

Tourism



Tourism ranks as one of the most important industries in the EC. It is a major source of economic activity and an important contributor to exports. Though tourism includes domestic as well as international visitors, it is international tourism that makes the headlines because of its role as an invisible export and as a source of foreign exchange.

With the leisure and business travel sectors growing quicker than any other sectors worldwide, it has been predicted that tourism will be the most important industry in the Community in the year 2000. The sector is, however, extremely vulnerable to disruption by political and economic unrest, such as the conflict in the Gulf. Uncertainty has replaced unbridled optimism when it comes to predicting the future for the industry.

Description of the sector

The tourism industry is the vast, complex network of businesses engaged in the lodging, feeding, travel arrangements and entertainment of the tourist.

A tourist is a visitor staying at least one night in a place other than that corresponding to his usual environment. The main purpose of his visit is:

- ❖ pleasure, holidays, culture, active sports, visits to friends or relatives, other pleasure purposes;
- ❖ professional: meeting, mission, business;
- ❖ other tourist purposes: studies, health, pilgrimage.

Though it is more common to associate tourism with "pleasure" and often with overseas travel, the tourism industry is concerned with all visitors: domestic as well

as foreign, on business as well as on pleasure.

The official World Tourism Organisation ("WTO") definition of "tourist" omits the "excursionist" who does not stay overnight in the country or place visited. Yet this visitor is an increasingly important customer of the European travel and hospitality industries, particularly because of the ease of travel and increase in leisure time. For this reason the excursionist will be accounted for when commenting on intra-EC travel, the catering sector and the conference market.

The tourism sector includes two important sub-sectors:

- ❖ Hotel and Catering - NACE 66;
- ❖ Travel Services - NACE 771.

The Hotel and Catering sector

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includes the following:

- ❖ hotels, motels, guest houses and boarding houses;
- ❖ other provisional lodgings such as youth hostels, camping sites, holiday centres, holiday homes, convalescent and rest homes, furnished accommodation for tourists;
- ❖ restaurants, snack bars, cafes and other eating places (not providing overnight accommodation);
- ❖ public houses and similar establishments supplying drinks for consumption on the premises without entertainment;
- ❖ nightclubs, dance halls and other establishments supplying drinks for consumption on the premises in conjunction with entertainment;
- ❖ canteens and messes.

The travel services sector includes units exclusively or primarily engaged in arranging transport, accommodation and meals on behalf of travellers.

The sector consists of three main types of business:

- ❖ travel agents, who retail travel services;
- ❖ tour operators, who put together holiday packages of seat, meal and bed;

- ❖ ground-handling agents and tour firms who serve the tourist in the destination.

The approximate breakdown of tourist receipts is:

- ❖ accommodation, 32%;
- ❖ food and beverage, 25%;
- ❖ local transport, 9%;
- ❖ recreation & entertainment, 6%;
- ❖ shopping, 24%;
- ❖ other, 4%.

Tourism-related employment is not distributed across the sub-sectors - travel, shopping, entertainment, accommodation and meals - according to the distribution of expenditure on these items. The hotel and catering sector is particularly labour intensive and is likely to account for over 50% of tourism industry employment even though it only generates about a third of the expenditure.

This chapter will analyse and comment on three key areas of the tourism industry:

- Hotels
- Restaurants/Consumer catering
- Travel services

The diversity of the tourism industry in the EC is a disadvantage when collecting and aggregating statistics. The collation of statistics

is complicated by the industry's highly fragmented structure, highly differentiated character, regional variations and seasonality.

Sector trends in the 80s

Much of the growth in tourism that occurred in the 1980s can be attributed to international tourism. Overnight stays for domestic tourists rose by 8% in the period 1980-1987, while stays for non-residents or international tourists rose by 27.6%.

Both 1989 and 1990 have seen a dip in the growth of international holiday-taking from certain north European countries, especially the UK, which has resulted in a 10-20% reduction in summer package holidays taken in Spain, Portugal and Greece. Though accurate figures for the whole of the EC are not yet available it is likely that demand in the hotel and catering sectors of these Member States will have been seriously affected; the travel services sector in the originating countries are reporting poor results with a number of acquisitions and liquidations taking place.

