

Economic crisis: opportunities for developing countries on the EU market

Tourism sector

Rotterdam, July 2009

Despite the economic crisis, the European market still offers opportunities to tourism suppliers from developing countries (DCs). Although there has been a sharp decrease in demand for both long haul and short haul holidays, a reasonable number of people are determined to go on holiday this year. In particular, older people seeking a cultural experience are still likely to travel. DC destinations are highly suited to this type of traveller. The promotional efforts of tourism suppliers, Tourism Promotion Organisations and governments are essential to capture these travellers and to prepare for the future.

1 Opportunities and threats on the EU market

The impact of the economic crisis

The economic crisis has hit every economic sector hard, and tourism is no exception. There has been a sharp decrease in demand for both long haul and short haul holidays. However, most research is showing that people are determined to go on holiday this year, although it is likely to be shorter and more focused on good value. The number of holidays a person will purchase annually is also likely to decrease.

According to the United Nations World Tourism Organisation (UNWTO), in the first months of 2009, destinations all around the world suffered from a decrease in demand in major source markets. To date, it is expected that Northern Europe, Southern/Mediterranean Europe, North-East Asia, South Asia and the Middle East will be amongst the most affected sub-regions. The UNWTO expects international tourism to decline between 4% and 6% in 2009.

According to the UNWTO, there is great uncertainty about the economic situation and the travel industry, and there is a lot of contradictory information. A great deal of reporting does not take into account that tourism has proved incredibly resilient in the past and if the downturn is expected to be dramatic, the recovery could be even more so.

Figure 1.1 shows the international tourism expenditure of most European countries in the first quarter of 2009 compared to the first quarter of 2008, as collected by the UNWTO. Among the countries that reported data on international tourism expenditure a clear downward trend is visible. Some source markets even show double digit decreases in expenditure on tourism abroad, such as Spain, France and the UK.

Three important trends can be mentioned in the travel behaviour of European tourists:

1. **Mainstream destinations** - In the last few years, people opting for mass tourism used to be attracted to newer destinations (also in DCs). For example, instead of having a beach holiday in Spain, they would go for a beach holiday in Thailand. Due to the crisis, this behaviour has changed. They are now choosing the mainstream option of the Spanish beach holiday.
2. **Budgeting** - Budgets are decreasing. People are downsizing in spending and now realising that, for example, a car holiday is an interesting option budget-wise.
3. **One holiday a year** - 2nd, 3rd and 4th holidays are being cancelled and European tourists in general now only go on 1 main holiday.

The impact of the crisis on developing countries

Destinations in developing countries (especially the countries in the CBI Export Coaching Programme for Tourism) are primarily destinations visited by special interest groups. For example Georgia, Armenia and Kyrgyzstan are not mass-tourism destinations. People who visit these destinations have a special interest in them. They have the destination on their 'Must See Travel List', which means that they have always wanted to visit them. This kind of traveller still wants to see these destinations regardless of a crisis or not, and is willing to spend the money to do so. Furthermore, DCs are a relatively cheap holiday destination, which is a positive factor in attracting tourists in these economically uncertain times. In particular, Community Based Tourism projects are a very cheap type of holiday; the airline ticket is the most expensive part of the holiday.

Figure 1.1 International Tourism Expenditure (% on previous year)

Rank	Source market	change Q1 2009
1	Germany	-5.1
3	the UK	-13
4	France	-14.7
6	Italy	-1.6
10	the Netherlands	4.1
11	Spain	-19.7
12	Belgium	-5.2
15	Norway	-9.4
17	Sweden	-8.3
20	Austria	-2.3
22	Switzerland	-9.5
23	Ireland	-10.1
24	Denmark	-7.2
26	Poland	-8.9
35	Czech Republic	2.8
37	Finland	3.7
38	Portugal	-7.4
40	Hungary	12
42	Greece	-16.7
43	Luxembourg	-4.7
50	Bulgaria	-19.1

Source: UNWTO (2009)

Opportunities on the European tourism market

Although the market is facing difficulties at the moment, tourism suppliers can still find opportunities on the European market for outbound tourism to DCs:

- **Value for money**

Due to the economic crisis, tourists are paying more attention to value for money. Therefore, relatively cheap destinations will experience strong favouritism compared to other destinations which are also on people's 'Much See Travel List'. E.g. if both Japan and Kyrgyzstan are on your 'Much See Travel List', now is the time to visit Kyrgyzstan and leave a much more expensive destination as Japan for later.

