Resort Paris, Port Aventura in Spain, Europa-Park in Germany, Legoland in Denmark and Alton Towers in the UK), the following cities with their major 'honeypots' are outstanding in Europe:

- ▶ **Paris** - including the Eiffel Tower, the Louvre, Pompidou Centre and Notre Dame. France as a whole has easily the highest number of inbound visitors annually (at 75 million in 2003).
- ▶ **London** - featuring the British Airways London Eye, Tate Modern, the British Museum (four branches) and the Tower of London. The UK ranks fourth for European arrivals in total (at 24.7 million in 2003) but mainly offers cultural and attractions tourism for foreigners, rather than 'seaside' tourism (which accounts for most of the 50 million-plus visitors to Spain).

- ▶ **Rome** - with attractions extending far beyond the Coliseum, the Forum and other antiquities and the Vatican. Italy receives up to 40 million visitors a year and Rome is just one major honey pot, the others being Venice and the area around Naples (e.g. the island of Capri and Pompeii).
- ▶ **Berlin** - which is attractive for its range of shopping opportunities and nightlife, as well as its historical curiosity since the Reunification of Germany and the regeneration of the former East Berlin.
- ▶ **Barcelona** - another city with a diverse appeal, focused for many around the work of the architect Gaudi and rejuvenated by the hosting of the Olympics in 1994.

Source: Research and Markets, European Tourist Attractions Market Assessment 2007

Festivals

Many well-known festivals (e.g. Cannes / Venice Film Festival, Salzburger Festspiele, Bayreuth Festspiele, etc.) have a long tradition. However, only recently festivals are seen as a particularly **important tool to stimulate tourism on a domestic/ regional level**. People visiting a city/ region for festivals do not only generate receipts during their visit to the festival: they may extend their stay for a couple of days, or may return to that region after their first visit. Also at a European level, promotion of festivals and cooperation between different organisers is stimulated through the European Festivals Association. Eventually, these festivals should also attract more international visitors.

Entertainment

In terms of attractions that welcome millions of visitors, theme parks represent the major development in Europe, although **the market still lags many years behind the US market**, where it originated with the Disney parks in the 1950s and 1960s. Disneyland Resort Paris, the only Disney Park in Europe opened in 1992, attracts up to 12 million visitors, making it by far the largest single attraction in Europe. Europe also has several other parks inspired by Hollywood studios and movie themes.

The UK is particularly rich in theme parks and its main company, Tussauds Group, operates other European parks and attractions. Spain and Germany each have several large theme parks, and there are three Legoland parks (in Denmark, the UK and Germany). The top 20 of amusement parks in Europe, based on the number of visitors, is shown in Table 6.5.

Table 6.5 Attractions: top 10 of amusement and theme parks in Europe, 2007

Rank	Park and location	2007 attendance	% change (2006)
1	Disneyland Paris , Marne-La-Vallee, France	12.000.000	13,1
2	Pleasure Beach , Blackpool, UK	5.500.000	-8,3
3	Tivoli Gardens , Copenhagen, Denmark	4.110.000	-6,5
4	Europa Park , Rust, Germany	4.000.000	1,3
5	PORT AVENTURA , Salou, Spain	3.700.000	5,7
6	DE EFTELING , Kaatsheuvel, Netherlands	3.200.000	0,0
7	GARDALAND , Castelnuovo dei Garda, Italy	3.100.000	0,0
8	LISEBERG , Gothenburg, Sweden	3.050.000	3,4
8	BAKKEN , Copenhagen, Denmark	2.700.000	0,0
10	WALT DISNEY STUDIOS , Marne-La-Vallee, France	2.500.000	13,6

Source: TEA and Economics Research Associates (ERA)

In Europe, the overall number of visits to entertainment parks grew by more than 3%. The table shows that all amusement parks are situated in the old EU-15. Besides Disneyland, most attraction parks are largely depending on local/ regional market. And even for parks like Disneyland, Tivoli or Port Aventura intercontinental visitors make up only 2% of their customers. Demand is therefore largely dominated by the European market.

6.2.4 Developments with respect to attractions

Horizontal integration and consolidation

The **development of chain attractions** remains a important trend. The Disney parks are for example present in the US, Asia and Europe and museums show similar trends (e.g. Guggenheim, Hermitage). Furthermore, attractions increase in scale. Therefore, the sector is in general characterised by **fewer yet larger players**. Family owned businesses are still dominant, but they represent a smaller share of the market.

The segment of amusement parks is particularly consolidating. In Europe a few major players dominate the market. The degree of consolidation is larger within the EU than in the USA. Major players are for example Parqueos Reunidos (Spain), Compagnie des Alpes (France), Aspro Ocio (Spain) and Merlin Entertainments (UK).

Vertical integration

Furthermore, the sector is characterised by vertical integration. Larger attraction parks like Disneyland, Tivoli, Efteling and Europapark are being equipped with hotels, resorts or campsites. This trend is expected to continue.

Capital funds

The management of attraction parks is mostly done by specialised groups. Examples are Merlin Entertainments, Compagnie des Alpes, Parques Reunidos and Aspro Ocio. The ownership is linked to larger capital funds (e.g. Blackstone and Candover). Those groups

operate in different countries: Compagnie des Alpes for example is largely dominating the French, Belgian and Dutch market.

Innovation

Innovation is an essential part of the attraction industry to remain attractive in a local/regional market. It is an instrument to generate repeated visits. Innovation is used in various parts of the business: entertainment programmes, market approach, product development, etc. In order to maintain the market share, attraction parks have to invest approx. 10% of annual turnover in innovation. Nowadays, **innovation is probably a competitive advantage of the EU**, whereas most of earlier developments were initiated in the US.

Public versus private players

In the attractions business **both public and private sectors are active suppliers of attractions**. However, they compete according to a **substantially different competition model**. Whereas commercial attractions need to run a profitable business to survive, public players play a very different role (e.g. making cultural heritage, art, nature, etc available for society). This makes commercial attraction parks compete with (semi) subsidised attractions that are able to offer lower prices.

Consumer preferences

It is interesting to see how the preference for a type of attraction does not differ much between domestic, intra-EU or international tourists. The recent Eurobarometer survey shows the preference of different attractions by holiday destination of EU citizens in 2009 (see Table 6.6).

Table 6.6 Attractions: preference by holiday destination (in %), 2009

Planned destination in 2009	Domestic	Elsewhere in the EU	In a non-EU country
Attraction			
Art	5	5	5
Gastronomy	7	6	6
Entertainment	18	14	14
Cultural heritage	21	28	29
Festivals & Other events	5	5	5
The environment	33	31	29
Others	6	9	8

Source: Eurobarometer Survey

Most important for EU tourists are the cultural heritage of the country they visit, the environment of the holiday destination as well as entertainment and festivals. Of less importance are art and gastronomy.

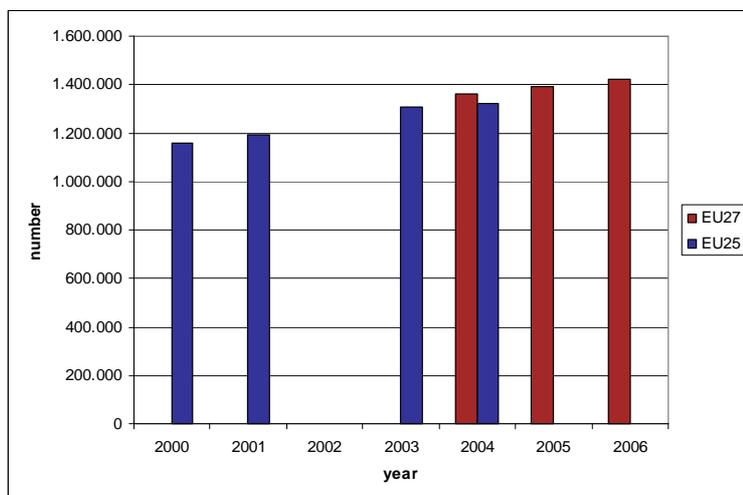
6.3 Restaurants and cafés

Within the accommodation sub-sector, the large majority of enterprises are active in the Restaurants and Café business (81%). Only in rare situations, a restaurant or café forms a driving force for tourism, but is rather one of the preconditions for tourism. It doesn't attract tourists in itself, but once tourists are there, they will make use of it. The catering and canteens sector has no or only weak linkages with tourism. Restaurants, bars and cafe's have a medium dependency on leisure tourism and business travel, with the exception of the traditional tourist areas where the dependency is high. In many areas, bars and restaurants are highly dependent on day visitors⁴⁶.

6.3.1 Economic significance

- In the EU-27, the **number of enterprises** active in the restaurants and cafés business grew up to **more than 1.4 million** in 2006. Other data on the supply side of this part of the industry are mostly only available for Hotels and Restaurants together. In this report, we limit ourselves to mention some important figures.
- Oxford Research⁴⁶ has indicated that the turnover of hotels, restaurants and cafés in the EU-27 reached almost €440 billion in 2006. The restaurant sector accounted for 70% of this turnover, which is **around €308 billion**.
- In terms of employment, this part of the industry accounted for **approx. 9 million employees** in the EU-27 in 2006. Around 75% of this employment can be found in the restaurant sector. A large majority, 90% of the enterprises, is characterised as micro-enterprise, employing 10 people or less.
- The restaurants, bars, canteens and catering sector has a relatively low labour productivity of around €17,000 per person employed for the EU-27. In general, the labour productivity in the EU-15 is much higher than in the new Member States. The catering and restaurant sector is very vulnerable to the economic climate. In times of recession, the demand decreases.

Figure 6.9 Restaurants and cafés: number of enterprises in the EU-25 / EU-27, 2000-2006

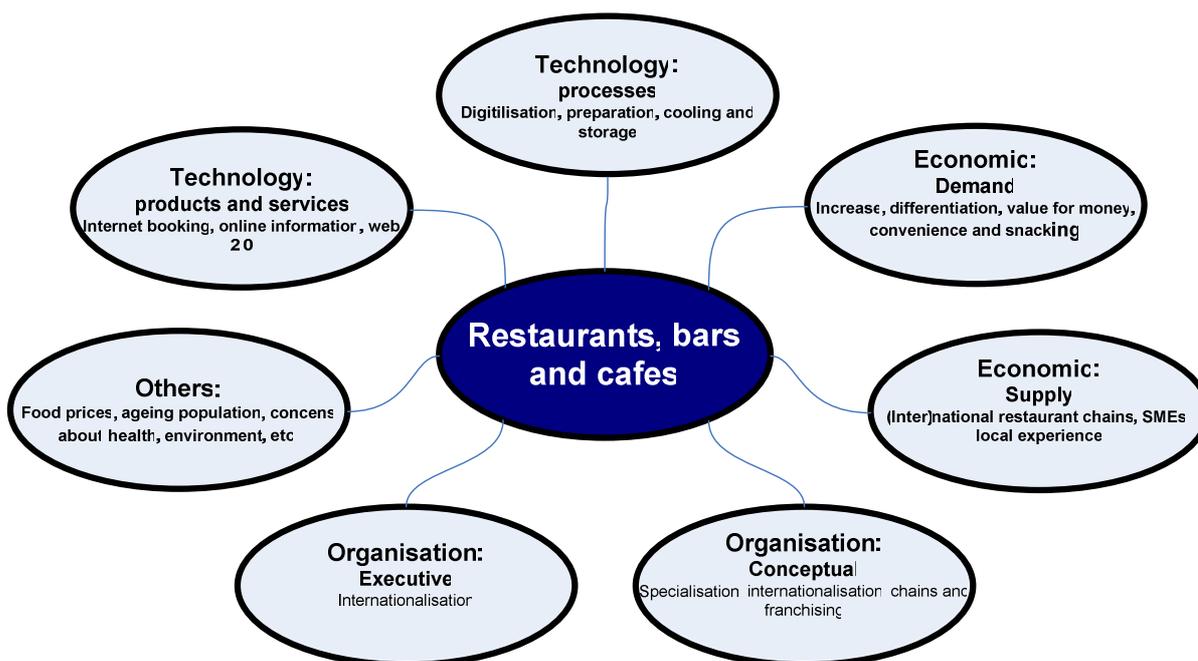


Source: SBS Database, Eurostat

6.3.2 Drivers of change

Oxford research has identified the drivers for change for the restaurants, bars and café’s sector. In the paragraph below the catering and canteen sector has been left out, as this sector is not very relevant in the tourism sector. The drivers are presented below. According to Oxford Research, the main drivers are **ageing population, new lifestyles and consumer demands, increased use of ICT and internet and economic development and globalisation.**

Figure 6.10 Restaurants and cafés: main drivers of change



Source: ECORYS, based on Oxford Research 2009

Changing lifestyles and ageing population

The sector will be affected by the ageing population in Europe, which will lead to a new type of tourists. The demand will be different, leading to an increased role of quality and services.

Also changing lifestyles will affect restaurants. Traceability will become more important; customers will want to see where the primary product originates from and “local produce and “terroir” is growing in importance. Furthermore, there is a trend that people prefer snacking instead of having a three course lunch, which affects the restaurant sector.

Technological developments

The development and increased use of ICT is one of the most important drivers for change. Customers can plan their stay in detail, including the choice for restaurants through the internet. This means that marketing opportunities increase and diversify. For the restaurants, the technology has contributed to a more widespread use of high quality semi-finished products used in cooking. The improvements in technological solutions have also changed the way of cooking. There is a contradiction between the demand for fresh locally produced food and the increase use of semi-finished, pre-prepared food.

Economic drivers of change

Globalisation influences the restaurant sector, as it provides for cheaper workers, increases international cooperation and results in international and global competition. The latter might place pressure on the profit margins. Customers require value for money and can easily compare prices. Lastly, general economic conjuncture is of great importance; the sector is very vulnerable in times of crises.

Political influences

Apart from the more general influence of political conflicts on the destination choice, political regulations and deregulations are important drivers of change. The restaurants are highly influenced by regulations on hygiene and food safety issues, regulations on areas relating to smoking, alcohol consumption and food safety and regulations on working conditions, consumer protection and product information. Especially smaller companies have difficulties in complying with the regulations as adaptation to the regulations might be costly.

PART 3: REGULATORY AND OTHER FRAMEWORK CONDITIONS

Businesses do not operate in a vacuum, but are influenced by the environment ('the framework') in which they operate. Regulatory measures, societal changes or other framework conditions have an impact on supply and demand for tourism, as well as on the business models used. As such, the framework directly influences the competitiveness of industries in different ways. The aim of this part is to make an **analysis of the key regulatory and other framework conditions which have an impact on the competitiveness of the tourism industry, and more specifically of the accommodation (Chapter 7) and TO&TA industries (Chapter 8).**

To this end, for both sub-sectors:

- ⇒ a **framework profile** provides information about the key framework conditions that influence the sector in terms of its own development⁹⁰. In this profile, we distinguish the following types of framework conditions:
 - a. **Regulatory conditions**, in areas such as labour market policy, competition policy, environmental policy or standards. Some of these conditions can be influenced by industrial policy directly, others fall in other policy areas or are industry driven.
 - b. **Other framework conditions**, that have a direct impact on the input factors (capital, labour) and business processes (e.g. innovation) of companies. Such framework conditions relate to e.g. the provision of education and training or supportive measures for R&D.
 - c. **Exogenous conditions**, which, by definition, are outside the policy environment. They may include international political and social upheavals, or changes in economic and technological conditions that take place beyond the reach (geographical or otherwise) of EU policy influence.

Although not exhaustive in nature, the framework profile summarizes the most important framework conditions impacting the competitiveness of the industry;

- ⇒ a detailed assessment is made of HOW the relevant framework conditions influence the different competitiveness layers (input factors, structure, processes and outcome - see Figure 1.3 in Chapter 1) in our **competitiveness grid**;
- ⇒ the current **degree of relevance** of the different framework conditions at both industry and policy level is assessed, as well as the 'ideal' level of relevance.

⁹⁰ The analysis is done in accordance with the general framework for assessment of regulatory and framework conditions agreed as part of the Framework Contract of Sectoral Competitiveness Studies.

7 Framework conditions affecting the competitiveness of the accommodation industry

7.1 Framework profile of the accommodation industry

7.1.1 Regulatory conditions

Regulatory barriers to enter the accommodation industry are low when compared to many other industries such as for example the telecom or chemicals industry. Few regulations specifically target the accommodation industry. However, over the years especially ‘horizontal’ regulatory measures in different policy domains (eg. health, environment, labour markets) have influenced the accommodation industry. These regulatory measures are not specifically targeted towards the accommodation industry as such, but do affect the accommodation businesses sometimes significantly. Apart from necessary changes or investments that need to be done to comply with these regulations, they mostly also add to the administrative burden that companies have to cope with. In the following paragraphs we summarize the most important regulatory conditions that have an impact on the accommodation business. The purpose is not to be exhaustive, but to highlight those regulatory conditions that we consider to be the most important in terms of competitiveness.