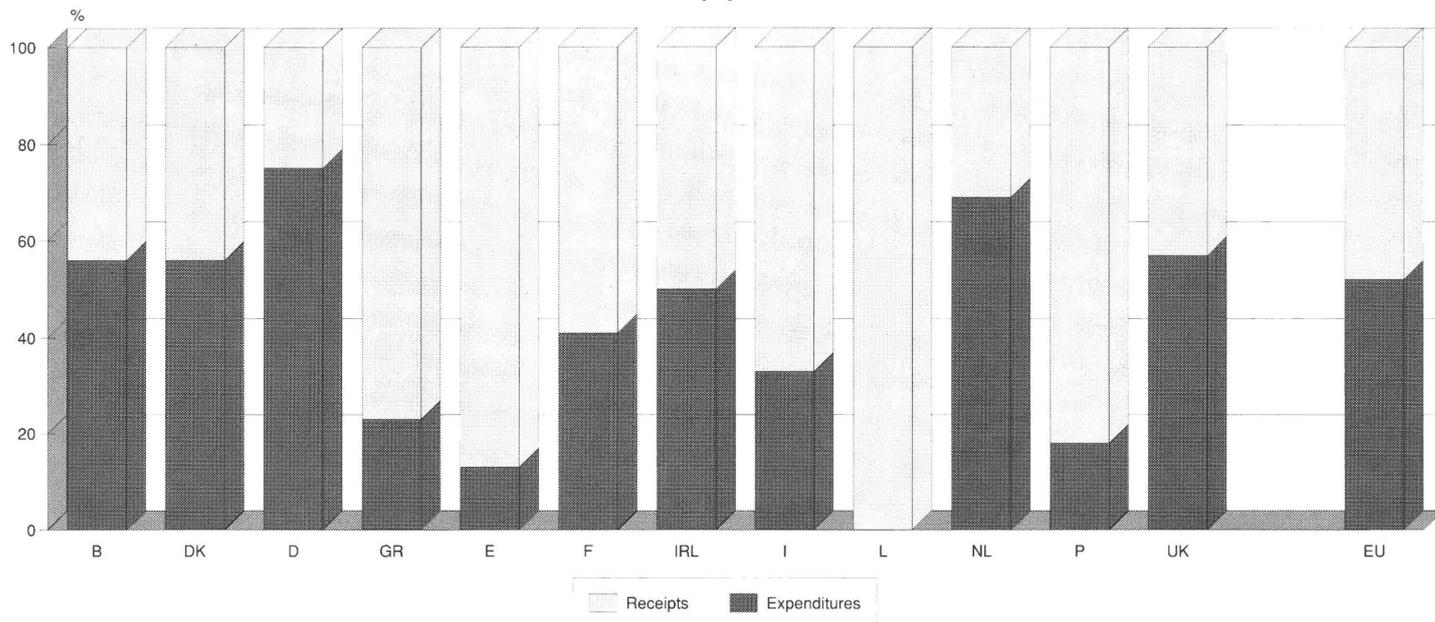
The conflict in the Persian Gulf has added to the problems facing the package holiday sector in Southern Europe, with tour-

Table 1
The importance of tourism to the EC economy (1)

Country	Share of travel receipts in exports of goods and services		Share of travel expenditure in imports of goods and services		% GNP	% employment
	(%) 1988	(%) 1989	(%) 1988	(%) 1989		
Belgique/België	3.1	2.3	4.2	3.1	3.0	3.9
Danmark	6.6	6.0	9.2	8.3	4.5	5.3
Br Deutschland	3.0	2.9	8.5	7.9	4.6	5.2
Hellas	19.6	16.3	4.3	4.3	7.3	7.2
España	24.6	22.7	3.3	3.5	9.4	9.3
France	5.2	5.5	3.5	3.5	9.0	6.9
Ireland	6.2	6.3	6.8	7.3	6.2	6.3
Italia	8.1	7.2	3.8	3.9	4.5	6.4
Nederland	2.9	3.1	7.4	7.2	1.3	2.3
Portugal	17.0	17.3	2.8	2.9	6.0	8.6
United Kingdom	6.0	6.0	N/A	N/A	4.0	6.0