- **Cultural Experience**

People who have already visited many places are now looking for a better cultural experience. In particular, DC destinations are considered highly suitable with their promise of this cultural experience, whilst offering holidays at reasonable prices.

Price is very important!

Often, tourism suppliers from developing countries think that price is not that important to European tourists. However, Europeans are always looking for the best deal and this has only been spurred by the economic crisis. They have postponed their bookings and are shopping around for the best deals. Destinations with a favourable exchange rate will have an advantage as well.

Traveller profile

In general, the people continuing to book holidays to special interest destinations in DCs are older people (retirees), looking for a cultural experience. These retirees who used to go on a cruise holiday are now seeking other alternatives. They have more money to spend than other tourists (even in economically uncertain times), are used to a certain degree of luxury, are fit and looking for adventurous activities and interested in an enriching cultural experience.

Besides these retirees, the so-called DINKYs (couples with a Double Income, No Kids Yet) are also continuing to travel and are interested in special destinations, such as DCs. These couples with double incomes have money to spend on their holidays. Most of them have a 'Must See Travel List' and want to visit these destinations before they start having children.



Source: <http://www.sxc.hu> (2009)

Negative factors affecting EU outbound tourism to DCs

There are also some negative factors affecting EU outbound tourism to DCs:

- **Promotional efforts of governments**

Wealthier and more experienced countries recognise the need to promote their destination to attract European tourists. For example, Malaysia is investing a lot of money in promoting itself as a tourist destination. Many DC destinations do not have the funds for this kind of promotion, nor do they understand its necessity.

The Moroccan Tourism Promotion Bureau has launched the internet campaign 'Moroccotherapy' with the objective of giving back the joy of living to those Europeans depressed by the economic gloom. On the website (<http://www.moroccotherapy.com>) users can pass a test to determine how strong their 'depression' is, before a 'doctor' shows five cases of illnesses that have been relieved by a trip to Morocco. The user can afterwards access 'treatments': packages to Morocco compiled by tour operator partners.

- **Airlines - price and access**

Airlines control 60-80% of the total costs of the holiday. While in these times of economic uncertainty the prices of airline tickets to established destinations are decreasing, the prices of airline tickets to some DCs are increasing. Furthermore, as airlines are scrutinising their itineraries and are pulling back on the number of flights, some DC destinations will lose their flight connection to Europe. This means that besides price, access is also an important issue for DC tourism suppliers.

Many countries are realising that the tourism sector could be the key driver of economic recovery. For this reason, they are developing fiscal and monetary stimulus packages to mitigate the effects of the crisis on tourism. Examples are reducing taxes, improving travel facilitation and developing financial systems to support tourism enterprises. For example, to preserve the international competitiveness of Hungarian hotels, the Hungarian government has reduced the VAT rate of hotels. Companies should, however, realise that quality improvement and price reductions are indispensable for competitiveness.

2 Supply side in developing countries

Impacts on business with EU tourists/companies

To determine the impact of the crisis on service providers from DCs, a survey among participants of the CBI's Export Coaching Programme for Tourism was held (32 participants). This survey shows that the consequences of the economic crisis for DC tourism suppliers are already strong. Of the respondents, 28% expect a decline in the number of bookings by European tourists or companies, a further 28% expect a strong decline and 14% expect an extremely strong decline. They are seeing the number of European bookings drop and group tours are smaller and are being cancelled more frequently. European travellers are reluctant to

travel long haul and are shopping around for best buys. DC tourism suppliers say that packages are considered expensive nowadays, which is leading to falling demand for them. Most DC tourism suppliers have had many quotation requests for 2009 and 2010, but no bookings have been confirmed yet. This confirms the idea that tourists are willing to travel, but reluctant to book. Another consequence of the crisis is that 35% of respondents expect a decline in margins. European tour operators are demanding that prices remain stable or even decrease (some tour operators are even demanding reductions of 20 - 30%!), while the costs of DC tourism suppliers, such as hotels and transportation has increased.

Not all expectations are negative; the majority of respondents expect the number of employees to remain stable. However, the decrease in bookings and declining margins clearly shows that times are difficult in the tourism sector. Please refer to Figures 2.1 and 2.2 for an overview of the expectations held by the CBI's Export Coaching Programme for Tourism for the year 2009.