Labour market regulation

- Across the EU-27 very different **national labour market regulations** exist, some providing businesses with a more stringent labour market structure than others. In Northern European countries such as e.g. Denmark a labour market system promoting “flexicurity” tries to combine the flexibility that businesses need with the security that employees search.
- Impact of the (revised) **Working Time Directive**: The *Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time*⁹¹ (called “Working Time Directive” in the remainder of this document) stipulates that workers must not work more than an average of 48 hours a week (calculated over any four-month period), although it allows for broad derogations. However, the text needed to be revised following a number of European Court of Justice rulings. The new proposal limits workers to a weekly maximum of 48 hours, but allows social partners to find 'flexible

⁹¹ OJ L 299, 18.11.2003

arrangements' if granted approval by the employer. Moreover, in the new proposal also "on call time" is regarded as working time. If this revised Working Time Directive will be in place, this will undoubtedly affect the accommodation industry⁹².

- Free **movement of labour**: with the accession of 8 new Member States from Central and Eastern Europe ⁹³ in 2004 and another 2⁹⁴ in 2007, several Member States from the EU-15 introduced 'transitional restrictions' on the movement of labour forces from those new Member States. Although free movement of workers is a fundamental right in the EU, Member States can impose labour market restrictions until May 2011 in the case of workers from the eight CEE countries that joined the EU in 2004, and until 2014 in the case of workers from Bulgaria and Romania. Although several Member States have kept their labour market open or have already lifted all restrictions, other Member States still maintain restrictions in place.

Health & safety regulations

- The Commission aims for a smoke free Europe as it has stated in its Green Paper of January 2007 'Towards a Europe free from tobacco smoke: policy options at EU level'. An increasing number of Member States introduce **smoking bans** for hospitality venues, but there are no binding rules at EU level (yet). The hospitality sector does fear that with stricter smoking regulations the number of clients will decrease.
- Accommodation establishments with a restaurant attached face several **food safety regulations**⁹⁵ that require investment in terms of time and money. Examples are:
 - Maintenance of records of purchases of food substances;
 - Compliance with detailed hygiene rules regarding layout, design and size of premises, storage and disposal of waste, personal hygiene, etc.;
 - Adoption of specific hygiene requirements in relation to compliance with microbiological criteria for foodstuffs, compliance with temperature requirements, maintenance of the cold chain, etc.;
 - Procedures based on HACCP (Hazard Analysis and Critical Control Points) being put in place.
- Concerning **fire safety** in hotels, national regulation should include the following topics mentioned in the *86/666/EEC Council Recommendation of 22 December 1986 on fire safety in existing hotels*⁹⁶ (which has been evaluated on its impact in the Member States):
 - availability and accessibility of escape routes
 - structural stability of buildings
 - the use of non-flammable materials
 - the safe operation of technical equipment and appliances
 - existence of alarms, safety instructions and plans of the premises
 - availability of emergency fire-fighting equipment
 - staff training

⁹² See interview IAAPA for an example

⁹³ i.e. Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

⁹⁴ i.e. Bulgaria and Romania.

⁹⁵ e.g. Regulation (EC) No 852/2004 of the European Parliament and of the Council of 29 April 2004 on the hygiene of foodstuffs. L 139, 30.4.2004

⁹⁶ Official Journal L 384 , 31/12/1986

Following this recommendation, all national authorities have installed minimum fire regulations by now. Differences between Member States do remain because of differences in application of the regulation (e.g. some Member States make a distinction between new buildings and old). The implementation of these regulations requires investments from the businesses and close cooperation with intermediaries such as the construction sector.

Other national regulations and completion of internal market

- Despite an internal market for labour, there is still a lack of **harmonisation in qualifications and skills recognition** across the EU-27. To tackle this problem, an interesting voluntary initiative has been launched jointly by EFFAT and HOTREC introducing the European Qualification Passport.
- Strong differences in the **VAT rate system** across Member States exist: although accommodation services are eligible for a reduced VAT rate (these services have been listed in Annex III of the *Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax*⁹⁷), VAT rates differ significantly across Member States ranging from only 3% VAT in Luxembourg (which applies a ‘super reduced’ VAT rate) to 25% in Denmark (which does not apply the reduced VAT rate in accommodation). Also in several other Member States a reduced VAT rate is not applied in the accommodation business at the moment (e.g. neither in Latvia, Lithuania and Slovakia, nor in Germany and the UK).
- **Holiday planning** in the different Member States is regulated at the national level. This planning has a major impact on the spread of business of the accommodation industry, with high peaks in the holiday period. Although several Member States have already taken actions to differentiate holiday planning across regions within the country (e.g. the Netherlands, Germany, Austria), coordinated supra-national actions to differentiate the holiday planning of different Member States are non-existent at present.

Standards and qualifications

- Numerous **national and regional quality schemes** exist in the EU accommodation industry alongside each other. This makes comparability across borders very difficult for customers. In the *Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market*⁹⁸ reference is made to the need for better information on the meaning of quality labels, in particular “in the hotel business, in which the use of a system of classification is widespread” (recital 102 of the preamble). However, hitherto there is still very little at European or international level in terms of common classification systems in the accommodation industry. HOTREC has taken some initiatives to make the information about quality schemes more transparent. The ‘Stars of Europe’ section on its website⁹⁹, for example, presents the launch of a European Hospitality Quality Scheme under which national or regional quality schemes may be accredited. Nevertheless, good access to

⁹⁷ OJ L 347, 11.12.2006

⁹⁸ OJ L 376, 27.12.2006

⁹⁹ See http://www.hotrec.org/pages/stars_in_europe/

correct information about qualifications remains difficult for customers across Europe.

- The **EU Ecolabel** (also called EU Flower)¹⁰⁰ is an EU wide label certified by an independent organisation, assessing the environmental quality of products and services at company level. There are currently 23 different product categories which can receive this award. Since 2003 this is the case for accommodation services, and since 2005 also for camp site services. Individual enterprises can apply for this label on a voluntary basis. However, hitherto the adoption of this label by accommodation and camp site companies is limited. To increase the dissemination of the EU Flower in the Member States, the EC extended a project initiated in 2007: eleven regions act jointly to implement the EU Flower in defined areas. The aim of the project is to advance the market presence of the EU Ecolabel and act as partner for tourism destinations in their efforts for sustainable tourism.

7.1.2 Other framework conditions

Apart from the regulatory framework, several other framework conditions have a direct impact on the accommodation businesses' input factors and processes.

Labour force, knowledge and skills

- **Training and education:** in most Member States degree programmes specifically geared towards the tourism industry are being offered (bachelor, master). However, these programmes are not always adapted to the changes that the tourism industry faces and therefore do not always match the needs of the industry in terms of skills. Especially the need for more managerial skills (strategy development, marketing, innovation management) seems to be high. Also in the offer of short term managerial trainings for SME entrepreneurs, there is a clear gap in the market. But as many people active in the tourism industry have neither a specific educational background in tourism, nor a managerial background, offering specific (short term) training in management, entrepreneurship and hospitality to owners and employees in the accommodation industry (tailored to the needs of SMEs (micro-enterprises)!), are necessary to develop a professional accommodation industry.
- The accommodation industry (and the tourism industry in general) has still a rather negative **image as employer**. This makes graduates with a tourism education background less attracted to the industry after graduation. Furthermore, the sector has the image of offering few real career opportunities, poor possibilities for personal development and low earning potential. Improving the image will have to be accompanied by improved overall working conditions within the industry, putting a stop to the vicious circle of high staff turnover¹⁰¹.
- **Social dialogue** is a critical element in the accommodation industry to maintain companies' competitiveness while safeguarding the interests of workers. At the EU level, HOTREC runs a sectoral social dialogue with its trade union counterpart – EFFAT – which has been recognised by the European Commission since 1999. Also at the international level, the UN International Labour Organisation (ILO) recognises

¹⁰⁰ See <http://www.eco-label.com/default.htm>

¹⁰¹ See report from Oxford Research on behalf of DG Employment (see footnote 46)

the importance of social dialogue in the accommodation industry. It recently published a guide for social dialogue in the hotel, catering and tourism industry¹⁰². However, to be effective social dialogue should not only be organised at the industry level (among associations), but should be embedded in companies' practices as well (e.g. adoption of CSR principles).

R&D and innovation

- As the accommodation industry is in strong need for more innovation (more market segmentation, rethinking business models away from seasonal pattern, etc), initiatives and **instruments to promote and support innovation** are very important. Such instruments already exist at both EU and national/regional level, although mostly not specifically geared toward the accommodation industry. The question is to what extent these existing instruments reach the accommodation companies and especially the SMEs and micro-sized enterprises operating in the industry. Moreover, most small companies have a very **small 'absorptive capacity'** for innovation. Therefore, policy initiatives to encourage and support innovation should take into account the characteristics of the target group.
- The tourism **value chain** is highly **fragmented and lacks cooperation across the value chain**. As customers increasingly look for a total 'travel experience', accommodation businesses alone are unable to satisfy these needs.
- In view of the high fragmentation of the value chain as well as the predominance of micro-enterprises, (applied) **research and development is hardly done** by the industry. Different reasons are at the origin: lack of financial resources, lack of knowledge about the relevance, lack of collaboration across the value chain for R&D, and short term objectives versus long term results of R&D.
- As intangible assets become more important for companies to remain competitive, the importance of **intellectual property rights** (IPR such as protection of brands, collective marks, design rights) to protect important intangible assets (e.g. protection of brands in an outsourcing/franchising model) will increase. Currently however, IPR hardly is an issue in the tourism industry.

Access to finance

- Sufficient access to finance for SMEs is important for the accommodation industry to develop. Sources of finance for SMEs can be investors/business partners, financial institutes or venture capitalists, although the latter group often focuses on larger companies. Governments at both national and international level provide **financial instruments to facilitate access** to loans and equity finance (mostly guarantee schemes) for SMEs where market gaps have been identified. At the EU level this is done through the Competitiveness and Innovation Framework Programme (CIP)¹⁰³. A complete overview of sources of finance at EU and Member State level is available through the EC Your Europe website¹⁰⁴.

¹⁰² ILO Sectoral Activities Programme, "Guide to social dialogue in the tourism industry", Working Paper, Oct. 2008. See <http://www.ilo.org/public/english/dialogue/sector/papers/tourism/wp265.pdf>

¹⁰³ http://ec.europa.eu/cip/index_en.htm

¹⁰⁴ See http://ec.europa.eu/youreurope/business/access-to-finance/index_en.htm

7.1.3 Exogenous conditions

The last category of framework conditions relates to more general contextual trends and changes that have (had) an important impact on the business of accommodation companies.

Technological change

- The **internet** in general and especially **web 2.0** has fundamentally changed the tourism industry and its interactions with consumers. All categories of enterprises, large and small, can now communicate directly with customers and customers can directly interact with service providers and each other. According to the Eurobarometer survey, the internet has become the most influential “non-personal” information source for holiday planning: 38% use this medium that provides commercial information as well as peer reviews and recommendations. Those respondents who prefer going “off the beaten track” rely heavily on the internet: almost half of those indicated that they seek information online.
- **ICT systems** have been introduced in most accommodation businesses for administrative or booking purposes. But often the available ICT systems are not tailored to micro-sized and small companies.

Social and demographic changes

- Since the 1990s, most EU Member States (but also America, Japan, Australia) witness an important ‘**greying**’ of society. People live longer, longer stay in good health and many of the people retiring today enjoy a rather comfortable standard of living.
- Also a number of societal changes (e.g. tourism is more and more recognised as a ‘right’ (“tourism for all”)) have created **new market segments** such as youth, families with special needs (e.g. one parent families), seniors or disabled persons.

Environmental issues

- The impact on the environment and our natural resources is especially significant for accommodations located in areas of high environmental value. As ecological awareness increases within society at large and the EU regulatory framework pushes for a ‘green economy’, environmental regulation has become a powerful tool to push businesses to **operate in a more environmentally sustainable way**. Until today however, the number and size of ecological initiatives within the tourism industry can be considered as rather limited. Although most accommodation companies have introduced small initiatives such as replacing bath towels only at the request of customers, apart from a few large players - more ‘fundamental’ initiatives are hardly seen¹⁰⁵. It is expected that in the future there will be an increased need for new ways of waste disposal, eco-construction of infrastructure, use of new energy sources, etc. in the accommodation industry.

¹⁰⁵ Interviews UNWTO, Exceltur, TUI AG

Globalisation

- Globalisation leads to increasing income levels in newly developed regions across the globe (e.g. the Middle East, Asia, South America). As income levels rise, also demand for tourism activities increases in those regions – in a first phase mainly focusing on regional tourism, but later also focusing on long haul travelling. These markets create opportunities for EU accommodation businesses to **attract new customers**.
- As new sourcing markets for tourism develop, also **new players** enter the EU market (e.g. Asian players following their customers). This leads to increased competition within Europe.
- As a result of globalisation, a **more professional tourism industry is about to develop in non-EU regions**. As companies in these other regions operate in a very different (regulatory) framework, they are often able to offer tourism products at more competitive prices than businesses located in the EU.

Attractiveness of destinations

- The competitiveness of accommodation businesses is strongly linked to the attractiveness of destinations. The **attractiveness of a tourist destination** is influenced by many different elements: the mix of natural and cultural attractions and activities that are available in the destination, physical and social aspects of the destination (quality of public infrastructure, safety, cleanliness, etc.), the communication and promotion strategy of the destination, as well as the quality of the facilitating services such as accommodation. The public sector plays an important role in the enhancing (and promoting) the attractiveness of a tourist destination.
- Sudden events such as acts of terror, health threats (e.g. SARS virus) or political instability can strongly impact the attractiveness of places and thus the business of accommodation companies located in those places. Although the EU-27 has a very good reputation in terms of political stability and security and has many mechanisms in place to tackle sudden events promptly, unexpected events can – at least in the short term – influence tourism flows.

Exogenous factors enforcing seasonality of business

- Apart from the nationally regulated school holidays that ‘force’ families with children to take their holidays at specific moments in time, two additional elements reinforce the fact that many people prefer to take their holiday over the summer. On the one hand, **weather conditions** are in most EU Member States more favourable in the summer period. On the other hand, **fixed closure of business activities in some sectors** (e.g. the construction sector) limits the choice of holiday period for employees working in those businesses.

7.2 Impact of the framework conditions on the competitiveness of the accommodation industry: the competitiveness grid

Following the identification of the most influential framework conditions for accommodation businesses, we look into the potential impact of these framework conditions on the competitiveness of the accommodation industry. To this end, we have made a competitiveness grid in which we highlight how the framework conditions influence different competitiveness indicators in the different ‘layers’ of competitiveness: input factors, processes, structure and outcome (see Figure 1.3 in Chapter 1). In Annex V the completed competitiveness grid is included. In the following paragraphs we discuss the main conclusions.

7.2.1 Impact of framework conditions on labour and capital, the basic inputs for economic performance

Access to finance for necessary investments

Developments in the accommodation sector such as the introduction of standards and quality labels, investments in ICT infrastructure or compliance with regulatory measures (safety, health, environmental regulations), and changing consumer demand require considerable investments from the industry. Moreover, a considerable part of the EU accommodation sector is characterised by a relatively obsolete stock of facilities¹⁰⁶. In order to remain competitive vis-à-vis newer players, (large) investments in the industry are necessary to live up to current expectations and standards. **Access to finance** is therefore imperative. But due to a number of specific industry characteristics (high uncertainty of success, inefficient use of resources due to seasonality, high vulnerability) as well as a lack of managerial skills in many tourism SMEs (often resulting in an inability to present a solid and sound business plan), financial institutions are often reluctant to invest in tourism businesses. However, lack of investment possibilities may lead to insufficient innovation¹⁰⁷, lower labour productivity and total factor productivity (lack of money for (management) training, for ICT and infrastructure investments). Insufficient access to finance clearly has a negative impact on profitability and the long term competitiveness.

Seasonality and the attractiveness of the industry as employer

An adequate labour force is highly important for a good quality of services. However, a number of framework conditions make it difficult to attract and maintain the right skills in the accommodation industry. The first element is the **negative image of the sector as employer**. The negative image is reinforced by the high turnover of personnel (see paragraph 4.5.2). This has a clear impact on the inflow of human capital, especially on staff with higher qualifications.

¹⁰⁶ Interviews UNWTO, Exceltur, academic focus group

¹⁰⁷ Although lack of access to finance certainly is not the main reason why innovation is low in the EU accommodation industry (see further)

The negative image and its consequences on attracting and keeping personnel are directly linked to the (perceived) labour conditions in the accommodation sector, demanding a high level of flexibility from employees (a considerable amount of part-time and temporary work) and the relatively low wage level. These labour conditions are to a large extent the result of the highly irregular working patterns (due to daily as well as annual cycles). Especially the **high seasonality** of business has a negative impact on the working conditions and the competitiveness. It requires a lot of flexibility of the personnel and offers them low security and low perseverance in return. Besides the inefficient use of human resources, the infrastructure also suffers from seasonality. In the peak months, accommodations are full, but during the rest of the year a considerable number of accommodations are barely used or even closed, lowering productivity. Today, this seasonality is strongly influenced by the **nationally determined (school) holidays**. Nevertheless, a number of exogenous framework conditions such as **social and demographic changes** and **globalisation** can create opportunities for the accommodation industry to lower seasonality, resulting in a more efficient use of resources, a higher labour productivity and better overall labour conditions. To capture these opportunities a clear focus on **innovation** is needed, targeting specific market segments, as well as an increased **collaboration across the value chain** to be able to offer an 'integrated' tourism product.