(1) Figures for Luxembourg are not available
Source: Eurostat

Figure 1
The balance of payments for tourism



Source: WTO Yearbook 1989

ists less willing to travel to these countries. Nevertheless, the business travel sector continues to grow, independent holiday tourism is taking an increasing share and winter and short-break holidays are rising steadily; the trend for the European tourism industry is of continued growth.

The importance of tourism in the European economy

Revenue from international tourism

Revenue from international tourism in all EC countries represented 65,674 million ECU in 1988 which was 1.64% of EC GDP. This was more than four times the level enjoyed in the USA which, with a similar GDP, reached only 15,583 million ECU (0.38% of GDP).

Geographical variances

Spain accounts for 22.0% of all tourist receipts in the EC, closely followed by Portugal with 17.3%. Clearly, some Member States are more reliant on tourism than others - see Table 1. France, Portugal, Spain, Greece and Ireland depend on tourism generating more than

6-9% of GNP, while in Belgium and the Netherlands tourism revenue is particularly under-represented.

Receipts on the tourism account generate 5.4% of total exports of EC countries, with Spain and Greece relying on tourism to contribute about a quarter of exports. As an import, tourism is most significant in Germany and Denmark where the share of tourism is around 8%, against an EC average of 5%.

Germany accounts for over one third of the total international tourist expenditure of EC members, which grew at a compound rate of 10.5% between 1985 and 1988.

The UK and France are the other important spenders while the fastest growth has come from Italy. In per capita terms, Denmark, Belgium/Luxembourg and Germany top the list of spenders.

The great extent by which Member States differ in their involvement in the international tourist industry can be seen in Figure 1. A mid-way point would be a balance of receipts and expenditure. Tour-

ism is a significant earner for Portugal, Spain, Greece and Italy, while Germany and the Netherlands show large tourism deficits.

The margin by which tourist receipts exceed expenditure is narrowing as can be seen in figure 2. The growth in international tourism is also clearly apparent.

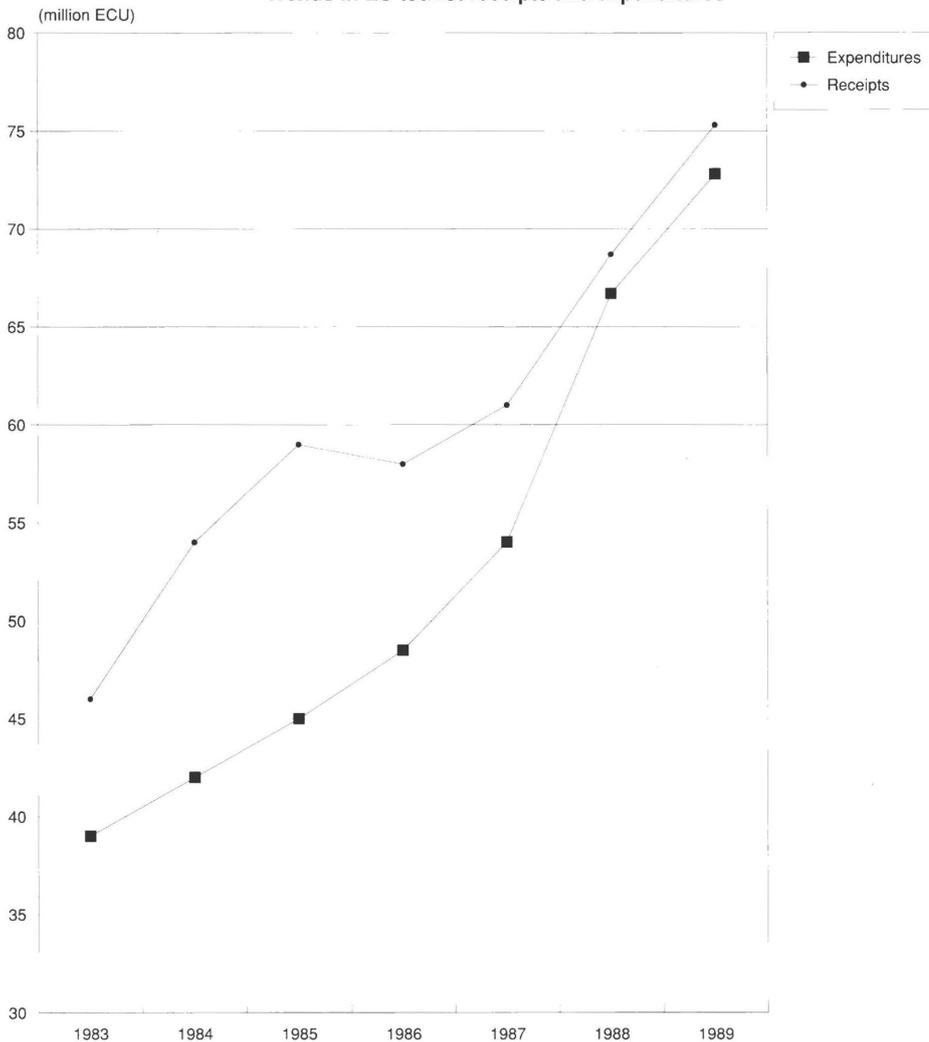
The volume of international tourist traffic into EC Member States is shown in table 2.