According to the respondents, there are several important **problems** which they face due to the economic crisis:

- Price cutting: European tour operators and tourists are asking for lower prices.
- High airline tickets: Highly priced air line tickets are a barrier to tourists wishing to book a destination. Tourists have so much choice nowadays; they will simply seek another destination which also appeals to them, but which is much cheaper to fly to.
- Reluctance to take on a new destination: European tour operators are reluctant to take on a new destination in their travel offers.
- Promotion of their destination/country: Promotion of destinations is very important in these economically hard times, but unknown destinations, such as Armenia or Kyrgyzstan are experiencing many difficulties, such as a lack of finance to be able to promote their destination.

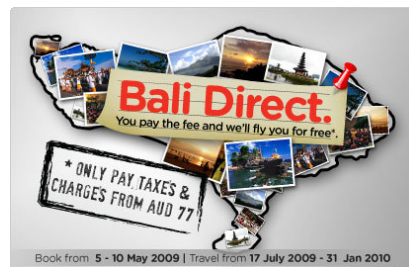
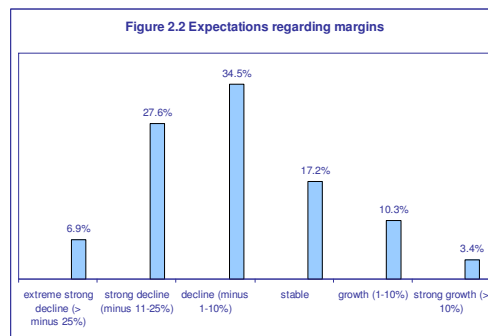
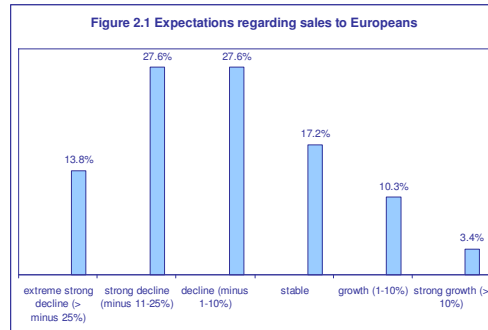
It seems as if DC tourism suppliers have been placed in a vicious circle due to the economic crisis. As a result of the decline in bookings, they have less money to spend on e.g. promotion. They can no longer visit international travel fairs which they would like to visit as it has become too expensive. Consequently, they will lose the opportunity to meet new partners and/or to promote their services, which in turn will have a negative effect on the number of bookings.

Some of the respondents mention that the economic crisis also offers some **opportunities**:

- Lower fuel and energy prices: due to the lower fuel and energy prices, DC tourism suppliers are in a position to lower their own prices and become a more attractive partner (for tour operators) or destination (for tourists).
- Better cost control: The economic crisis is forcing companies to control their costs better.
- Promotion: Offering special offers will help the DC tourism supplier to attract the attention of tourists and tour operators.
- Relative price competitiveness: Some destinations have become relatively cheaper, which is helping to attract European tourists. An example of this are community owned lodges in Senegal which have become an attractive alternative to higher priced private lodges in South Africa or Botswana.
- Recruitment of staff: the crisis has made it easier for companies to recruit good employees.
- Restructuring of the company: tourism suppliers now have extra time to restructure their company. They now have time to develop new services and to diversify their company activities.

The respondents plan to undertake several **actions** to overcome the crisis:

- Cost control: they are trying to control their costs by reducing costs in their supply chain and trying to deal directly with tourists (instead of using e.g. an inbound tour operator).
- Promotion and marketing: most tourism suppliers are investing in promotion and marketing. Examples are investing in a better website, increasing e-marketing efforts, setting up promotional actions with other tourism suppliers, offering more programmes to their inbound tour operators and visiting more tourism trade fairs.
- Quality improvement: Some are improving the quality of their service, so their service will become more attractive to tourists.
- Developing regional and sub-regional tourism: Tourism promotion organisations are trying to stimulate the local economy by developing regional and sub-regional tourism.
- Product development: Tourism suppliers are improving their service and service range to appeal to a wider range of clients. They are diversifying their services, increasing their packages and developing new services.
- Price discounts: Some companies are offering price discounts to attract longer stays. For example, 15 % discount for a two night stay and a 20-25% discount for a three night stay or longer.



3 Recommendations

Tourism suppliers

In order to survive this slowdown period and to be prepared for when the economy recovers, you are advised to seize the following opportunities. You can ask for support at your Business Support Organisation (BSO)/ Tourism Promotion Organisation, the Associations you are a member of or foreign support organisations such as the CBI.