We do remark that, despite a number of opportunities in the framework to lower seasonality, one should recognise that the accommodation business will always be characterised by irregular working hours - it is intrinsically linked to this business. Therefore, lowering seasonality alone is insufficient to improve the labour conditions in the accommodation industry. The EC **working time directive** creates an important framework to better regulate the working hours and thus can help to improve working conditions. But especially a strong and effective **social dialogue** (not only limited to dialogue at the industry level, see paragraph 7.1.2) is important to find solutions that balance the needs of both employees and employers in the accommodation industry, resulting in a higher attractiveness of the industry in the labour market, increased productivity, increased quality of work and eventually increased profitability.

Training and education adapted to market demand?

The framework conditions play an important role in providing the industry with the right type of skills. Ideally, the **education and training** offer should match the industry needs. There is an increased need for qualified personnel with a focus on multi-skilling in SMEs and specialised skills in larger companies. Language and cultural skills are also needed in light of globalisation and the opening of new source markets. Moreover, adequate education and training programmes could contribute to an increasing professionalism in the sector, by offering specialised and managerial training programmes to employees and entrepreneurs, especially in SMEs. More specific training geared towards SMEs can change their role in the value chain, therefore changing the industrial structure and the inter industrial relations. Today, the large group of micro enterprises is often bypassed by the larger companies and hotel chains that better utilise the industry network.

In reality the degree programmes are often not adapted to the specific needs of the industry. Especially programmes and trainings offering a good combination of both sector-specific knowledge and managerial skills appear to be lacking. Moreover, trainings are not always tailored to the needs of micro-sized enterprises. These enterprises are characterised by a **low absorptive capacity**, due to their very limited time resources. For any training programme to be effective, this should be taken into account. The current lack of adequate training and education programmes increases the mismatch between supply and demand for qualified personnel¹⁰⁸, resulting in less efficient business processes, lower labour productivity and lower profitability.

Cross border mobility of personnel

Cross border mobility can help employees to improve their working conditions through a steadier and cross border employment. But the current lack of harmonisation of qualifications and skills clearly **hampers the mobility of labour**. This is disadvantageous for both employees and employers. Employees often cannot show ‘hard evidence’ of their skills, with a downward pressure on wages as a consequence. Due to the lack of harmonisation, also training for specific competencies or skills will lag behind. Identifying the gaps in knowledge and skills is much more difficult without harmonisation.

The current efforts by the sector to create a European qualifications and skills passport can improve the situation in terms of intra-industry relations, as it offers employees a useful and uniform tool to better document the qualifications they have and at the same time offers employers clear information about the skills.

7.2.2 Impact of framework conditions on industry relations and industry structure

Changing industry relations thanks to the internet

The most significant framework condition influencing the industry relations nowadays is undoubtedly the rise of the internet and web 2.0. The role of intermediate services for the accommodation sector (tour operators, travel agents), has fundamentally changed. Customers can now directly contact and book on the website of accommodation companies, making the latter much more independent from intermediaries for their booking and planning. The increased use of internet as an information and distribution channel does create an increased need to **manage the information flow** to consumers and ensure that the quality of information provided to consumers is correct. The HOTREC initiative towards hotel review sites should be seen in this context.

Internet and ICT also influence the accommodation companies internally. The increased use of ICT tools can result in a **more efficient business process**. It allows companies to better plan and manage bookings, and collect and analyse consumer data. However, the accommodation sector remains a ‘people business’ that requires high level of personal interaction. This limits the possibilities of automation.

¹⁰⁸ See for example interviews TUI AG, ETAG, Exceltur

In order to successfully implement new technologies, **adequate knowledge and qualified labour force** are indispensable. Moreover, the introduction of integrated ICT systems demands **considerable investments**. Larger companies often have a stronger financial basis to bear the costs of such implementation, giving them a competitive advantage vis-à-vis smaller companies.

Increased need for collaboration pushed by fragmentation of the value chain

A second element impacting the industrial structure and industry relations is the **fragmentation of the value chain** in the tourism industry in combination with the **socio-demographic changes**. As more customers look for ‘total travel experiences’ and upcoming market segments (seniors, disabled persons, etc) have specific needs of their own (often health related), most accommodation businesses are no longer in a position to offer an adequate product independently. They need to cooperate across the value chain, thus changing the intra- and inter-industry relations. However, many accommodation companies are unaware of their specific role in the value chain and the opportunities of working together. This results in opportunities being lost and possibly reduced profitability.

Apart from better capitalising on opportunities, collaboration across the value chain can also help SMEs to overcome size disadvantages. Limited resources (both in terms of time and money) make it much more difficult for SMEs to follow the latest industry trends and developments (market intelligence), to obtain quality labels or to comply with standards. However, each of these elements becomes increasingly important to remain competitive. More cooperation could enable SMEs to generate economies of scale. Finally, increased collaboration helps SMEs to better face increasing competition from globalisation.

Level playing field in the EU-27?

Differences in Member States’ regulation make that accommodation businesses across the EU-27 do not compete on a level playing field. The current **VAT system**, where each Member State can choose whether or not to apply the reduced VAT rate for hotel services, influences the industrial structure and leads to variations in profitability. Another element causing unequal competition is the fragmentation of **quality schemes**. Companies operating in Member States where minimum standards for quality labels are lower, might have an advantage over others. Comparison of quality labels between Member States is unjustified but nonetheless common.

Different segments affected by crisis in different ways

Finally, the **current economic crisis** results in major shifts in travel behaviour of customers. Both the leisure and the business segment are affected by the crisis. Customers use other modes of transport, trips are shorter but more frequent, etc¹⁰⁹. The crisis has caused a major decline in the business travel segment. Accommodation businesses operating in the higher segment and focusing on business travel, are hit hardest. Clearly

¹⁰⁹ E.g. Flash Eurobarometer 2009, SME Panel survey 2009

this affects the profitability of these companies and weaker companies will inevitably exit the market.

7.2.3 Impact of framework conditions on product strategy

Opportunities for market segmentation

Differentiation (by concentrating on niches) is a very valuable strategy to avoid direct competition with other players. Especially for SMEs, specialisation and segmentation create a number of opportunities to compete with larger companies. By offering a 'unique selling proposition', they create value to customers and shift away from pure price competition.

Different framework conditions create opportunities for the accommodation industry to develop products tailored to specific segments in the market:

- The growing group of **active seniors** - with a considerable amount of free time to travel throughout the year and a relatively higher purchasing power than before due to improved social security or increased pensions in many Member States - it a valuable segment to focus on, especially in light of lowering seasonality.
- Partly related to the previous, there is an increased interest in **health-specific tourism** services.
- The growing **ecological awareness** of customers is translated into people expecting a more general ecological mentality from the different companies in the field, but also in an increasing demand for specific 'ecological holidays' in accordingly accommodations.
- Global competition increases the need for specialisation, especially as European companies are not well placed to compete on price.

Barriers to segmentation and specialisation

Inevitably, a differentiation strategy often requires investments in market intelligence, infrastructure, specific knowledge and skills (e.g. health-related). For many SMEs, this is simply not possible. Strengthening intra-industry relations through collaboration with other players in the value chain (such as e.g. spa- and health establishments) opens opportunities for SMEs. The question also remains to what extent adequate **education programmes and trainings** are available to train people to effectively target specific segments.

7.3 Relative importance of different regulatory and other framework conditions for the industry

Table 7.1 provides an assessment of 1) the current level of importance that the accommodation industry attaches to the different regulatory and other framework conditions for the development and competitiveness of the industry and 2) the 'ideal' level of importance that the accommodation industry should attach to these different framework conditions given their impact on the competitiveness of the industry. This

assessment is based on the view of the contractor and has been presented to the members of the TSG for feedback.

Table 7.1 Accommodation: screening of framework conditions

Regulatory & 'other' framework conditions		Assessment of current level of relevance at sector level	Assessment of 'ideal' level of relevance at sector level
Heading	Item		
Regulatory conditions	National regulatory measures	◆◆◆	◆◆
	EU regulatory measures	◆◆	◆◆◆
	Completion of internal market	◆◆	◆◆
	Industry and professional regulations and standards	◆◆	◆(◆)
'Other' framework conditions	Labour force, knowledge and skills	◆(◆)	◆◆◆
	Knowledge: R&D, innovation and product/service development	◆	◆◆◆
	Access to finance	◆◆◆	◆◆◆
Exogenous conditions	Technological change	◆(◆)	◆◆
	Social and demographic change	◆	◆◆◆
	Environmental issues	◆	◆◆
	Globalisation	0	◆(◆)
	Attractiveness of destination	◆	◆◆
	Factors enforcing seasonality	◆	◆

Legend:

- 0: Not relevant
- ◆: Relevant
- ◆◆: Important
- ◆◆◆: Very important

The assessment in Table 7.1 clearly points out a number of framework areas in which the attention of industry should significantly increase in order to enhance the competitiveness: development of necessary skills, knowledge and innovation to better capture the opportunities related to social and demographic changes as well as tackle the environmental challenges. This assessment provides valuable input for the formulation of the strategic outlook and recommended action plan.

7.4 Level of priority of different EU policy initiatives to enhance the competitiveness of the accommodation industry

Table 7.2 identifies existing and potential EU horizontal 'industrial' policy initiatives¹¹⁰ that (could) have an important impact on the accommodation industry's development. It prioritises the policy initiatives that:

¹¹⁰ Based on the Mid-term Review of Industrial Policy, COM(2007) 374.

- at present receive most attention at policy level and influence the performance of the accommodation industry;
- might need to receive most attention at policy level to optimally contribute to strengthening the competitiveness and/or creating opportunities for sector development.

Table 7.2 Accommodation: screening of policy initiatives

EU Policy areas		Assessment of current level of priority for EU policy	Assessment of 'ideal' level of priority for EU policy
Heading	Initiatives		
Trade	Trade policy	0	0
	Proper functioning of the internal market	◆◆	◆◆◆
Better regulation	Competition policy	0	◆
	Better regulation and simplification	◆◆	◆◆◆
	Standards	◆	◆
	Consumer right protection	◆◆	◆◆
Knowledge and skills	Research and development	0	◆◆
	Intellectual property rights	0	◆
	Innovation policy	◆	◆◆
	Employment, qualifications, skills / 'Flexicurity'	◆◆	◆◆◆
	Access to finance / risk capital	◆	◆◆◆
Energy and environment	Waste, water, air	◆	◆◆
	Intensive energy use	0	◆

Legend:

- 0: Not relevant
- ◆: Relevant
- ◆◆: Important
- ◆◆◆: Very important

Similar to our assessment for the industry, Table 7.2 highlights a number of areas in which the attention of EU policy makers might need to increase in order to enhance the competitiveness. They relate to

- the further elimination of barriers to a proper internal market;
- better regulation and simplification;
- increasing promotion of research and development;
- supporting the development of necessary skills in the industry;
- guaranteeing sufficient access to finance.

The outcome of this assessment provides us again with useful input for the formulation of the strategic outlook and action plan.

8 Framework conditions affecting the competitiveness of the tour operators and travel agents industry

8.1 Framework profile of the TO&TA industry

8.1.1 Regulatory conditions

Although entry barriers are relatively low in the TO&TA business as well (see e.g. the exponential growth of OTAs), contrary to the accommodation industry the TO&TA industry is directly ‘targeted’ by a number of regulations. They particularly relate to consumer protection legislation. Moreover, the TO&TA industry is indirectly influenced by many regulations that affect the different partners in the value chain such as accommodation and transport (mostly through additional costs that are charged to comply with those regulations).

EU regulations

- The directive most directly influencing the TO&TAs is the *Council Directive 90/314/EEC on package travel, package holidays and package tours*¹¹¹ (called “**Package Travel Directive**” in the remainder of this document). The Directive is designed to protect consumers who contract package travel in the EU. A package requires the following two conditions to be met: the service provided must cover a period of more than twenty-four hours and must be sold at an inclusive price. The Directive contains rules concerning the liability of package organisers and retailers, who must accept responsibility for the performance of the services offered. It also prescribes rules on the information that must be given to consumers at different points in time. Since the implementation of the directive (1990), the tourism industry has gone through a significant number of changes. Therefore in 2007 the EC published a working document¹¹² to set out the main regulatory problems in the area of package travel and to consult stakeholders on issues related to the Directive in light of a possible revision.
- A **Schengen visa** allows the holder to travel freely in 15 Schengen countries¹¹³ for a maximum stay of up to 90 days in a 6 month period and for the purpose of leisure, tourism or business. The Schengen Visa has made travelling between its 15 European

¹¹¹ JO L 158 du 23.06.1990

¹¹² See http://ec.europa.eu/consumers/rights/commission_working_document_final26-07-2007.pdf

¹¹³ i.e. Austria, Germany, Belgium, Denmark, Finland, France, Greece, Iceland, Italy, Luxembourg, Norway, Portugal, Spain, Sweden and The Netherlands.

member countries much easier and less bureaucratic. In June 2009 the EU Council adopted new rules to obtain the Schengen visa. Now a person is to give fingerprints, besides an application on issuance of visa, passport, photography and documents certifying the aim of the trip, solvency and medical insurance. Apart from the stricter security checks, the cost of the visa will almost double. The price will rise from €35 to €60 for people at the age of 12 years old and more (€35 for people at the age of 6-11 years). This is comparable to the cost of a US visa (€68 for people over 15 years of age, €9 for people under 15 years), but higher than the cost of e.g. a Swiss visa (€33 for people over 18 of age, free for children under 18) or a Turkish visa (around €10 to €20 for most countries).

- In 2007 the EU signed a first **Open Sky Agreement at EU level**. The EU-US Open Sky Agreement replaces previous bilateral aviation agreements between the US and EU member states. The main elements of the agreement relate to removal of restrictions on route rights¹¹⁴ and changes in foreign ownership rules. The agreement opens opportunities for EU tour operators to develop new products (e.g. new destinations). It also leads to increased competition (non-EU airline companies entering the EU market), which might be translated into lower air fares (and thus lower costs for TOs).
- As of 2012 aviation emissions will be included in the EU's **emission trading scheme** (EU ETS). It will apply to all flights, both intra-EU and international ones arriving or leaving the EU. According to an impact assessment report from the Commission the costs of placing the aviation industry in the ETS will be borne by the customer, meaning air ticket hikes of €5 to €40 by 2020 depending on the travel distance.

National regulations and completion of internal market

- With taxation not being a European competence, **strong fragmentation of taxation systems** exists with large differences across Member States, regions and even localities. National and local taxes can relate to VAT, airport taxes, local community tourist taxes, etc. In a research undertaken in 2006, ECTAA has demonstrated that 30% (!) of the total price of a tour to three European countries purchased by a Chinese tourist, constitute taxes, fees and charges¹¹⁵.
- Articles 306-310 of the *Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax*¹¹⁶ provides a special VAT scheme for travel service providers, the so-called **margin taxation scheme**. Under the special margin scheme all transactions performed by travel service providers with respect to a single travel package are treated as a single supply of services for VAT purposes, taxable in the service provider's own Member State. He has no right to deduct VAT on supplies made to him, but on the other hand he is only taxed on the profit margin realised on the supply of the travel package. However, despite this Directive, there is a clear **lack of harmonisation of VAT regulation** within the EU. The margin taxation scheme is interpreted differently in different Member States, leading to very different VAT rates. For example, in Belgium VAT is applicable on travelling both within the EU and out of the EU. In the Netherlands or Denmark no VAT is applicable on travels. In

¹¹⁴ Current restrictions on the number of carriers that are allowed to fly the transatlantic route would be lifted so that any EU airline will be able to fly from any European city to any American city and from there onwards to third destinations. Conversely, any US airline will be allowed to fly into any EU airport and from there to third destinations.

¹¹⁵ See interview ECTAA

¹¹⁶ Former Article 26 of the 6th VAT Directive

France travelling within the EU is taxed at 20.6% and at 0% towards non-EU destinations. This leads to a competitive disadvantage in some Member States.

- **Lack of harmonisation of licences:** In 15 Member States TOs and TAs need a licence to access the professional activities. In the other 12 Member States no sector specific authorisation is needed, leading to an unequal situation between Member States, with higher administrative burden and costs in certain countries¹¹⁷.

8.1.2 Other framework conditions

Labour force, knowledge and skills

- Similar to the accommodation industry, also in the TO&TA business many (micro-) enterprises lack the necessary **managerial skills and industry knowledge** to be able to capitalise on opportunities in the most effective way. The availability of specific (management) training and education geared towards TO&TA SMEs are key to professionalise the industry.
- Since the internet has hollowed out the role of TAs as intermediary, a **shift in skills** is needed to be able to reposition businesses from pure intermediaries to ‘AAA-consultants’ (Advice before trip, Assistance during trip, After sale service).

Innovation and product development

Each of the four issues that we discussed for the accommodation industry in terms of innovation and product development, also directly apply to the TO&TA industry. We refer to 7.1.2 for further discussion.

Access to finance

- In line with the accommodation industry, also the TO&TAs often face difficulties obtaining loans for necessary investments and procurement of work. Banks perceive tourism as a risky business to invest in. The current economic crisis only strengthens this reluctance to invest.
- Specifically for TAs, IATA has recently raised the **financial criteria and bonding requirements to obtain the IATA accreditation**. This implies that more financial means are needed. Insufficient access to finance implies that an increased number of SME travel agents can be excluded from this specific air ticketing activity, no longer being able to sell tickets on behalf of the IATA airline members.