Table 2
Arrivals of tourists from abroad, 1988 (thousands)

Country	
Belgique/België	2 700
Danmark	1 150
BR Deutschland	13 113
Hellas	7 778
España	35 000
France	38 288
Ireland	3 007
Italia	26 155
Luxembourg	760
Nederland	3 322
Portugal	6 624
United Kingdom	15 798
Total EC	153 695
USA	33 875

Source: WTO 1989 Yearbook

Figure 2
Trends in EC tourist receipts and expenditures



Source: WTO Yearbook 1989

Clearly, the Greek tourist industry depends on the international element which accounts for 78% of tourist nights spent in Greece. In comparison, in Germany only 14% of total tourist nights could be attributed to visitors from a foreign country. The importance of intra-EC travel is demonstrated in Table 3 which shows that for most EC members a fellow EC country is the most important contributor of foreign tourists.

It can also be seen from the share of receipts and expenditure relating to intra-EC tourism that the EC relies heavily on generating its own demand. Greece relies most on intra-EC flows from which it derived 68% of its tourism receipts in 1984. The

low figures for the UK and France reflect the importance of US, Japanese and UK Commonwealth visitors.

The importance of the sector in the global market

The Community is market leader in international tourism. It takes a 40% share of total world international tourism receipts recorded by the WTO, making it the number one world tourism earner.

Employment in the sector

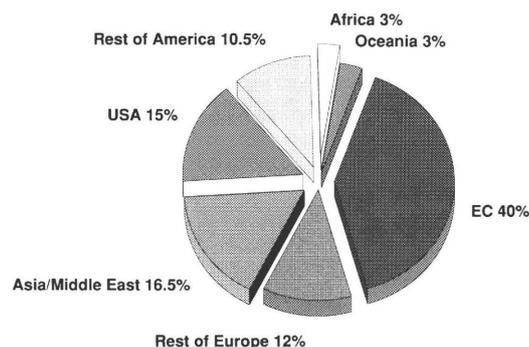
Current situation Employment in the EC tourism industry amounted to 7.19 million in 1988.

The country with the largest single tourism force is Italy. In terms of the relative importance of tourism as an employer, however, the tourism industry is most important in Spain (with 9.3% of total jobs in tourism) and Portugal (with 8.6%). As a whole, 6% of EC workers are employed in the travel and tourism sector. In West Germany, France and the UK it is the largest employer.