- **Promotion**

Promoting your destination is of the utmost importance. How will people otherwise know of your destination and what you have to offer? You need to know your country and what activities your country has to offer. Why do people visit your destination? Country or destination promotion is the main task of tourism promotion boards. They have to make sure that their destinations become known to European tourists, by, for example, having it featured in major European travel magazines or by developing an appealing promotional website. Once the media has picked up on these promotional activities and has started to feature the destination in their magazines and television programmes, inbound tour operators and other tourism suppliers need to spring into action. They need to promote their destination and services, for example by visiting European travel trade fairs. You should realise that these promotional efforts will only pay off in the mid to long term. Although promotion is very important and should not be neglected in economically difficult times, these efforts will not directly attract European travellers. It will take time before your efforts pay off, but you have no other choice other than to put the time and money into these efforts.



Clive Bishop, CBI Expert: "Tourism suppliers must focus on the mid to long-term. Their current promotional efforts will not immediately attract tourists en masse to their destinations".

- **Define your markets**

Defining your markets is essential to successfully promoting your destination. You should not target European countries (for example, the Dutch or German tourist), but divide European tourists into segments. For example, if your destination offers excellent windsurfing opportunities, your promotion could be targeted at e.g. Dutch windsurfing clubs. If your destination offers rare birds, you could target Dutch ornithology clubs. So instead of targeting general tourists from European countries, you should divide them into the most promising segments for your service. Thinking creatively will aid this process very much! Once you have found your key target market and have succeeded in promoting your destination to your market, your company could experience profitable growth.

- **Get united!**

Establish a partnership with other local tourism suppliers and/or with your local government. As a single tourism supplier, it could prove to be very difficult (or even impossible) to promote your destination, to receive funds from local governments or to convince governments of the necessities of tourism stimulus measures (see textbox on page 5). However, if you cooperate with other tourism suppliers or even with local governments and form a front with them, you could find yourself in a much better position! You should not see other local tourism suppliers as competitors, but as partners. Together you can succeed in promoting your destination and attracting European tourists.

- **Get your business organised**

Now is the time to get your business organised! You and your company need to be ready for when the economy picks up. There are many organisations or associations who can help you in the form of trainings or coaching, such as the CBI, but also your local Tourism Promotion Organisation and government can also be of help.

- **Cost control**

Although cost control is always an important issue, it is even more so now. You need to try to control all costs in the supply chain. Do not simply look at your own costs, but also scrutinise the costs of the companies you work with.

BSOs / Tourism Promotion Organisations

As a BSO or Tourism Promotion Organisation you can support your local tourism sector in various ways. The tourism sector could be very helpful in spurring economic recovery, so stimulating this sector would be very useful.

- **Promotion**

Promotion is the main task which you, as a Tourism Promotion Organisation, need to carry out. Invest in marketing campaigns that communicate your destination's unique selling points. You need to make sure that your destination will become known by European tourists and European tour operators, for example, by having it featured in major European travel magazines or by developing an appealing promotional website to attract visits.

- **Organising training seminars**

Organising training seminars for your local tourism suppliers is also a good way of helping them. Although this is also a task for your local government, it does not mean that you can not do this either. Teach your local tourism sector on e.g. cost control or promotion & marketing, organise a training seminar on the major source markets of your destination or on the ever increasing role of internet in the tourism sector and the importance of having an appealing website.

- **Establishing partnerships**

As already mentioned before, tourism suppliers, BSOs and governments need to establish partnerships. Together, you will be able to promote your destination.

Practical example

Indonesian and Malaysian Tourism Promotion Organisations are cooperating in promoting the Asian market. Both countries are competing in attracting tourists from the whole world, but cooperating to increase the number of visits between the two countries. Examples are joint promotion, increased flight services, incentives and travel discounts.

• Lobbying with your governments

The tourism sector is an important catalyst for economic recovery. Lobby with your government that it needs to:

- Remove obstacles to the tourism industry, such as disproportionate taxes.
- Invest in marketing campaigns to promote their local tourism sector.
- Have transparent procedures to facilitate investments in the local tourism sector.

Some examples of measures that governments can take are shown in the textbox below.