Concentration and market power

- Since the mid 1990s, a consolidation process has been going on in the TO&TA industry. Currently, about 70% of the market is taken by the five largest companies in Europe. As a consequence a number of **large takeovers** have been critically reviewed by the EU antitrust authorities.
- Besides the growing monopolistic position of the large TOs, one could question the position of **IATA** as service provider to the travel agents. Being accredited as ‘IATA

¹¹⁷ See interviews ABTO, ECTAA

travel agent' means that you obtain access to IATA airline members with a single Sales Agency Agreement, which authorises the sale of international and/or domestic tickets. Lacking or losing this accreditation excludes a travel agent from this air ticketing activity, meaning that the TA cannot sell tickets on behalf of the IATA airline members (including large players such as Air France or British Airways).

8.1.3 Exogenous conditions

Technological change

- Even more than in the accommodation industry the rise of **internet** has had a fundamental impact on the TO&TA industry. It did not only bring more opportunities, but also meant a threat to the classic business model of TAs (see also paragraph 5.5.1).
- Apart from the internet, **ICT** has always played an important role in the business of TO&TAs. It is through large information systems that TO&TAs are connected with their suppliers (such as airlines and accommodations) for consultation or booking of services, the so-called Global Distribution Systems (GDS). Examples are Galileo, Amadeus or Worldspan.
- It is expected that new ICT applications for alternative distribution will be introduced in the industry over the coming years. Especially the **potential of mobile communication** will be further explored.

Globalisation

- Similar to the accommodation industry, also for the TO&TAs rising income levels in many non-EU regions mean **new potential customers**. However, the structure of most TOs is at present not adapted to inbound tourism. In the future, more TOs focusing on inbound tourism might enter the market.
- Contrary to the accommodation industry for whom the **new upcoming tourism destinations** worldwide imply increased competition, for the TO&TA industry it creates a range of opportunities to develop new products and increase outbound tourism.
- Currently, **barriers to worldwide free trade and investment** in services limit the possibilities to take full advantage of the opportunities of globalisation. Discussions about further liberalisation take place in the framework of the GATS negotiations.

Social and demographic changes

- As for the accommodation industry, the demographic and socio-economic changes that we see in society also have a number of implications for TO&TAs. Apart from what we discussed in paragraph 7.1.3 for accommodation, social and demographic changes also imply changes in the travel habits of customers: shifts in mode of transport, different shorter breaks versus one long holiday, changes in type of

destination, etc. We refer to the latest Flash Eurobarometer Survey results¹¹⁸ for a detailed overview of changes in travel habits.

Environment

- Increased ecological awareness worldwide, has led to profound discussions about the **exponential growth of air traffic**. Within the EU-27, especially the segment of LCCs has been characterised by an explosive growth over the last decade.
- Closely related to the previous point, discussions arise about **more sustainable tourism** in general. Questions arise whether it is acceptable from a sustainability point-of-view that we cross half the globe for one week of holiday on an exotic beach. In many different fora and institutions worldwide, this topic is high on the (research) agenda¹¹⁹. These discussions may lead to changes in travel patterns.

Fluctuations in exogenous costs

- **Exchange rate fluctuations:** they do not only have a large influence on the costs of TOs (see Box 8.2), they also have an impact on the attractiveness of destinations.
- **Oil price fluctuations:** oil prices have fluctuated significantly over the last five years. After a period with oil prices fluctuating around \$70 to \$80 a barrel, prices rocketed to prices around \$140 in the summer of 2008, after which they collapsed to as low as \$35 a barrel in November 2008. Since March 2009 the oil price has started to climb again and evolves around \$70 a barrel at the time of writing. These large oil price fluctuations heavily influence the transportation industry, from whom the TOs largely depends for the transportation of tourists.

High elasticity of tourism demand

- The attractiveness of tourism destinations can instantly be influenced by **sudden events that are out of control of the tourism industry** (e.g. acts of terror, natural disasters), making tourism destinations very vulnerable. Depending on the magnitude of the event, it can strongly impact travel patterns, especially in the short term.

Transport infrastructure

Although we have already discussed the sub-sector of tourism transport in chapter 1, in this paragraph we highlight some key issues impacting the TO&TAs:

- The rise of the **low cost carriers** has had large implications for TO&TAs in terms of product portfolio. On the one hand, the LCCs have opened up many regional areas. On the other hand, they also made travel by air much more affordable.

¹¹⁸ Survey on the attitudes of Europeans towards tourism, March 2009,

http://ec.europa.eu/enterprise/tourism/docs/studies/eurobarometer/flash_eurobarometer_analytical_report_20090320_en.pdf

¹¹⁹ For example UNWTO, **Sustainable Tourism Cooperative Research Centre (STCRC)**, International Centre on Responsible Tourism

- The **airport capacity** in the EU is limited. It is said that it has reached the limits¹²⁰. If investments in airport infrastructure are neglected, this can place restrictions to the growth of EU tourism.
- Hitherto air traffic control is a Member States' responsibility. This leads to a highly fragmented air traffic management system within the EU. Aircrafts do not fly the shortest route, but follow a patchwork of national routes. According to a communication from the EC¹²¹ the **fragmentation of the European sky** means that aircrafts in the EU fly on average 49 km longer than strictly necessary. Shorter routes could save nearly 5 million tonnes of CO₂ per year.
- In a sustainable tourism industry, **interconnectivity between different modes of transport** should be a priority. Investments in smart connections between road, rail, air and water traffic can lower the ecological footprint of travelling.

8.2 Impact of the framework conditions on the competitiveness of the TO&TA industry: the competitiveness grid

Similar to our analysis for the accommodation industry (paragraph 7.2), in this section we link the different framework conditions to the competitiveness indicators and highlight to what extent and how the framework conditions influence the competitiveness of the TO&TA industry. We discuss the main conclusion from the competitiveness grid in the following paragraphs and include the complete competitiveness grid in annex V.

8.2.1 Impact of framework conditions on labour and capital, the basic inputs for economic performance

Barriers and drivers for labour productivity

The compliance with **European consumer legislation** (Package Travel Directive, financial guarantees, etc.) and **national regulations** such as the TO license place a heavy financial, but also an organisational burden on enterprises, especially on the SMEs, thus affecting the labour productivity level.

Lack of managerial skills and necessary industry knowledge in many micro-enterprises hampers labour productivity developments. **Training and education** geared towards tourism SMEs are indispensable to professionalise the industry. Especially in the TA market, training gains importance in order to evolve from merely intermediary towards an AAA-consultant (Advice before trip, Assistance during trip, After sale service).

Other productivity gains can be established by automation through the adoption of **ICT systems** and **internet**. For example, ICT and internet developments have made online check-in or ticketless travel possible, leading to higher labour productivity. Besides automation, efficiency gains can be attained by increased **interconnectivity with other industries**. Also **specialisation** has been recognised as a 'driver' for productivity.

¹²⁰ This has been recognised by EU policy makers and is one of the elements pushing the implementation of the "European Air Traffic Management Master Plan", see also http://ec.europa.eu/transport/air/sesar/european_atm_en.htm

¹²¹ COM(2008) 389, Single European Sky II: towards more sustainable and better performing aviation

Framework related costs lowering profit margins

Some **European and national regulations and legislation** have an enhancing impact on the total costs of TO&TAs located in the EU. Examples are VAT and other taxes (airport taxes, fuel taxes, visitor taxes, etc.) or the Package Travel Directive. The necessary insurances ensuing from this latter regulation are expensive, and push the required level of capital to a higher level. In addition, also large fluctuations in **energy prices and exchange rates** have a great impact on the operating costs that TOs incur, and fluctuations can only be partially passed on to customers (see Box 8.1).

Box 8.2 *Impact of exchange rates on tour operator business*

Tour Operators and Exchange rates

A high proportion of the costs incurred by tour operators is in foreign currencies, for hotels, transfers, airport charges etc. in the destination country. Also aviation fuel is priced in US dollars.

As holiday prices are advertised a long time before the tour operator has to pay hotels, airlines, etc, variations in exchange rates could have a major impact on their profit. Take a £500 holiday as an example. £300 may be payable in foreign currencies. The tour operator would expect to earn 2-3% (say £15) profit. So if there is a change of only 5% in the rates of exchange the tour operator's profit is either doubled or reduced to zero (5% of £300 = £15). This is not a risk which a prudent business person would wish to take.

Some years ago banks and other financial institutions provided schemes whereby a tour operator can agree to buy amounts of foreign exchange at a pre-agreed rate (known as hedging). There is a charge for this service but it does provide certainty for the tour operator and this is particularly important given the very slim profit margins.

Not all currencies can be hedged however, and the cost of doing so when only small amounts are involved is high, so this service cannot be used for all holidays. In these cases tour operators sometimes decide against giving a "no surcharge guarantee" - although they remain legally prevented from passing on the first 2% increase in costs. So the consumer still enjoys some protection from price increases.

Source: www.fto.co.uk

Indirectly, a **lacking 'single European sky'** makes that airline companies in the EU do not fly in the most efficient way thus bearing higher fuel costs, that are passed on to the TO&TAs.

Access to finance in difficult times

Sufficient **access to finance** is indispensable. However, as the TO&TA business is very cyclical and vulnerable, and the financial structure of most TO&TAs offers little tangible assets as guarantee, access to finance often is difficult. It remains very difficult to estimate the demand for different destinations in advance: the attractiveness of a destination can be largely negatively influenced by factors out of control of the tourism industry, such as adverse currency movements or the current world-wide **economic and financial crisis**. All these elements increase the uncertainty for bankers to provide TO&TA businesses with financial means.

Since the beginning of the financial crisis, IATA has raised the **financial criteria and bonding requirements** for the IATA accredited agents. As a consequence an increasing number of - not only SME - retail agents cannot comply with these new criteria and thus may simply be excluded from the specific air ticketing activity. As this is a critical resource for the TAs, this has an enormous impact on the profitability and may lead to a number of TAs exiting the market.

8.2.2 Impact of framework conditions on industry relations and industry structure

Fundamental changes in intermediaries' role due to internet

The most important framework condition influencing the TO&TA business model and industry relations, is the widespread adoption of **ICT and the rise of internet**. Especially the internet has fundamentally changed the industry structure in different ways:

- Internet allows the tour operators to cut out the travel agents.
- Other service providers in the tourism industry can easily reach the customer and thus can cut out both TOs and TAs. Accommodation businesses, airline companies, etc. now sell their services directly to customers and customers build their own 'travel package'.
- A completely new type of businesses has emerged: the online wholesalers and online travel agents that use the internet as their sole distribution and communication channel to reach customers. A special characteristic of the online travel businesses is that they are truly "footloose" companies. They do not have to be located in the EU to do business and thus do not have to comply with EU regulation. It gives them a strong competitive advantage over tour operators that are located within the EU and have to comply with all EU regulations, such as for example the EU regulation regarding consumer protection¹²². This relocation process might have a negative impact on the employment level in the EU TO&TA industry.

Global value chains

A second framework condition influencing the industry structure and relations is **globalisation**. Apart from the fact that it affects the product range (see further), the value chain is increasingly managed and organised on a more global scale. This poses important challenges to especially SMEs in the industry. Many SMEs do not understand what their role can be in global value chains (GVCs), how they can benefit from participation in such GVCs by cooperating with other (large) players. Availability of adequate **training programmes** geared towards SMEs on how to benefit from participation in GVCs is an important framework condition in that sense, but often lacking at the moment.

Globalisation has also increased competition in the industry. As new source markets for tourism develop, new players will enter the market and competition from non-EU players increases. However, increased competition puts pressure on prices and as TO&TAs are

¹²² e.g. Directive 98/6/EC of the European Parliament and of the Council of 16 February 1998 on consumer protection in the indication of the prices of products offered to consumers. OJ L 80, 18.3.1998

characterised by low profit margins, size becomes increasingly important. The wave of mergers and acquisitions over the past few years is a witness of this.

Reorganisation of the industry at higher speed

The **financial and economic crisis** is expected to lead to more bankruptcies and the process of reorganising and divestments will continue, resulting in a sector consisting of less but stronger players. In addition, the crisis will probably speed up the transition in the new Member States and horizontal integration will go faster after 2009. Secondly, the crisis has an impact on the consumers' booking behaviour: consumers tend to wait as long as possible before booking their holiday. This high uncertainty about future demand has an important impact on the intra- and interindustry relations (see paragraph 5.6.2 in Chapter 1).

8.2.3 Impact of framework conditions on product strategy

The possibilities of globalisation

The exogenous framework conditions that create opportunities for segmentation in the accommodation industry also create similar opportunities for the tour operators and travel agents: **demographic changes, social changes, ecological awareness** and globalisation. In this paragraph we specifically highlight how **globalisation** has an impact on the product strategy of TO&TAs.

Globalisation leads to an increasing group of people outside the developed world for whom travelling becomes a feasible option. Moreover, globalisation means the development of many new tourism destinations offering the infrastructure and service quality that international travellers look for, thus increasing competition at the level of destinations. This implies that both outbound and inbound tourism can increase, due to an increased product offering (more destinations) and a higher number of potential customers. Although also increased outbound tourism has a positive impact on employment in the EU (especially in the TO&TA subsector), the economic impact of increased inbound tourism can be expected to be much more significant throughout the EU tourism industry and beyond.

Inbound tourism: a potentially interesting segment?

Focusing on inbound tourism, a number of framework conditions positively support TO&TAs in attracting non-EU customers:

- Europe as a tourism destination has a **unique and rich diversity of products and attractions** to offer.
- The (tourism) infrastructure in the EU is highly developed, making travelling across Europe relatively easy.
- The **introductions of the Euro and the Schengen visa** have significantly lowered the administrative burden over the years when travelling within the euro-zone or Schengen area.

- Bringing the negotiations of ‘**open skies**’ **agreements** to the EU level (with the EU-US ‘open skies’ agreement in 2007 as a first result) has eased intercontinental travelling.

However, a number of other framework conditions make that TO&TAs – and the EU tourism industry at large – currently cannot fully benefit from this potentially important group of customers.

- Existing **barriers to trade in services** hamper international tourism development. One example is air transport, which is far from liberalised. Although negotiations on the liberalisation of trade in services currently take place at the level of WTO (GATS), it is expected that barriers to trade in services will remain for quite some time.
- The very recent **changes in the rules to obtain a Schengen visa** also have an influence on the attractiveness of the EU (the Schengen area) as tourism destination. Not only has the cost to obtain a Schengen visa increased, also the administrative burden has increased due to stricter controls (application on issuance of visa, passport, photography and documents certifying the aim of the trip, solvency and medical insurance, give fingerprints).
- A **concerted marketing campaign** to promote the EU as a tourism destination outside Europe is lacking at present. This means that a critical step in the communication cycle is missing: awareness creation about what the EU means in terms of tourism¹²³. This undermines the effectiveness of marketing efforts of other actors later in the communication cycle, potentially having a negative impact on the demand of non-EU travellers to come to the EU.
- **Airport congestion and an obsolete EU air traffic system** may hamper the full development of the segment of inbound tourism.

Rising ecological awareness and changing travel habits

Apart from globalisation, also **climate change** and the increasing awareness of the ecological impact of our current economic system influence the product range of TO&TAs. Apart from an increasing group of customers that look for more ‘ecologically friendly’ ways of travelling (see also paragraph 7.2 for accommodation), **environmental regulation and taxation** are expected to increase pressure on the price of activities with a high environmental impact. Looking at ‘an average travel package’, especially transportation has a non-negligible impact on the environment. Although it is still very much debated what mode of transport has a higher environmental impact for what specific distance, it can be expected that alternative modes of transport (alongside air transport) will gain importance in the product offering of TOs and TAs.

Unexpected events

A final element affecting the product range of TO&TAs is the **high vulnerability of tourism destinations** due to unexpected events such as acts of terror, health threats (e.g. SARS virus), but also **exchange rate fluctuations**, that can strongly impact the travel patterns of customers and thus the success or failure of specific products. As especially

¹²³ We refer to the interviews of ETAG and ETC in Annex III.

TOs have to determine their range of products well in advance and make financial commitments accordingly, such sudden changes in the exogenous framework can significantly affect the profitability of these TOs.

8.3 Relative importance of different regulatory and other framework conditions for the industry

Table 8.1 provides an overview of 1) the current relevance at sector level of the different regulatory and other framework conditions for the development and competitiveness of the TO&TA industry and 2) the ‘ideal’ level of relevance at sector level of these different framework conditions for the future development and competitiveness of the TO&TA industry. This assessment is based on the view of the contractor and has been presented to the members of the TSG for feedback.