Labour characteristics As with many service industries, female participation in the tourist industry is high with rates of between 45% and 65% in all countries. The only exceptions are Spain and Greece where female participation falls to about a third.

There is an overall correlation between the country's level of development and the

Figure 3
EC share of world tourism receipts 1988



Source: WTO Yearbook 1989

Table 3
Intra-EC tourism
Principal countries of origin for foreign tourists (1)
(%)

Country	1st	(%)	2nd	(%)	3rd	(%)	4th	(%)	Share of 1-4
Belgique/België	Netherlands	43	Germany	15	United Kingdom	10	France	8	76
Danmark	Germany	36	Sweden	21	Norway	11	Netherlands	7	75
BR Deutschland	Netherlands	18	USA	13	United Kingdom	9	France	5	45
Hellas	Germany	24	United Kingdom	20	Italy	8	Netherlands	6	58
España	United Kingdom	32	Germany	28	France	9	Italy	6	75
France	United Kingdom	17	Germany	15	Italy	14	USA	10	56
Ireland	United Kingdom	61	USA	14	Germany	6	France	5	86
Italia	Germany	42	France	8	United Kingdom	7	Switzerland	6	63
Nederland	Germany	49	United Kingdom	11	Belgium/Lux	7	Scandinavia	5	72
Portugal	United Kingdom	31	Germany	16	Spain	10	Netherlands	10	67

(1) Luxembourg and United Kingdom : not available
Source: Eurostat, 1989

annual working hours in the tourism sector with Germany and Portugal as the two extremes (under 1800 hours and over 2000 hours respectively).

Many of the businesses that comprise the EC tourist industry can be characterised by a significant proportion of casual and family workers, many of whom escape the official statistics. Employment is also highly seasonal which distorts the information which is available.

Within the tourism sector, up to 3.3 m full-time and part-time workers are employed in the hotel industry which makes it the biggest single employer in the EC. The

hotel sector is a particularly important employer of female staff and part-time and temporary workers. Part-time workers form 20% to 30% of total employees in the sector depending on the Member State.

Employment trends The employment pool of young workers will shrink in the near future. Employers will have to compete for labour, female participation rates may rise and more workers from other countries may be hired. The expected increase in the mobility of labour within the Community will help to alleviate the problems of regional shortages of skilled staff.

Should the shortfall be met by an influx of

labour from developing countries the WTO foresees a potential conflict between immigrant labour and the national labour unions. The potential of employees coming from central and East European countries may well affect this. The labour shortage may also be compensated for by increased productivity and technological advances.

One of the most serious threats to the hotel and catering sectors is that harmonisation of labour conditions will push up costs and prices in certain countries. There is currently a wide divergence not only in weekly working hours but in wage rates. These differences in length of working week, etc. will have an effect on how labour is ultimately re-distributed.

Tourism and leisure developments

The growth of special leisure developments and complexes is a recent phenomenon and now forms an important part of the EC tourist industry.

Visitor attractions, including theme parks, essentially serve the day-tripper, though their potential to generate substantial business for the hotel industry has been vividly demonstrated by the case of

Table 4
Employment in the EC tourist industry, 1988

Country	Tourism employment as % of total employment	Employment
Belgique/België	3.9	(1) 132 477
Danmark	5.3	(2) 140 000
BR Deutschland	5.2	1 400 000
Hellas	7.2	335 000
España	9.3	(3) 1 226 500
France	6.9	(4) 720 800
Ireland	6.3	69 000
Italia	6.4	1 482 000
Luxembourg	5.2	9 110
Nederland	2.3	(5) 110 700
Portugal	8.6	200 000
United Kingdom	6.0	1 370 000

(1) Direct employment
(2) Direct + indirect employment
(3) 685000 direct and 540000 indirect employment
(4) Horeca only
(5) Source: Tourism in Europe: Trends 1989; Eurostat

Disneyworld in Florida, USA.