Tourism and economic stimulus measures

According to the UNWTO, there are several major steps which governments can take towards economic recovery and resilience of the tourism sector. They can be divided into the following measures:

- **Fiscal measures** - Fiscal measures can ease the pressure on local businesses. Some examples are air transport tax reductions or reducing landing and parking fees at airports, decreasing taxes for accommodation and/or restaurants, but also development of general infrastructure, such as construction and improvement of (air) port facilities or the extension of road and railway networks.
- **Monetary measures** - Funds to create liquidity provide tourism suppliers access to credit. Examples are special credit lines and exceptional micro finance schemes, refund or guarantee deposits for travel agencies and tour operators and financial benefits for air and sea transportation companies to operate routes to remote and underdeveloped areas and small islands.
- **Marketing measures** - Increasing the promotional budgets and developing special campaign targeting the major source markets. Examples are extra funding for advertising campaigns, discounts on entrance fees of local attractions and facilities and promotion of cultural events.
- **Human Resource measures** - The importance of the quality of tourism services has increased due to the increased competitiveness of the worldwide tourism market. Therefore, the performance of the local human resources is very important. Examples of human resource measures are organising training seminars for tourism suppliers and improving the recruitment systems by simplifying the procedures.
- **Travel facilitation measures** - The simplification of travel regulations can also help. Examples are reduction of visa fees and facilitating entry procedures for incoming tourists.
- **Public-Private Partnerships (PPPs)** - PPPs are a valuable tool for tourism development. In order to find solutions for supporting the local tourism industry, national tourism administrations should establish partnerships with the local tourism suppliers, financial institutions and economic corporations, both at regional and national level. Examples are financial support for the expansion of airline capacity, co-promotional activities with airlines, hotels and travel agents and waiving fees for the participation of tourism suppliers on worldwide tourism fairs. Another example is the creation of market monitoring boards comprised of representatives of government and stakeholders within the tourism value chain to closely follow up the performance of the sector and its source markets and act accordingly.
- **Transnational cooperation** - Synergies with neighbouring countries can help the promotion and development of local tourism products. Examples are the development and promotion of multi-destination itineraries, organising cross-border events and festivals, travel facilitation within a specific region and creating platforms to exchange know-how and share information on source markets.
- **Environmental measures** - It is expected that environmental policy actions will provide high economic return and as such, governments need to make medium to long term plans for a transformation to a 'green travel industry'. Examples are supporting low-carbon energy saving accommodation, funding eco-friendly tourism infrastructure, funding mechanism for the development of 'green' tourism services, such as hiking, ecotourism and rural tourism and increasing the awareness of tourism suppliers on environmental issues, climate change and renewable energy by organising training seminars and educational programmes.

For more information on these measures, please refer to the report 'Tourism and Economic Stimulus - Initial assessment' which can be found on the website of the UNWTO (<http://www.unwto.org>). Source: World Tourism Organisation (UNWTO), *Tourism and Economic Stimulus - Initial Assessment*, May 2009

4 Useful sources

The sources in this chapter will help DC tourism suppliers and BSOs to stay up-to-date with the latest developments on the market.

Tourism specific information on the economic crisis

- 🌐 Deloitte - <http://www.deloitte.com/dtt/article/0,1002,cid%253D250798,00.html> - Tourism, Hospitality and Leisure Executive Report
- 🌐 Tourism South East England - <http://www.industry.visitsoutheastengland.com/site/winning-in-recession> - Winning in recession
- 🌐 Travel Daily News - http://www.traveldailynews.com/pages/show_page/29807-Marketing-to-succeed-in-difficult-economic-times - Marketing to succeed in economically difficult times
- 🌐 VisitBritain Forecast for Inbound Tourism 2009 - <http://www.tourismtrade.org.uk/MarketIntelligenceResearch/TourismForecasts/default.asp>
- 🌐 World Tourism Organisation - UNWTO - <http://www.unwto.org> - check e.g. their World Tourism Barometer or read the reports of their Tourism Resilience Committee
- 🌐 World Travel & Tourism Council - <http://www.wttc.org> - click e.g. on Tourism News for presentations on tourism and the economic crisis
- 🌐 You Tube - <http://www.youtube.com> - watch interesting speeches of tourism experts on tourism and the economic crisis; search for example for 'tourism & recession' or 'tourism & economic crisis'



General tourism information

- 🌐 Australia Tourism - <http://www.tourism.australia.com> - check e.g. their market intelligence reports on the main European markets
- 🌐 CBI - <http://www.cbi.eu/marketinfo> - market surveys on Long haul Tourism
- 🌐 European Travel Commission - <http://www.etc-corporate.org> - check e.g. their market intelligence reports
- 🌐 Eye for travel - <http://www.eyefortravel.com>
- 🌐 Travel Daily News - <http://www.traveldailynews.com>

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