Table 8.1 Tour operators and travel agents: screening of framework conditions

Regulatory & ‘other’ framework conditions		Assessment of current level of relevance at sector level	Assessment of ‘ideal’ level of relevance at sector level
Heading	Item		
Regulatory conditions	National regulatory measures	◆◆◆	◆◆
	EU regulatory measures	◆◆◆	◆◆◆
	Completion of internal market legislation	◆◆(◆)	◆◆
	Industry and professional regulations and standards	◆	◆
‘Other’ framework conditions	Labour force, knowledge and skills	◆	◆◆◆
	Knowledge: R&D, innovation and product/service development	◆◆	◆◆◆
	Access to finance	◆◆◆	◆◆◆
	Competition issues	◆◆	◆◆
Exogenous conditions	Technological change	◆◆	◆◆
	Global competition	◆	◆◆
	Openness of international markets (trade and investment)	◆◆	◆◆◆
	Social and demographic change	◆	◆◆◆
	Environmental issues	◆	◆◆◆
	Fluctuations in exogenous costs	◆◆◆	◆◆◆
	Transport infrastructure	◆◆	◆◆

Legend:
 0: Not relevant
 ◆: Relevant
 ◆◆: Important
 ◆◆◆: Very important

The assessment in Table 7.1 highlights a number of framework areas in which the attention of the TO&TA industry might need to significantly increase in order to enhance the competitiveness: development of necessary skills, knowledge and innovation to better capture the opportunities related to social and demographic changes, globalisation as well as tackle the environmental challenges. These shifts in priority for the TO&TA industry

appear to be much in line with the shifts needed in the accommodation industry. As for the results from the accommodation industry assessment, also this assessment provides valuable information for the strategic outlook and recommended action plan.

8.4 Level of priority of different EU policy initiatives to enhance the competitiveness of the TO&TA industry

In this paragraph we identify and prioritise existing and potential EU horizontal ‘industrial’ policy initiatives¹²⁴ that could have an important impact on the accommodation industry’s development. Table 8.2 prioritises the policy initiatives that:

- at present receive most attention at policy level to influence the performance of the TO&TA industry;
- might need to receive most attention at policy level to optimally contribute to raising performance (e.g. productivity improvements) and/or creating opportunities for sector development.

Similar to the assessment in the previous section, this assessment reflects the view of the contractor.

Table 8.2 Tour operators and travel agents: screening of policy initiatives

EU Policy areas		Assessment of current level of priority for EU policy	Assessment of ‘ideal’ level of priority for EU policy
Heading	Initiatives		
Trade	Trade policy	◆	◆◆◆
	Proper functioning of the internal market	◆	◆◆◆
Better regulation	Competition policy	◆	◆◆
	Better regulation and simplification	◆	◆◆◆
	Standards	◆◆	◆
	Consumer right protection	◆◆◆	◆◆◆
Knowledge and skills	Research and development	◆	◆
	Intellectual property rights	0	0
	Innovation policy	◆	◆◆
	Employment, qualifications, skills / ‘Flexicurity’	◆◆	◆◆
	Access to finance / risk capital	◆◆	◆◆◆
Energy and environment	Waste, water, air	◆◆	◆◆(◆)
	Intensive energy use	◆◆◆	◆◆◆

Legend: 0: Not relevant
 ◆: Relevant
 ◆◆: Important
 ◆◆◆: Very important

¹²⁴ Based on the Mid-term Review of Industrial Policy, COM(2007) 374.

Similar to our assessment for the industry, Table 8.2 highlights a number of areas in which the attention of EU policy makers might need to increase in order to enhance the competitiveness. They relate to

- trade policy;
- the further elimination of barriers to a proper internal market;
- better regulation and simplification;
- supporting research and development.

The outcome of this assessment will be taken into account for the formulation of the strategic outlook.

PART 4: STRATEGIC OUTLOOK

The strategic and immediate usefulness of a sector competitiveness study is greatly facilitated when it contains a forward looking element. This fourth part of the report comprises two chapters:

- The first chapter contains a strategic outlook for the EU tourism industry over the medium to long term. The central part of this strategic outlook is a **SWOT analysis of the EU tourism industry**, in which both strengths and weaknesses, and opportunities and threats will be presented.
- Starting from this strategic outlook, in the second chapter we formulate a series of **recommended actions to enhance the competitiveness** of the EU tourism industry. The actions are presented in the form of a roadmap for the European Commission, Member States and industry.

9 Strategic outlook

The strategic outlook starts with an overview of the methodological approach. The core of this chapter contains both a portrait of the tourism industry in 2009 and an outlook for 2015-2020. The strategic outlook will be summarized in a SWOT analysis.

9.1 Methodological approach

9.1.1 SWOT analysis

A SWOT analysis is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats affecting an industry and requiring a decision in pursuit of an objective. It involves monitoring the market environment internal and external to the industry.

- **Internal factors:** Chapters 4 to 8 of this report analysed the competitive performance of the two sub-sectors included in this study, as well as the framework in which they operate. The most important elements of this analysis are summarized in paragraph 9.2.1. The analysis of these internal factors enables us to identify the main strengths and weaknesses of the tourism industry in 2009.
- **External factors:** There are, however, trends in the regulatory framework and society at large that affect the demand for tourism. These trends mean that tourism in 2020 will look quite different to tourism today. We discuss the most important trends in paragraph 9.3. Identifying these trends allows us to identify the main opportunities and threats for the tourism industry.

9.1.2 Scenario building to incorporate insecure factors

When identifying the major trends which will affect the tourism industry in the years to come, we make a distinction between two types of trends: “fundamentals” and “differentiating factors”.

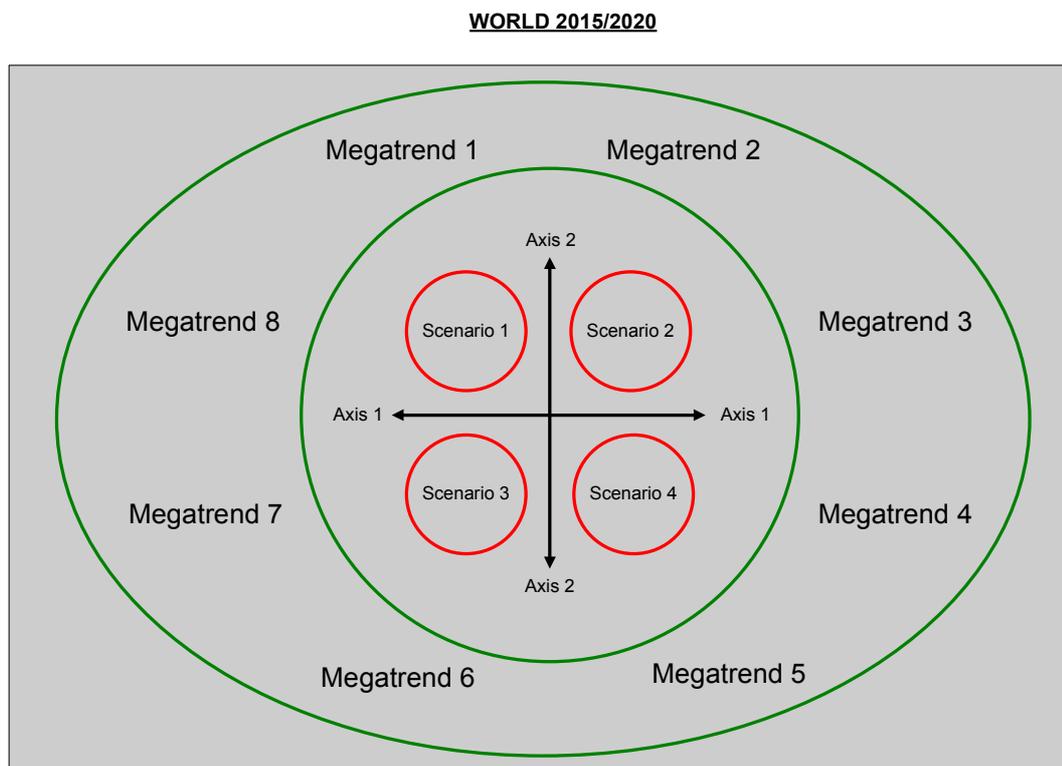
- **Fundamentals** are expected “**megatrends**” within society with a major impact on tourism demand. We will observe these trends with almost 100% certainty.
- **Differentiating factors** are exogenous factors which also have a major impact on tourism demand. However, the evolution of these factors and, therefore, their exact impact on tourism, is uncertain. Both economic growth and the evolution of

oil prices are examples of such uncertain factors that have a significant impact on the tourism industry.

To incorporate uncertainty arising from the differentiating factors in the strategic outlook, **scenario planning** is a very useful tool. Scenarios are a way to explore future issues in a clear and structured way. They are not meant to be predictions, but to provide pictures of possible futures that can inspire ideas about upcoming challenges and opportunities. By distinguishing the different scenarios from each other as much as possible, we can identify the widest range of possible actions to tackle the main challenges the tourism industry is facing.

Within the framework of this study four different scenarios have been developed. These scenarios all have a time horizon of around 10 years.

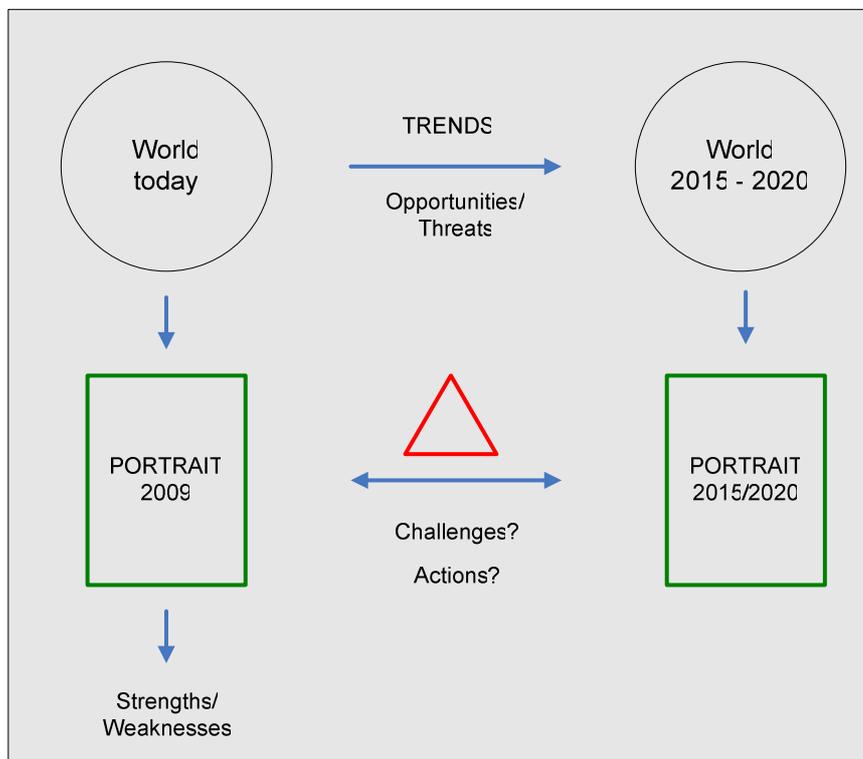
Figure 9.1 Scenarios to incorporate uncertainty in the future outlook



9.1.3 Overview of the methodological approach

From the SWOT analysis and scenarios, we can identify the main challenges to enhance the competitive position of the EU tourism industry. Having identified the major challenges for the tourism industry, actions can be suggested to tackle these challenges. This process of strategic outlook formulation is illustrated in Figure 9.2. In the remainder of this study, we will fill in the different 'building blocks' to finally come to our recommended action plan to enhance the competitiveness of the EU tourism industry.

Figure 9.2 Process of strategic outlook formulation



9.2 The tourism industry today: portrait 2009

Chapters 2 to 8 of this report gave a clear picture of the structure, economic performance and competitive position of the EU tourism industry in general and the sub-sectors of “accommodation” and “tour operators and travel agents” in particular, as well as of the framework in which the tourism industry operates. These parts provide us with a good factual basis about the way the industry functions. The purpose of this section is to summarize the main findings from these analyses, through a number of observations. Those observations are the **basis to start a substantiated evaluation of the strengths and weaknesses** of the EU tourism industry in the year 2009.

9.2.1 Key observations

⇒ ***Key observation 1: Tourism industry as an engine of growth***

Over the last decade, the EU tourism industry has become a sector of increasing importance in the European economy. As tourism demand in the EU has steadily increased, tourism enterprises have increasingly created both employment and turnover. Especially with regard to the employment of women, young people and the less skilled, the tourism industry plays an important role. Moreover, over the last decade the job creation rate in the EU tourism industry has been above the EU average.

⇒ **Key observation 2: Europe is THE leading destination for tourism in the world**

Europe is the pre-eminent tourism destination in the world. In terms of international arrivals, Europe accounts for more than half of the total number of arrivals in the world. Furthermore, Europe accounts for another 700 million domestic arrivals. Although the EU's market share in the total number of international arrivals is likely to shrink, UNWTO expects that tourism in Europe will still increase in the coming decades. Europe is for many travellers a highly attractive destination, not only because of its rich history and the cultural diversity concentrated in a relatively small geographical area, but also due to its stable political climate, high level of tolerance and high quality of infrastructure. What Europe has to offer to tourists is almost impossible to find elsewhere in the world.

⇒ **Key observation 3: Fragmented industry with very diverse range of companies**

The tourism industry is very fragmented, with a diverse range of companies, a majority of which are concentrated in the old Member States. Companies in the tourism industry operate not only in very different sub-sectors (hotels, airline companies, travel agents, tourist boards, etc.), there are also large differences in the size of companies, ranging from micro-sized enterprises to very large multinational players. Based on the previous chapters we also can conclude that there are large differences between the new and old Member States (young industry versus mature industry). Moreover, the tourism industry has important linkages to many other policy fields: culture, natural resources, transport, retail, urban planning, etc. The business reality and problems that all these different companies face is not the same across the industry, within any one sub-sector or between the different Member States. This makes it a real challenge to come to a coherent policy towards the industry.

⇒ **Key observation 4: Dominance of micro enterprises in the sector**

With more than 90% of the companies employing fewer than 10 people¹²⁵, micro-enterprises form the backbone of the industry. Many of these micro-enterprises are run successfully by 'self-made' men and women. However, even though these individuals might have the necessary skills to run a business, they often fail to capitalise on opportunities, as they are not always aware of their position in the tourism industry. Another problem related to these micro-sized enterprises is ensuring the continuation of the company after the first generation and, connected with this, the transfer of knowledge. Improving the professionalism of these enterprises is often cited as a critical factor in improving the competitiveness of the industry. However, it is a major challenge to reach out to these enterprises and improve their access to support, guidance and advice.

⇒ **Key observation 5: Strong seasonal nature of EU tourism business**

Although some destinations are less influenced by seasonal fluctuations, most European tourism companies are confronted with a pattern of strong seasonality in travelling, with a major peak in the months of July and August. These strong seasonal patterns have significant implications for the businesses operating in the industry. They have an impact

¹²⁵ In reality this figure might even be an underestimation due to the definitions being used to compile the official statistics.

on the revenue streams of the businesses and on their employees, and lead to inefficient use of the existing infrastructure. With the use of temporary work and student workers for example, the industry has attempted to find solutions to this highly irregular business pattern. Although seasonality may be not a problem OF the industry, it is certainly a problem FOR the industry in our opinion.

⇒ **Key observation 6: Authentic or old-fashioned?**

Europe has a great cultural heritage. However, many historical buildings are not adapted to current needs (e.g. in terms of accessibility), while older accommodation may often not correspond to expected levels of comfort. In other places, infrastructure is outdated and urgently needs refurbishment to meet current quality standards. This is often the case in areas where mass tourism started to develop in the some decades ago, but where investments in renewal of the product have generally been lacking in recent years.

⇒ **Key observation 7: Difficulties in attracting and retaining personnel**

The tourism industry generates many jobs in Europe and provides work to people that often have a weaker position in the labour market, such as the low skilled, women and young workers. The tourism industry however – especially the hotel and catering industry - is often perceived as an unfavourable employer. Irregular working schedules and temporary working contracts in return for low financial remuneration often make working in tourism businesses less attractive than other professions (as is the case in other industries that are characterised by similar labour conditions (e.g. nursery,...)). An additional problem in the tourism industry is the mismatch between demand and supply of necessary skills. All these elements result in the fact that many tourism businesses have problems attracting people with appropriate skills and are confronted with a high turnover in personnel, which negatively affects the service quality in the sector. The more society shifts towards an experience economy, the greater the importance of human capital. In our opinion, the above-mentioned difficulties can negatively affect the further development of the tourism industry.

⇒ **Key observation 8: Low labour productivity**

Tourism-related industries are under strong pressure to improve labour productivity, as they have to compete in factor markets (e.g. for labour and capital) with other EU sectors that are more productive and can thus offer better remuneration. The question derived from this observation is whether the low labour productivity in different sub-sectors is a major barrier to improving the competitiveness of the industry as a whole. The data show that at least in the accommodation industry, labour productivity is indeed low, but profitability is relatively high. In the tour operators and travel agents industry, on the other hand, labour productivity is higher, but profitability is much lower than in the accommodation business. Due to the totally different businesses in which they operate, both types of company have very different cost structures. Interpreting data on labour productivity and profitability in the tourism industry therefore need careful consideration.

⇒ **Key observation 9: What about inbound tourism to Europe?**

Looking at Europe as a tourist destination in the world, we observe that the European tourism industry is largely organised around two groups of tourists: intra-European travellers (both domestic and cross-border) and outbound tourists. Inbound tourists from other regions of the world, coming into Europe are not currently targeted in a structured, systematic way. Given the fact that the European travel market is largely a mature one and several non-European regions show promising growth figures in terms of source markets, the industry in collaboration with the public sector is likely to need to make additional concentrated efforts to attract inbound visitors. Interesting examples can be found in recent initiatives taken commonly by France, Spain and Italy and by the Czech Republic, Poland, Hungary and Slovakia to develop a common approach to promote Europe as a tourist destination¹²⁶.