Golf and other sports/activity centres are similarly based on the excursionist, but the popularity of golf resorts, with hotels and rented or timeshare accommodation, is showing that this is a new form of tourism that involves the full spectrum of lodging, feeding, and entertainment of the leisure visitor.

Holiday camps have developed substantially in the last ten years and the integrated "holiday resort" now ranks highly on the list of choices for the tourist in the EC. The indoor resort is a new phenomenon that deserves special mention.

No study of the sectors that form the tourist industry would be complete without comment on the emerging importance of visitor attractions, golf resorts and integrated holiday complexes.

Visitor attractions Visitor attractions are at the forefront of tourism development. The nature and type of attraction now available includes the large scale theme or leisure parks with "white knuckle" rides, as well as historic properties, museums and art galleries, religious sites, industrial plants and zoo or wildlife parks. All forecasts indicate a period of growth, especially for theme parks, although the size of this increase is hard to define.

The development of large theme parks remains essentially a northern European phenomenon although there is growing interest in the potential of southern France and Spain as suitable locations.

There has been a distinct shift toward attractions providing an educational element. This has mostly manifested itself in a proliferation of rides and attractions based on space, science and technology. It is important to note that the more educational and

cultural attractions have traditionally been supplied by the public sector which has tended to low or free admission charges.

This is clearly discouraging to commercial operators.

Attendances for the most popular commercial parks in the EC demonstrate the scale of these leisure businesses.

The majority of European visitor attractions and theme parks are family owned, if they are not in the public sector. The only exception is the UK where the industry is dominated by four major companies. Only the Benbom Brothers, Anhauser Busch and Walt Disney World Ltd currently operate on an international basis. This is likely to change and the future will bring joint European initiatives and US investment. US firms will move in given the general belief that the US market for themed attractions has become saturated.

New theme parks (with a more specific concept) are being developed such as "Parc Asterix" (north of Paris costing 85 m ECU) and "The New World of the Smurfs" (in Eastern France costing 100 m ECU). Operators are increasingly concerned about the scale of investment required to add new rides.

However, all individual investment plans appear insignificant when compared with the

1.7 billion ECU development which forms Phase 1A of Euro Disneyland. This initial investment will consist of the Magic Kingdom theme park, the Magic Kingdom Hotel (500 room - 4 star hotel) and a campsite. Phase 1B will include five additional hotels as well as an entertainment, restaurant and shopping complex, and sports facilities including an 18-hole golf course. The introduction of Euro Disneyland in 1993 will boost the market not simply in terms of increasing attendance totals but by establishing new standards of management and presentation and increasing consumer awareness. The current effect is one of uncertainty as operators survey the recent increase in supply of theme park capacity, the scale of the Euro Disneyland plans and the slow shift in customer tastes. A number are expected to extend their services into holiday parks and accommodation.

Golf developments The popularity of golf across northern and western Europe has led to a race to build new courses. The most significant current phenomenon is that large-scale building developments are being incorporated into the course landscape to create "golf resorts". A well-designed course acts as a useful marketing tool for an international hotel and provides a sporting identity that is augmented by a health club and fitness centre. By adding facilities for meetings /conferences, a resort becomes a complete destination which can attract high-calibre business as well as leisure visitors. There is a growing tendency to build villages and apartments alongside the fairways to be sold as vacation homes or rented to golfers and businessmen. France, Spain and Portugal are the rapidly developing golf nations, partly as a result of the demand which is coming from the UK which has as many courses

Table 5
Tourism
Top theme parks in the EC, 1989

(millions of visitors)	Attendance
Tivoli Gardens (DK)	4.5
Casa de Campo (E)	3.5
Alton Towers (UK)	2.5
Efteling (NL)	2.1
Phantasialand (D)	2.0
Europa Park (D)	1.5
Asterix (F)	1.3
Walibi (B)	1.25

Source: ESIF, 1990

and players as the rest of the EC put together. In Portugal, for example, there are eight golf developments in the Algarve, with another planned around a 5-star Sheraton. Additionally, the Japanese company Aoki Corporation, is constructing an 18-hole course adjoining a 2000 bedroom complex. The British leisure group, Brent Walker, is adding over 1000 homes and a hotel to its golf resort on the Normandy coast in France, and is constructing hotels, homes, a casino, conference centre and marina at a golf resort near Cadiz, Spain.

These examples demonstrate the scale of this business which now forms an important part of the future of the tourism industry in the EC.

Holiday resorts While the traditional holiday camp has continued to be up-graded, the most significant development in this area is the birth of a new form of indoor facility which offers a wide range of sports and entertainments undercover from the wet and cold of the north European climate. The product aims to attract ABC1 groups who demand high quality, all weather leisure facilities and accommodation. The success of Centre Parcs of the Netherlands in constructing and operating a number of these complexes in the Netherlands, Britain, Belgium and France has encouraged other operators to enter the market.

Centre Parcs hold the dominant share of the market for indoor resort holidays; a market which they practically invented themselves. They currently operate 13 resorts with more planned. In 1989/1990 Centre Parcs achieved a turnover of 628.2 million Dutch Guilders and employed 3594 full-time equivalent staff (2134 full-time, 3924 part-time). Other operators are Gran Dorado (7 centres) and Sun Parks (2 centres), while Lakewoods, which is a

Granada venture, is planning its first sites. Similarly to themed attractions, the holiday resorts sector is fragmented and most operations are independently owned and run. The exceptions to this are in the UK where Butlin (subsidiary of the Rank Organisation), Mecca Leisure (Warners) and Pontins dominate the market.

Though Centre Parcs and others plan expansion of the indoor holiday resort product, it is considered unlikely that there will be substantial further expansion. Instead it is expected that the concept will be broadened to incorporate the day-tripper, other non-sport leisure - such as cinemas - and even retail development.

Forecast and outlook

An increase in spare time, improved and less expensive transportation and a greater desire to explore other cultures and countries means that tourism is forecast to grow. HOTREC forecast that international tourism will continue to grow by at least 3 - 5% annually to the year 2000. It is predicted that tourism will be the number one industry in terms of contribution to the GNP in the Community in the year 2000. Assuming a satisfactory return to growth after the Gulf conflict, this prediction should hold true, but it must be said that there were clear signs of panic in the European travel and tourism sectors in early 1991. As package tourists delayed bookings for summer holidays and business travel fell dramatically, the industry was in a major contraction. Despite price cuts by travel agents and airlines, UK holiday bookings, for example, were estimated to be 60% below those of last year. Tour operators facing mounting losses were set to cut overheads and capacity, rather than repeating the price wars which had so dam-

aged profit margins in the late 1980s.

A final point in this context is that the effect of the Gulf conflict on the European tourism and travel industry will continue even after hostilities have ended, and the disruption in the growth trend may thus be significant. In addition, there are a number of problematic issues of a different kind which the EC tourist industry must address in the coming years.

- ❖ Transport delays and bottlenecks must be resolved to avoid hindering the development of the tourism and hospitality industries;
- ❖ Whereas non-EC visitors see their destination as "Europe", hoteliers and others in the tourist industry are more focused on the particular identity of their country. The result is that campaigns and efforts lack a degree of cohesion and coordination from which the EC industry could benefit;
- ❖ A further factor is that the opening-up of Eastern Europe may syphon tourist traffic from EC countries;
- ❖ Environmental problems associated with sea pollution, urban decay and food contamination can have an important effect on the level of tourism. Worldwide efforts to address these problems are vital if the EC industry is to avoid serious difficulties such as pollution of beaches;
- ❖ An important point in relation to the tourist industry is the tendency for tourist prices to rise at a greater rate than general retail prices. In 9 Member States analysed by Eurostat (EC 12 without France, Denmark, Greece) the gap between tourist prices and retail prices has become increasingly wide. This can be explained by the seasonality of the industry and the frequent imbalance of supply with demand. Within the subsectors, the

prices of accommodation recorded the greatest variation from the retail price index over the period 1980 - 1987, while restaurant prices showed the least variation and rose least. It is not by chance that the countries registering an increase in the number of tourists are also the ones that offer lower prices and better quality;