⇒ **Key observation 10: Lack of innovation to provide answers to different challenges**

It is clear that the EU tourism industry is faced with a number of challenges that need to be addressed in order to improve competitiveness. However, innovative solutions to tackle these challenges appear to be largely lacking at the moment. For instance, many companies still focus too much on price to compete. Too little attention seems to be paid to the creation of value added for customers. Secondly, very few innovative initiatives are seen to reduce the impact of seasonality. More innovation in the approach to different segments in the market could however have positive implications. Finally, although climate change will undoubtedly affect the tourism industry in a profound way, this issue seems to receive little attention from businesses operating in the industry. Eco-innovation – high on the research agenda in many other industries – has hardly entered the tourism industry.

⇒ **Key observation 11: Active involvement of public sector, but what should be its exact role?**

The public sector plays an active role in many stages of the ‘tourism production process’. Public authorities provide the infrastructure necessary for tourists to reach their destination (airports, railways, road infrastructure). Through the national, regional or local tourist boards, they promote destinations and thus try to attract tourists to companies operating in the tourism industry. Owning museums, nature reserves and other attractions, public authorities directly supply services to this industry. Last, but not least, governments create the regulatory framework in which the tourism companies operate, clearly impacting the competitiveness of the industry. The EU, national governments, as well as regional and local authorities certainly have an important role to play in the further development of the tourism industry in Europe. The question is how this role should be optimally defined to create the best synergies between public and private initiatives.

¹²⁶ See for example interview Federturismo. See also www.european-quartet.com

⇒ **Key observation 12: Travel demand is elastic**

Travel demand is elastic – that is, it tends to exceed the growth of the overall economy in good times, and to contract more severely when the economy falters – making it a relatively vulnerable activity. Tourism activity is not only influenced by specific shocks like terrorist attacks, natural disasters or diseases, but it is also subject to trends and fashions. What is “hot” today, might be “out” tomorrow. This vulnerability has a negative impact on the ease with which tourism companies can obtain access to finance. Access to finance is a generalised problem for the tourism industry, but becomes a major challenge especially in times of crisis. Nevertheless, access to finance is critical in order to innovate, invest in quality, adapt to changes in consumer demand or just survive in more difficult times.

⇒ **Key observation 13: Lack of qualitative data on tourism industry**

Quantitative, qualitative and harmonised data are essential to capture the rapidly changing reality of the tourism industry. However, available data shows significant shortcomings. Data on the supply side of the tourism industry are often rather outdated and therefore do not always capture the rapidly changing reality of the industry. Despite considerable efforts, large differences remain in the quality of available data across the EU-27. As pointed out several times in this report, the different EU-27 Member States use different definitions for the different sub-sectors, making it very difficult to compare countries with each other. On the demand side of tourism, internationally comparable data exclusively focus on international arrivals. However, data on the importance of domestic arrivals are needed to make a balanced assessment of the competitiveness of the tourism industry in a global context.

9.2.2 Strengths and weaknesses of the EU tourism industry

From the key observations we can arrive at a number of strengths and weaknesses that are characteristic to the EU tourism industry in 2009. The strengths and weaknesses are internal to the tourism industry. They are summarized in Table 9.1.

Table 9.1 Strengths and weaknesses of the EU tourism industry

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ Excellent reputation of Europe as tourism destination ▪ Large diversity – “there is something for everybody in Europe” ▪ Top quality attractions compared to rest of the world. ▪ Highly developed (tourism) infrastructure, high convenience for travel ▪ Tourism as an engine of growth and job creator for less skilled people ▪ Magnificent resources to create high quality products ▪ Dense distribution network with different contacts with customers ▪ Multi-optional supply ▪ Major EU-based accommodation players and (outgoing) tour operators ▪ Social dialogue ▪ Europe as a safe and very stable region in the world, making it a secure tourism destination 	<ul style="list-style-type: none"> ▪ Highly seasonal use of infrastructure and labour input ▪ ‘Old’ tourist infrastructure compared to other regions in the world. ▪ Inefficient marketing of tourist destination ‘Europe’ ▪ Low quality of services in Europe when compared to other regions in the world. ▪ Inconsistency of quality of infrastructure ▪ Fragmentation of value chain, combined with insufficient co-ordination across value chain ▪ Low labour productivity and high turnover of personnel ▪ Weak image of tourism industry as employer ▪ Lack of sufficient entrepreneurial and managerial skills ▪ Low innovation capacity ▪ Lack of qualitative and harmonized data on tourism ▪ Lack of flexibility to deal with fluctuations in tourism demand ▪ Mature EU source market for tourism

9.3 The tourism industry in 2010-2020: outlook

Over the next decade the tourism industry will be confronted with a number of changes in society. The tourism industry in 2020 will therefore differ from its current form. In this section we:

- identify and describe the **most important trends** and developments affecting the tourism environment;
- describe the **expected impact** of these trends and developments on tourism demand within Europe;
- identify the **major opportunities and threats** for the tourism industry due to the expected changes in tourism demand.

9.3.1 Expected structural changes in tourism demand due to megatrends

Within society certain trends are expected to materialise with almost 100% certainty (the so-called megatrends¹²⁷). These megatrends will have an impact on tourism demand. Most of these megatrends are not new, but have been already become established in recent years. It is important to recognise their significance for the tourism industry.

Megatrend 1: Globalisation

Globalisation means that different societies, cultures and economies are becoming increasingly interwoven. This process has been underway for years, if not decades. It has been reinforced by political changes and decisions, such as the formation of the EU single market and the lowering of visa restrictions (e.g. for China). Technological changes such as the deployment of computers, internet and mobile phones have made communication much cheaper and reduced barriers resulting from physical distances. Further liberalisation of air transport and the increased mobility of people have brought the whole world within reach. For instance, with a traditional air carrier it is now possible to book a return flight from Brussels to Hong Kong for €450, to New York for €350 euro and to Cape Town for €450. For many European visitors the world is calling to be discovered. Moreover, in many emerging markets, a growing middle class is ready to discover the world. In a first stage, this group is likely to focus mostly on domestic and short haul travelling, but when they become more experienced travellers, they are likely to start discovering more remote tourism destinations.

Megatrend 2: Demographic change

Over the coming years, the European population will age further and by 2020 around 20% of the population will be older than 65. This older population will often have considerable purchasing power and have more free time in which they can travel. They will probably prefer destinations close or closer to home, and they will prefer to travel more outside the peak seasons. The group is unlikely to wish to be targeted as 'senior citizens', but the demand for convenience, safety, luxury ('small indulgences') and city trips and short breaks will increase.

Alongside the 'greying' of the population, the number of households consisting of one or two people will increase in Europe. For instance, in Germany approximately one third of the population already lives in a single household, while in France and the Netherlands respectively 60% and 66% of the population lives in a household with a maximum of two people. The demand for single-household products is increasing, both for younger and older people, but especially for women. In the segment of small households made up of people of working age and a high disposable income, the demand for shorter holidays to escape busy working lifestyles is likely to increase.

¹²⁷ Based on, among others, European Travel Commission (Megatrends report), Toerisme Vlaanderen (Prioriteitennota) and European Tourism Research Institute (Tourism of Tomorrow).

Megatrend 3: Access to information

Computers, internet, search engines, mobile phones, GPS and digital television have profoundly changed the way the world communicates, collects information and distributes products and services. For the travel industry, the Internet has rapidly become the major source of information and distribution, with a major impact on tourism demand and business structure. Easier access to information about destinations, products, services and prices means that tourists will become more critical and self-confident about choosing a destination. They can better assess the relationship between price and quality (i.e. the value for money) offered by competing businesses. Moreover, the Internet makes independent booking ever easier. The fear of booking online is slowly disappearing. Independently arranged trips are growing at the expense of organised or packaged group tours. Intermediaries will remain in the picture when they manage to add value to their service. Better and more accessible information and booking systems also allow later reservations and more flexible travel schedules. Tourism purchases are taking place closer to the time of departure. Those companies offering fast and customer-friendly services will gain business at the expense of more inefficient ones.

Megatrend 4: Experience economy

In an era where the supply is abundant and where it is no longer easy to distinguish products and services based on quality, customers look for other elements to make their choice. ‘Soft’ characteristics such as design and meaning, as well as the creative combination of products and services into one ‘experience’ are gaining in importance. Experiences can incorporate security, romance, identity, meaning and authenticity. Authenticity is not only about traditional craftsmanship or nostalgia. Authenticity is about discovering values and traditions and interpreting these in a new way within a progressive context. People increasingly look for genuineness and originality, for the core and nature of things.

Intuition and feeling are accepted now more than ever. No longer is the rational functioning of a product alone important, but also the ‘look and feel’. Functionality and quality are no longer distinctive, but rather the look, design, colour, texture, odour and taste become decisive. It becomes increasingly necessary to stress elements which can be connected to feeling, rather than only functional characteristics. Design has been democratised and accessible for all.

With the rise of this so-called experience economy, the demand for a ‘total experience’ will increase. Customers no longer seek ‘just’ a bed in a hotel, but, for example, look for a romantic experience, including a special bedroom in a cosy hotel, candlelight dinner and a trip in the same romantic atmosphere. Delivering such a total experience requires collaboration across the value chain. Accommodation and attractions will only stand out when they can offer a clear added value, authenticity or meaning to customers.

Megatrend 5: Individualisation – customisation

The focus on ‘me’ as a person will increase. Customers seek tailor-made solutions, fitting their own personality. Society can no longer be divided into homogeneous and recognisable target groups, but is becoming increasingly heterogeneous with many different niche groups. Consumers’ behaviour is becoming harder to predict. One individual consumer can belong to one niche group one day and to another niche group the next.

With increased travelling, the demand for specialised products will increase. An increased focus on specific target groups and niches will be a key to success in the future. Packaged travel will become smaller in terms of participants per group, enabling more flexible itineraries to meet the different needs of customers within one group.

Tourists will in the future visit a greater number of different destinations, resulting in a lower loyalty towards one or a few destinations. Moreover, tourists will display more mixed travel behaviour. Repeat visits will therefore decrease and the marketing of destinations will become more complex.

Megatrend 6: Sustainability

Ecology and ethical entrepreneurship are more than just laudable objectives. The demand for sustainable goods is booming, running counter to the consumer society. As a reaction to the trend of individualisation, a countertrend can be identified, that is ‘connectivity’. This term refers to the urge to start meaningful relations and to enjoy meaningful experiences.

The concern about climate change and environmental pollution is translated in an increased demand for ecologically responsible consumerism. This trend is reinforced by legislative initiatives stimulating consumers and companies to act in a more sustainable way. The tourism industry will also be confronted progressively with an increased attention to sustainability. Those actors able to offer a sustainable tourism product can gain a competitive advantage in comparison to their competitors.

Megatrend 7: Health, wellness, education

Diets, natural healthy food, fitness, wellness, beauty treatment, and sport: our bodies are receiving more attention in our free time, partly as a compensation for the more sedentary lifestyles that many people are leading. The boundary between wellness and lifestyle on the one hand and health care on the other hand is disappearing: national healthcare systems sometimes contribute to subscriptions for fitness centres, while so-called “wellness institutes” are recruiting medically trained professionals.

Megatrend 8: Low cost business models

As a counter reaction to the search for more luxury and design, we can identify many successful enterprises that have reduced products and processes to the essential basics. Increasingly, low cost business models are likely to enter the market successfully. In the

tourism industry especially, low cost carriers have brought significant changes to the industry's development. According to IATA and AEA, low cost carriers will represent approximately 35% of the total airline market by 2010. Even though those low cost carriers currently still focus on intra-European point-to-point transport, the development of the Airbus A380 with a capacity of 600 to 800 passengers might mark the rise of intercontinental low cost carriers.

9.3.2 Tourism as a highly elastic activity

Alongside the eight megatrends, a number of other elements will also impact on tourism demand. However, the way in which they will do so is uncertain and depends upon their evolution. We try to **capture a number of these uncertainties in four different scenarios**. After discussions with the academic focus group¹²⁸, the TSG and our clients, we have selected the following differentiating factors for scenario building: a) global economic growth and b) energy prices. They are both factors external to the tourism industry, but with a profound impact on tourism demand. This does not mean that they are the only differentiating factors affecting tourism demand. Other possible differentiation factors include currency conversion rates, the general security climate, etc. The two selected factors are – in our view – however the two most important in order to assess the competitive position of the EU tourism industry. Adding additional differentiating factors would complicate the analysis further. Combining the two selected differentiating factors leads to four clearly distinct scenarios, thus making the scenarios a useful instrument.

Differentiating factor 1: Uncertain global economic growth

The level of global economic growth highly correlates with the level of business activities, the level of employment and the level of consumer confidence. High economic growth means high levels of business activities, increased business travelling and high levels of consumer confidence. People are generally confident about their job and tend to spend more on leisure. Low global economic growth goes together with fewer business activities, resulting in less business travelling. Unemployment rises, affecting consumers' confidence and thus their spending in a negative way.

Over the last few years, real annual GDP growth rates in advanced economies have fallen from around 3% on average to almost -4% in 2009. It is uncertain how global economic growth will evolve over the next decade. As such, this differentiating factor has been one of the axes in our scenario building. A distinction is made between strong global economic growth (i.e. world economic growth above 4% per annum) and weak global economic growth (i.e. world economic growth less than 3% per annum¹²⁹).

¹²⁸ See paragraph 1.3.3 in Chapter 1 for an overview of the participants

¹²⁹ Informally, the IMF regards periods with global growth of less than 3% (or 2.5%, depending on the chief economist) as global recessions, as it takes account of the fact that the trend growth rate in emerging economies is higher than in developed ones (source: Wall Street Journal, The Economist)

Differentiating factor 2: Uncertain evolution of energy prices

The second differentiating factor in our model is the evolution of energy prices in general and the oil price evolution in particular¹³⁰. Energy prices directly influence consumers' purchasing power. The cost of living increases due to higher energy bills and higher costs of transportation. This leads to a lower budget available to spend on travel. Moreover, high energy prices also directly influence the cost of travelling due to the increased costs of transportation. Especially for long haul travel, the price increase due to high energy prices can be significant, as transportation often makes up a relatively large proportion of the total cost of the travel package. Strong evolutions in energy prices lead to shifts in tourism demand (see also section 6.1.3, last paragraph).

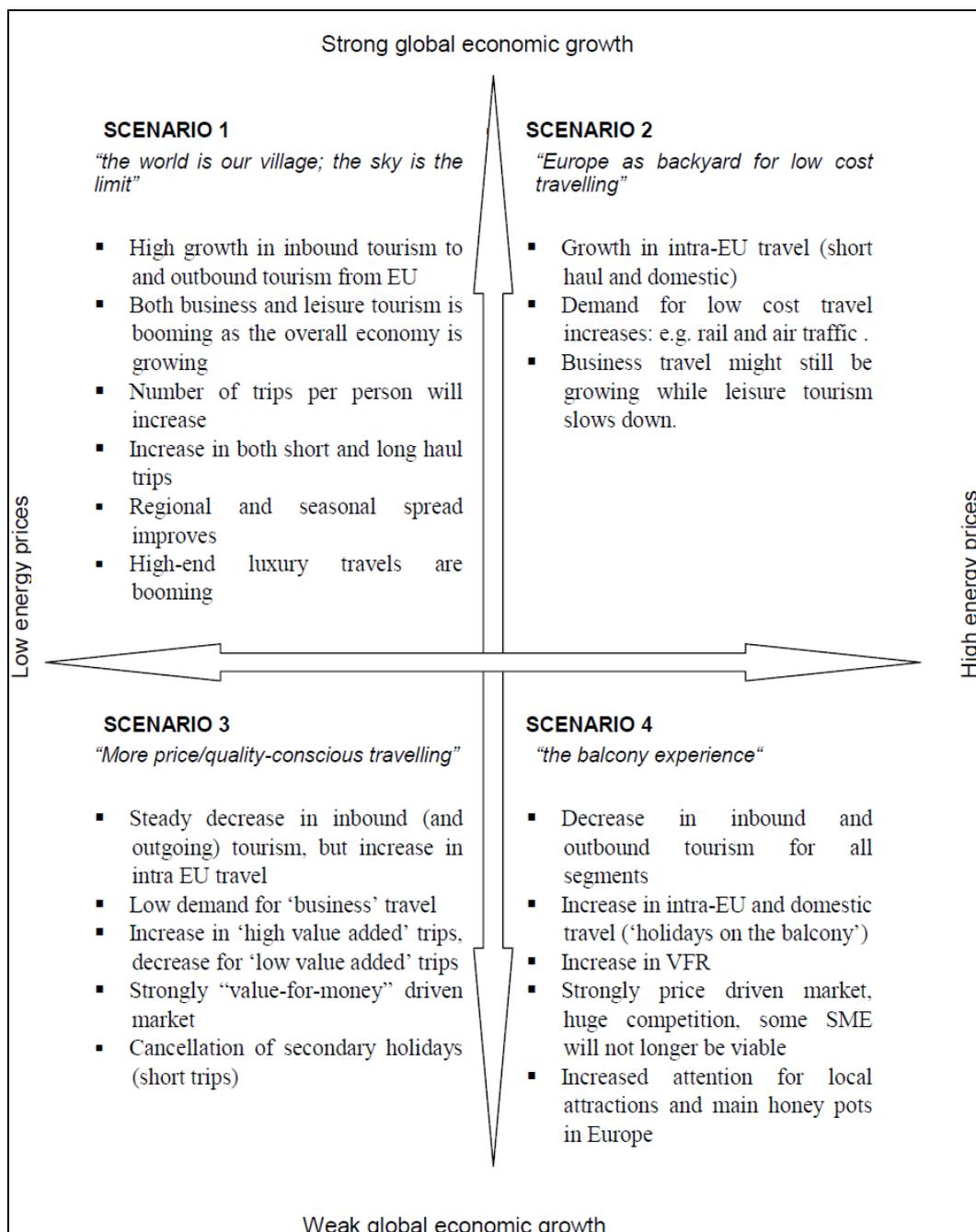
Over the last two years especially oil prices have fluctuated significantly, with prices rising to over \$140/barrel in the summer of 2008, then plummeting to around \$35/barrel in January 2009 and now evolving around \$70/barrel. Although everyone agrees that in the long run oil prices will undoubtedly rise due to the oil reserve limits, it is far less certain how the energy prices will evolve over the next 10 years¹³¹. As the evolution has an important impact on tourism demand, this is the second differentiating factor to be included in our scenario building. We differentiate between high energy prices (i.e. oil price above \$100/barrel) and low energy prices (i.e. oil price lower than \$50/barrel).

Combing the two differentiating factors, brings us to four different scenarios. These four scenarios are not disconnected from the expected structural changes in tourism demand mentioned above, but rather bring in a number of nuances to the outlook. Figure 9.3 summarizes the differences in tourism demand in the different scenarios.

¹³⁰ Energy prices needs to be seen as unconnected to the economic growth as especially towards the future the link between economic growth on the one hand and energy prices on the other hand will be less strong due to scarcity in oil reserves and the development of alternative energy sources.

¹³¹ On the long term, experts tend to agree on a depletion of oil supplies within the next 50 years. The scenarios presented here have a more limited time perspective. As shown in the evolution of oil prices within the last year, it is almost impossible to predict their evolution for the upcoming years. On the longer run, oil prices tend to rise.

Figure 9.3 Uncertainty in the future outlook of tourism demand: scenarios



SCENARIO 1: the world is our village, the sky is the limit

In this first scenario, global economic growth is expected to be high, while at the same time energy prices are low. These favourable conditions cause a boom in global tourism. Low energy prices make long haul travel affordable for a larger share of the population, while the strong global economic growth is the engine for increased business travel. In general holiday participation increases and a part of the population takes more than one holiday a year. Popular destinations will receive more tourists, but less crowded destinations will also receive more tourists. In general, the conditions within this scenario lead to an improved regional and seasonal spread of tourism.

SCENARIO 2: Europe as backyard for low cost travelling

In the second scenario, global economic growth is still expected to be high. In contrast to the first scenario, however, energy prices are high. The strong economic growth is again the engine for increased demand for business travel, but leisure tourism is influenced by the high energy prices. To save money, people will take holidays closer to home rather than on the other side of the world. Cheaper alternatives to expensive air transport will be successful. Compared to scenario one, tourism demand will still increase, but to a lower extent.

SCENARIO 3: more price / quality conscious travelling

The world is confronted with a weak global economic growth, but tourism still profits from low energy prices. The low economic growth puts a restraint on business travel, and leisure travel will focus more on good value for money. Given the weaker economic position of many households, customers will still maintain their main holidays at the expense of more short breaks throughout the year. Luxury and authenticity will act as an antidote to the difficulties of daily life. Holidays will need to contrast strongly with everyday problems.

SCENARIO 4: the balcony experience

In the fourth scenario global economic growth is expected to be low, while, at the same time, energy prices are high. Both factors have a major negative effect on the tourism industry. Weak global economic growth forces consumers to look after their money; job insecurity leads to an overall feeling of insecurity. High energy prices make travel rather expensive. When people go on holiday, they would prefer destinations close to home rather than long haul destinations. Business travel suffers from the weak global economic growth.

Currently, the tourism industry is – in common with the rest of the economy – suffering from the consequences of the worldwide financial and economic crisis, while the oil price fluctuates around \$70/barrel. We could say that tourism demand currently corresponds largely to scenario 3 in the above model. According to the latest Barometer survey on the attitudes of Europeans towards tourism, different elements from this third scenario (e.g. strong “value-for-money” driven market, cancellation of secondary trips) could be expected for 2009.

9.3.3 Opportunities and threats for the EU tourism industry

The above mentioned trends and developments in society together with the (regulatory) framework (Chapters 7 and 8) are the external drivers that influence the companies operating in the tourism industry. Each of these current and future external influences can bring either opportunities or threats to the tourism industry. In the table below, we have translated the current framework conditions and future trends into opportunities and threats to enhance the competitiveness of the EU tourism industry.

Table 9.2 Opportunities and threats for the EU tourism industry

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▪ Huge potential if budget for marketing would be combined (EU level, national/regional level, private sector) ▪ Increasing income levels in emerging countries ▪ Technological change ▪ Changing demography ▪ Increasing awareness of environmental and sustainability issues ▪ Increasing demand for innovative and specialised products ▪ Evolution towards 'experience' economy ▪ EU's pioneering role in developing a 'green economy' 	<ul style="list-style-type: none"> ▪ Restrictions in tourists' mobility (e.g. visa restrictions, interconnectivity of different modes of transport, etc.) ▪ Increased global competition, not only among companies but also among regions worldwide ▪ Inadequate education and training programmes (mismatch supply – demand) ▪ When not booking through TO&TA but when booking independently, the overall consumer protection is low ▪ Increased number of enterprises working with low cost business model ▪ Downstream cost-cutting demand ▪ Complex and 'unharmonised' regulatory framework ▪ Difficult access to finance ▪ Tourism as a vulnerable activity (economic recession, specific shocks) ▪ Climate change ▪ Strong dependency on EU as source market

10 Roadmap for a competitive tourism industry

From our SWOT analysis in the previous chapter, we can identify a number of clear challenges that the EU tourism industry must face up to in order to remain competitive. In this final chapter, we highlight these challenges and formulate our recommended actions to tackle them. The actions will be presented in the form of a roadmap for the European Commission, Member States and industry. Special attention is placed on measures to deal with the current financial crisis.

10.1 Challenges for the tourism industry

The SWOT analysis highlights a number of ‘mismatches’ between the internal strengths and weaknesses of the EU tourism industry and the external opportunities and threats with which it is faced. Starting from the overall ambition of the EU tourism industry, paragraph 10.1.2 summarizes these mismatches in six key challenges.

10.1.1 Ambition for the EU tourism industry

The main goal of this study is to develop recommendations on how to strengthen and improve the competitive position of the EU tourism industry. To do this, we start from a clear **ambition** for the industry and all its stakeholders. This ambition can be summarized as follows:

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.

Given the importance of this overall ambition, we comment on different elements in this ambition:

- ⇒ **‘Strengthen’**: Tourism is a dynamic sector, but with room for improvement
- ⇒ **‘Dynamic’**: Refers to essential factors like e.g. innovation and entrepreneurship
- ⇒ **‘Sustainable’**: Long term social, economic and ecological aims
- ⇒ **‘Growth’**: Assuming oxygen to invest in continued growth of tourism
- ⇒ **‘travel experience for all its customers’**: Customer-oriented offer
- ⇒ **‘balanced price quality ratio’**: Presumes efficient use of existing resources

The ambition expresses in general terms where the European tourism industry should head for in order to become more competitive vis-à-vis other regions in the world. We will keep this overall ambition in mind when we combine the different strengths and weaknesses with the opportunities and threats to formulate challenges.

10.1.2 Identification of the key challenges for the tourism industry

To realise the overall ambition, the **challenge** for the European tourism industry lies in **capitalising on the existing opportunities in society by further exploiting its major strengths** and by minimising existing weaknesses.

In the table below (see Table 10.1), we have linked the different strengths with those opportunities that can be best exploited with the strengths in question, and also linked the weaknesses and threats that need to be tackled in order to be able to capitalise on those opportunities. This brings us to **six clear challenges** for the EU tourism industry in order to enhance the competitiveness of the EU tourism industry.

These six key challenges are:

1. Reinforce the EU tourism industry as a high quality service sector ()
2. Better position the EU as the n°1 tourism destination in the world ()
3. Make the tourism industry part of the knowledge economy ()
4. Develop EU tourism in a sustainable manner ()
5. Increase the value generated from available resources ()
6. Ensure sufficient “oxygen” for tourism businesses ()

In the following paragraphs, these key challenges will be discussed in more detail.

Table 10.1

Defining the challenges for the EU tourism industry from the SWOT analysis

Strengths and Weaknesses Excellent reputation of Europe as tourism destination Major EU-based tourism companies Mature EU source market Inefficient marketing of 'Europe' Dense distribution network Top quality attractions Safe and stable tourism destination Highly developed (tourism) infrastructure old' infrastructure Low quality of services Inconsistency of quality of infrastructure Large diversity Magnificent resources Multi-optional supply Seasonal use of infrastructure and labour Fragmentation value chain+insufficient co-ordination Low labour productivity High turnover of personnel Social dialogue Weak image as employer insufficient entrepreneurial and managerial skills Low innovation capacity Lack of data on tourism Job creator Lack of flexibility to deal with fluctuations in tourism demand	Opportunities and Threats Huge combined marketing budget Restrictions in tourist mobility Increased global competition between regions Strong dependency on EU as source market Increasing income levels emerging countries Technological change Changing demography Increasing ecological/sustainability awareness Increasing demand for innovative and specialised products Inadequate education and training Evolution towards 'experience' economy Low consumer protection when booking independently Increased low cost competition Downstream cost-cutting demand Complex and 'unharmonized' regulatory framework Difficult access to finance Tourism as a vulnerable activity Climate change EU's pioneering role in 'green economy'

Challenge 1: Reinforce the EU tourism industry as a high quality service sector

Tourism is a demand-driven activity and customers are becoming ever more experienced and demanding. Europe's magnificent attractions and high quality infrastructure are an important strength, but are not sufficient to provide customers a perfect holiday experience. It is the combination of impressive resources with high quality services that will ensure that customers can enjoy good value for their money. To turn the industry into a higher quality service industry, a more customer-oriented approach is necessary, as well as well trained and motivated staff. These latter aspects are key to meeting this challenge.

Challenge 2: Better position the EU as the n°1 tourism destination in the world

Europe as a whole lacks a clear image as tourist destination in comparison to other regions in the world. Europe needs better branding to reflect its core values and to adequately differentiate itself from other destinations in the world. The brand needs to appeal to consumers now and in the future, and be a good reflection of the strengths of the tourism industry itself.

Challenge 3: Make the tourism industry part of the knowledge economy

Many of the opportunities and threats demand an increased focus on knowledge. Good knowledge about customers, different market segments, and competitors becomes ever more important for remaining competitive. However, due to the negative image of the industry as an employer and the high turnover of personnel, it is currently very difficult to build up such a knowledge base. 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 in the tourism industry.

Challenge 4: Develop EU tourism in a sustainable manner

The principles of sustainable development must be taken as the basis to further develop and strengthen tourism in 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 resources, further development of the industry in a sustainable way is key to remaining competitive. This has also been recognised at the EU policy level and underlined in the European Commission Communication “*Agenda for a sustainable and competitive European tourism*”¹³².

Challenge 5: Increase the value generated from available resources

What Europe has to offer to its tourists is second to none in comparison to the offer from other world regions. However, within a very fragmented industry such as the tourism industry, many actors are involved to deliver an individual tourist experience. With so many actors involved in a complex value chain, it is easy to lose the ‘broader picture’ and thus to provide only fragmented products that do not meet the customers’ requirements for a total holiday experience. More collaboration between the different stakeholders in

¹³² COM (2007) 621 final, “Agenda for a sustainable and competitive European tourism”, http://ec.europa.eu/enterprise/tourism/docs/communications/com2007_062101_en.pdf

the tourism value chain is crucial to deliver a coherent ‘total experience’. This challenge also implies making better use of the available human resources within Europe.

Challenge 6: Ensure sufficient “oxygen” for tourism businesses

Businesses and entrepreneurship are the most critical elements in any industry that wants to grow, create employment and strengthen its competitiveness. In order to ensure that tourism businesses can develop, can invest in innovation and growth, sufficient “oxygen” for the businesses to develop is crucial. This “oxygen” can be in the form of good access to finance, but also relates to regulatory and other framework conditions that can either hinder or support entrepreneurship and innovation (see e.g. chapters 1 and 1).

10.2 Roadmap 2010-2020 for the tourism industry

Now that the challenges have been identified, it is in the first place up to the industry itself – that is: the businesses operating in the sector – to tackle these challenges in order to remain competitive. Entrepreneurship and innovation in the first place need to come from companies. It is they that have to invest in training and in attracting skilled people to build up successful businesses.

Nevertheless, other stakeholders, such as sector associations or public authorities at national and EU level can play an important role in supporting and facilitating the industry in achieving their ambitions. This roadmap gives guidance to these stakeholders, on where they can have an impact and help the industry to move forward.

To effectively tackle the six key challenges for the EU tourism industry, in our view, **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

Most action fields can have an impact on more than one challenge. Table 10.2 shows how the different action fields can help to meet the six key challenges for the EU tourism industry. Each one of these action fields will be further elaborated in the next paragraphs and suggestions for specific actions will be defined. Some of these actions target only one stakeholder (industry (associations), Member States or EU authorities); many others demand a concerted collaboration between different stakeholders in order to be most effective. We refer to paragraph 10.3.2 for a discussion of the level of responsibility.

Table 10.2 Linking six challenges to five action 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
Reinforce the EU tourism industry into a high quality service sector					
Better position the EU as the n°1 tourism destination in the world					
Make the tourism industry part of the knowledge economy					
Develop EU tourism in a sustainable manner					
Increase the value generated from available resources					
Ensure sufficient “oxygen” for tourism businesses					

10.2.1 ACTION FIELD 1: Support tourism demand

The tourism industry is demand driven and it is businesses that have to develop customer-oriented products. However, to support the industry optimally to play its role as a sustainable growth engine of the economy, different actions to support tourism demand can be taken by industry intermediaries, Member States and EU authorities. These actions can relate to improving the process of targeting new customers, facilitating the ‘logistics’ of travelling to, and within, the EU or improving the attractiveness of places.

Suggested actions within this first action field are:

- Action 1.1 - Create and promote brand ‘Europe’:** Many emerging markets can be evaluated as interesting source markets for tourism towards Europe. However, potential customers in these markets often lack sufficient knowledge about the core strengths of the EU as tourism destination. Quality, authenticity, meaning and a variety of experiences become core elements in holiday decision-making and destination perception. The leisure market will become more fashion oriented and creative brands that stand out of the crowd will play an important role in the status attached to a holiday. Currently, the European Travel Commission promotes different tourist destinations within Europe on behalf of the Member States and the European Commission has sponsored the development of a European Tourism Destination Portal (www.visiteurope.com). However, Europe as one tourist destination lacks promotion. 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 largely influenced by the uniqueness, quality and diversity of the tourist product. Less obvious, but equally important, is the quality of the services related to travelling. Customers want a minimum of hassle when they go on holiday. 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, especially when targeting new international tourists that are unfamiliar with the current fragmented quality assessment system in the EU.
- **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 (e.g. WTO), the EU can strive for a more global liberalisation of trade and investment in services. The negotiations over the GATS agreement offer a good opportunity. By combining the voices of 27 Member States, the EU has a strong bargaining power.

10.2.2 ACTION FIELD 2: Stimulate innovation and entrepreneurship

Society is rapidly evolving towards a knowledge-intensive economy, where innovation and skills become crucial factors for success. This is no different for the tourism industry. For both large and small enterprises, accommodation business and tour operators, meeting the six challenges requires entrepreneurship and innovative initiatives. As the industry is strongly dominated by micro-sized enterprises that are often run by men and women with no specific educational background in tourism or management, actions to stimulate innovation and entrepreneurship in the industry – especially targeting SMEs – are critical to improve the product quality delivered and to capitalise on opportunities. In this context, innovation is defined in the broadest sense possible, not only including technological innovation, but also product innovation, innovation in business models, etc.

Suggested actions within this second action field are:

- **Action 2.1 - Improve market intelligence and data availability:** Quantitative, qualitative and harmonised data which allow the rapidly changing reality of the tourism industry to be captured and provide a good insight into the behaviour of different market segments are often lacking. Adequate data and market intelligence about the EU (and global) tourism market are, however, crucial for developing a successful business and to adapt to changes in customer behaviour. The different

Member States have a major responsibility in providing the different data to Eurostat in a timely fashion, such that EU wide market intelligence can be made available to all stakeholders as soon as possible. At the international level, efforts are needed to better capture the phenomenon of domestic travelling.

- **Action 2.2 - Develop a Centre of Excellence at EU level:** As a result of the high fragmentation of the value chain, as well as the predominance of micro-enterprises, (applied) research and development is rarely carried out by the industry. Although different institutions exist that provide information about new developments in the tourism industry (e.g. UNWTO, ETC, OECD), hitherto a real Centre of Excellence that brings together all knowledge and coordinates and stimulates relevant research, is lacking at European level. Such a Centre of Excellence to pool relevant know-how and expertise (from universities, national and international organisations such as UNWTO and companies) for the industry at national and/or EU level, could be a good breeding ground for innovation.
- **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. Specifically related to training, the provision of short term training courses tailored to SMEs that provide participants with basic insights into business planning, marketing and strategy could be a strong stimulus to increase professionalism in the industry.
- **Action 2.4 - Improve attractiveness of tourism industry as employer:** As the tourism industry has problems attracting and keeping the necessary skills, a campaign could be launched to improve the attractiveness of the tourism industry as an employer. At the EU level financial support from the European Social Fund (ESF) could be used to support such a campaign. For example, the tourism department of the Ministry for Regional Development of the Czech Republic has used such ESF funding for the production and broadcast of three TV advertisements in order to highlight the hospitality industry as a possible 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:** Innovation is critical for keeping a destination on the tourism map and for attracting (repeat) visitors. Innovation is also necessary to capture external opportunities and minimise external threats. Innovation plays an important role in lowering seasonality and the inefficient use of resources related to it. Innovation has to focus on every single aspect of the tourism product: product or concept innovation, innovation in the areas of communication and presentation, innovation in market strategy, etc. However, most SMEs strongly underestimate the role of innovation in remaining competitive. This is not only so in the tourism industry, but across all industries. Different Member States have already set up actions to increase the awareness of SMEs about the importance of innovation, and to demonstrate that innovation is more than only technological innovation. For example, in 2007 the Flemish government (Belgium) launched a promotion campaign called 'you are Flanders' future' to highlight that innovation and creativity is in reach of everybody. Tourism industry intermediaries

can play an important role in disseminating and translating these often more general initiatives, to the tourism industry itself.

10.2.3 ACTION FIELD 3: Combine available resources more efficiently

The concentration of tourism demand in a selected number of months is a major challenge for enterprises active in the tourism industry. Initiatives to reduce this seasonality are often lacking. Together with seasonality, tourism demand is also concentrated in territorial space, with high concentrations throughout the year in certain hotspots and many other places only attracting tourists in specific periods of the year. The tourism industry needs to become more innovative and creative to better spread tourism demand, such that available resources can be used in a more efficient way.

Suggested actions within this third action field are:

- **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. Through training and seminars, SMEs should be taught about the concept of the value chain, the different forms of collaboration that are possible, as well as about the opportunities that collaboration across the value chain can bring to them. Both industry associations and training institutes play an important role in diffusing knowledge about the functioning of the tourism value chain.
- **Action 3.2 - Stimulate networking and collaboration across the value chain:** The differential advantage between the 'spider' and the 'fly', is the 'web'. 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. Although active networks and clusters might be relatively new concepts in tourism, they are certainly not in many other industries. Especially in more innovative, knowledge intensive industries, clustering and networking have become part of the business model. Networking events can be initiated by local governments, at European level or by industry associations, and can be linked to knowledge exchange activities such as specific seminars or sharing of best practices. Networking does not necessarily mean the creation of formal network structures; it can also be enhanced by providing the technical tools to interact through internet or other forms of (virtual) communication.
- **Action 3.3 - Create increased "tourism-focused" accessibility of public attractions and resources:** For a long time, public and private initiatives in tourism have lived next to each other, without really collaborating and strengthening each others' products and services. However, tourism cannot fully develop in a sustainable way if both partners do not work together. An important element in this sense is the accessibility of public 'spaces' (natural parks, historic buildings, museums, information offices, etc) for tourism. Public spaces are often a key reason for tourists to visit a specific destination, but if these public spaces are only open for parts of the

year, or have only limited opening hours, this limits the attractiveness of the destination off season. The same holds true if every shop, restaurant, café or hotel is closed. 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. As such, a platform should be created covering the whole tourism industry. As much as possible, the tourism industry needs to speak with a single voice to the European institutions in order to enlarge the possible impact.
- **Action 3.5 - Redefine role of the TSG in line with recommendations of this study:** At the EU level, the Tourism Sustainability Group (TSG) provides a good forum where different stakeholders at different levels interact. In light of this roadmap 2010-2020, we suggest that the tasks of the TSG (as well as the organisational structure) might be reviewed, such that each of the five action fields could find their place within the TSG platform. Different working groups could focus on further elaboration of specific actions.

10.2.4 ACTION FIELD 4: Ensure that development of tourism is sustainable

For the EU tourism industry to remain competitive, development in a sustainable way is crucial. The importance of such a development model has also been underlined in different policy initiatives at the EU level. Additional actions can push the industry further to develop in a sustainable manner.

Suggested actions within this fourth action field are:

- **Action 4.1 - Stimulate further greening of the tourism sector:** As society becomes more ecologically conscious and the EU regulatory framework pushes the economy further towards a green economy, environmental regulation will be put in place to push enterprises to operate in a more environmentally sustainable way. 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. A good example is the outdated air traffic management system that is still in place in European air transport. The European SESAR programme aims to eliminate the currently fragmented approach of European air traffic management. Enhancing the Single European Sky will not only increase the time efficiency of travelling in Europe, but will also significantly decrease fuel consumption and emissions due to air transport.

- **Action 4.3 - Support “tourism for all” at EU level:** DG Enterprise currently coordinates the Calypso action¹³³ 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:** social dialogue is of great importance if tourism in Europe is to develop in a sustainable way and live up to its expected role as a growth engine. Therefore, 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. The principles of sustainability tourism must be moved even more to the centre of every enterprise active within the tourism industry. However, developing sustainable tourism is not only an assignment for the industry, but also for the tourists themselves. Increasing awareness about the concept (and consequences) of sustainable tourism must be placed high on the agenda.

10.2.5 ACTION FIELD 5: Provide “oxygen” to the industry

Last, but certainly not least, the fifth action field aims to provide the tourism industry the “oxygen” it needs to develop. Without sufficient oxygen, entrepreneurship and innovation cannot flourish. Sufficient oxygen is a prerequisite for any business in any sector to develop.

As the tourism industry is identified as an industry which can play an important role in the attainment of the growth and jobs strategy goals as set in the Lisbon Strategy, providing oxygen to the industry will enable the industry to play this role. A good example is the provision of sufficient access to finance for the different enterprises in the industry. In the short term, the economic and financial crisis presents a major challenge for the tourism industry, but possible actions can also be identified for the longer term in order to enhance structural competitiveness.

Suggested actions within this fifth action field are:

- **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. Some of these funds can be used to improve framework conditions (e.g. infrastructure, education and training), other funds can support businesses in their operations (e.g. stimulate innovation). The most important instruments are summarized below.

¹³³ The European Commission's CALYPSO Preparatory Action

- The *European Regional Development Fund* (ERDF) and the *Rural Development Programme* (RDP) can support more sustainable patterns of tourism to enhance cultural and natural heritage, develop accessibility and mobility related infrastructure and to promote ICT, innovative SMEs, business networks and clusters, higher value added services, joint cross-border tourism strategies and inter-regional exchange of experience.
- the *EU Social Fund* (ESF) co-finances projects targeting educational programmes and training in order to enhance productivity and the quality of employment and services in the tourism sector. It also provides targeted training combined with small start-up premiums to tourism micro-enterprises.
- To finance research and development initiatives, the *7th Framework Programme for Research and Technological Development* (FP7) can provide financial support in specific areas.
- With small and medium-sized enterprises (SMEs) as its main target, the *Competitiveness and Innovation Framework Programme* (CIP) supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions.

Stakeholders at all levels play a role in promoting these instruments to improve the competitiveness of the industry. At the EU level, the in 2008 established Enterprise Europe Network aims to bring information on funding opportunities for SMEs closer to these groups of companies. Moreover, Network experts are able to help SMEs apply for funding and offer advice on EU legislation and policies.

To conclude, we remark that 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. Similar actions are also needed at national and regional level, as some programmes of the Structural Funds are further elaborated at the level of the Member States.

- **Action 5.2 – Monitor impacts of other policy areas and at different geographical levels:** Businesses in the tourism industry are very often significantly impacted by new regulations in different policy areas, such as environmental regulation, health & safety, consumer protection, labour market regulation, etc. It is key for businesses to have timely and transparent information about all regulatory issues affecting their business, so that the implications can be assessed and incorporated in proper business plans and (if necessary) investment programmes. On the other hand, many initiatives are initiated at different geographical levels which, accumulated, decrease the overall competitive position of enterprises (e.g. taxation). Both at the EU and Member State level, monitoring, impact assessment and dissemination of information should be organised in a structured way.
- **Action 5.3 - Reduce administrative burden to a minimum:** Administrative burden is costly and unproductive, negatively affecting the competitiveness of any business. Both at the EU level and in different Member States, objectives are set and measures being taken to reduce administrative burden to a minimum. However, the road is still long and the continuous flow of new regulations is unhelpful.

- **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. Differences relate to the tax system, regulations in place and the implementation of regulation. 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.

10.2.6 Do difficult times ask for extraordinary actions?

In times of crisis, the major challenges for the industry do not change radically. The overall ambition remains the same. What is different, is the setting in which this ambition can be reached.

Even in good economic times travel habits of customers change and costs need to be closely monitored. However, in times of crisis, customers in general become even more demanding. Creating added value becomes more critical for businesses in order to attract customers. The importance of good market intelligence increases. As some groups of customers refrain from travelling, over-capacity in the market leads to stronger competition and customers receive a wider variety to choose from. This means that especially those businesses that are unable to deliver added value, experience difficulties. The need to improve entrepreneurship, innovation and professionalism to be able to deliver high quality services, becomes even more pronounced in this economic crisis than at other times. Similarly, collaboration across the value chain becomes critical to attract customers in an economic recession.

This means that the **suggested actions in the five action fields are also very relevant in times of crisis** and are often even more urgently needed, 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 **guaranteeing sufficient access to finance is of utmost importance**. Those companies that want to pro-actively face the crisis and want to invest in innovation, training and an increased professionalism of their business based on a sound business plan, should be able to find the necessary financial support to do this. 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 businesses to (further) develop into the entrepreneurial and innovative companies that the EU tourism industry needs – for example in the form of guarantees.
- The second 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 and share best practices on initiatives that have been implemented to support the industry's further development. In this context, the UNWTO Resilience Committee has started to collect response actions that have been taken in countries worldwide to face the crisis. Actions are grouped in four different types of actions: monetary actions, fiscal actions, market intelligence actions and marketing actions. The complete database with best practices can be consulted online¹³⁴ and is a valuable source of information for all stakeholders in the tourism industry. In the beginning of July, an initial assessment of all these tourism and economic stimuli was published by UNWTO¹³⁵.

10.3 Making the roadmap 2010-2020 operational

In the final part of this report, we draw particular attention to a number of important principles when implementing the roadmap 2010-2020. Keeping these principles in mind will be essential to come to the successful implementation of the different actions suggested in the previous paragraphs.

10.3.1 Synergy between different action fields

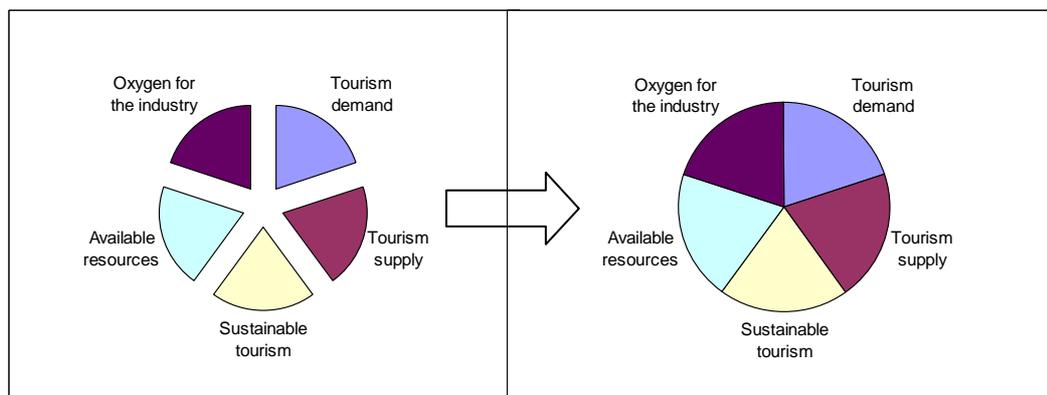
To enhance the competitive position of the EU tourism industry, we have identified in total five action fields. The different actors in the tourism sector have so far – each within their possibilities – taken many initiatives to improve the competitive position of the industry. The different actions were not however always coordinated.

The **action fields** identified are **not isolated from each other**. Each of the action fields tackles different challenges and each challenge requires actions in different fields. They therefore need close coordination. Gaps between the different fields would prevent an overall improvement of the competitive position. The different **action fields need to strengthen each other** in such a way that they will provide the industry with a complete answer to the different challenges.

¹³⁴ See <http://www.unwto.org/trc/response/response.php?lang=E>

¹³⁵ See http://www.unwto.org/trc/response/en/pdf/UNWTO_TRC_Tourism_Economic_Stimulus_Jul01.pdf

Figure 10.1 Tourism policy: towards an integrated approach



A common engagement of all the different actors in the tourism value chain is needed. Each of the actors has to fit in the bigger story, but also needs to take its share of the responsibility. We are convinced that the competitive position of the EU tourism industry can only be enhanced when **all actors work together in a coordinated way**.

10.3.2 Timing

In our opinion all the actions listed in the roadmap require an immediate initiation in order to make the EU tourism sector more competitive in the longer run. In that sense, **all action fields** – and within these action fields, the actions themselves – are **equal in importance and priority should not be given to one action over another**.

Nevertheless, we are fully aware that some of the actions will lead to ‘quick wins’, while other actions will take much more effort and time to implement. In the last column of Table 10.3 we indicate the **expected time horizon for each of the actions to sort results**. Having said this, we do stress that this should not be used to justify postponement of other actions. Things will only change in reality if action is taken.

10.3.3 Allocation of responsibility

As the tourism industry is a highly fragmented industry involving many different actors, implementation of the different actions nearly always demands the involvement of more than one actor. If the role and the expectations towards each of the actors are not clearly defined upfront, there is a real **danger that nobody takes up leadership** to bring implementation of the roadmap to an effective conclusion. Therefore, it is important that whatever action needs to be implemented, a clear initiator takes up responsibility and coordinates the other actors involved. In Table 10.3 we give our view on how responsibilities could be distributed. In doing this, **the principle of subsidiarity has to be kept in mind**: what is the most appropriate level (EU, national, regional, local, sector) to take up responsibility? This goes hand in hand with the level of competence, which can strongly differ between Member States.

- **EU level (EU):** A large part of the regulatory framework is developed at the European level. Regulation with regard to food, health, safety, sustainability and consumer protection has been developed at this level. Many initiatives have been taken to exchange best practices and knowledge between the different Member States.
- **National, Regional and Local Authorities (MS):** The Member States have the authority to regulate important issues such as taxation and other fiscal matters. In most of the cases, promotion and marketing of the destinations is organised at the level of the Member States individually. Additional regulation can exist within each of the different Member States. At regional and local level additional taxes can exist. In some of the Member States – such as Italy and Belgium – marketing and promotion have been decentralised.
- **Industry associations (IND):** The individual players within the tourism industry are largely grouped in associations. These associations provide relevant information and defend the stakes of their members.

In the next table we identify both the initiator and the role of the other actors – within their own competence – for each of the different actions.

Table 10.3

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 impacts of 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

10.3.4 Pro-active attitude towards tackling challenges

Over the last decade the EU tourism industry has become a sector of major importance in the European economy. On the one hand, tourism is generating important additional economic value (turnover, employment and added value). On the other hand, tourism is contributing to the overall attractiveness of a city or region (image, diversity of services and increased public support for major projects). The tourism industry has been identified as an industry which can play an important role in attaining the goals set in the Lisbon Strategy.

Public authorities have been identified as an important actor within tourism. In the future, public authorities need to be - more than they are today - the directors of tourism within their territory. **Public authorities need to act in a more pro-active manner to help the tourism industry to meet the different challenges** it is facing. This means that public authorities should not only focus on setting the regulatory framework, but should try to pro-actively assess the impact of any legislative decision, development project or any other policy decision on tourism activities in the region. Only by taking this pro-active attitude they can help developing tourism in the most optimal way and stimulate tourism to play its role in the economic development of regions.

To defend the overall interests of the tourism industry, the different actors need to act more often as one single industry. At the moment the industry is frequently operating as a very fragmented industry with a diverse range of interests. Similar to the public authorities, also the tourism industry should act more pro-active in tackling existing challenges. The tourism industry could for example support taken initiatives like for instance the implementation of the European qualification passport or the EU flower.

In certain situations the different players can act as individual enterprises or organisations. But in many situations the interests go beyond individual companies or regional/national boundaries. The **impact of the tourism industry can be significantly enlarged when combining forces, rather than acting as a fragmented industry.** At EU level, the Tourism Unit is the ideal partner to bring together the different interests and come to one single voice that reaches further than any individual voice could do.

PART 5: ANNEXES

Annex I: Bibliography

Annex II: Overview of data sources

Annex III: Interview notes

Annex IV: Methodological notes on the availability of data

Annex V: Competitiveness grid of the accommodation and TO&TA industry