- ❖ The higher income growth rates anticipated as a result of the completion of the Single Market should result in higher tourism expenditure growth in the 1990s. This effect will be most marked in Italy and the Netherlands where tourism expenditure is most sensitive to income;
- ❖ However, the exact effect of the Single Market on the industry is unknown. Balancing against the positive income effect are two factors which will depress demand: (i) tax reforms may raise air fares, and severely reduce the competitiveness of the hotel and catering industries in some member countries, and (ii) increased consumer protection will push up the prices of tour operators and travel agencies.
- ❖ While travel and tourism within the EC is set to grow, the exact role of the package tour operator and the traditional Mediterranean resort are in doubt given the trend to independent travel and to long-haul travel;
- ❖ It is expected that there will be a number of large new trans-national hotel chains, tour operators and travel agency chains. The advance of computer reservation systems may well play a part in establishing this concentration;
- ❖ The catering sector is also likely to be the target of expanding multi-national firms from both the EC and the USA.

The issue is whether the large multi-national chains can be sensitive to local needs;

- ❖ The food market will continue to syphon off disposable income, as people become more accustomed to eating out. Fast food in particular should continue to grow, and there will be a constant introduction of new concepts and specialist products;
- ❖ New markets will be created as the population ages. Indeed, the increase in over-55s and the drop in the birth-rate means that the customer base is slowly shifting for all sectors of the tourism industry;
- ❖ The popularity of short-breaks will strengthen, especially given the likelihood of improved infrastructure and transportation opportunities. A variety of tourism attractions, resorts and sports developments will be introduced to cater for this market;
- ❖ Business travel will grow as a result of the trans-nationalism of business and those parts of the tourism industry which serve the corporate customer will benefit, particularly hotels close to roads and airports, conference centres and incentive travel houses;
- ❖ Current environmental concern has implications for the catering industry. For example fast food restaurants have long been under attack for the plastic boxes they distribute. Environmental aspects may well affect holiday choice; resorts with records of sea pollution will certainly lose out in the decade to come;
- ❖ World tourism arrivals and receipts are predicted to grow annually by 4.5% and 5% respectively, for the year 1991 to 1995. Western European annual performance is projected at 4.2% and 4.6% re-

spectively;

- ❖ Ignoring the impact of the Gulf conflict, arrivals are expected to increase by the following percentages between 1990 and 1995, for selected Member States: Greece (45.45), United Kingdom (27.7), Spain (18.75), Italy (16.66) and France (9.52).

Written by: DRT Europe Services

The hotel sector is seeing an increase in demand and in capacity, with the growth most marked in demand from the other EC Member States and from outside the Community. Large chains are increasingly dominant in the sector, with smaller-scale and downmarket hotels disappearing slowly. Despite occupancy levels of no more than 50% (a figure which will decrease in 1991 as a result of the Gulf War), investment and US entry into the market are on the increase.

Consumption

During the period 1980-1988, total nights spent by foreign and domestic tourists in hotels and similar establishments increased in all Member States, except Ireland.

Demand from international tourists was the most important factor in this growth. From 1980 - 1987, the EC countries saw a 28.1% increase in nights spent in hotels by foreign tourists. Spain made the greatest increase (57.6%), while Portugal was not far behind (51.6%).

Foreign tourists account for 34.3% of nights spent by tourists in hotels in the EC (UK excluded). There are significant variations in this figure across the Community: in Spain foreign tourists account for 64% of hotel bed nights, while in Germany foreign tourists make-up just 18% of all hotel bed nights.

The number of accommodation establishments is falling in many countries; Greece, Spain and Portugal are the only exceptions to this trend.

There is, however, a rise in registered accommodation capacity, expressed in terms of rooms and bed-places. There are an estimated 3,699,000 hotel rooms in the EC.

The EC accounts for 36% of the world's hotel rooms according to the WTO. The total number of beds is almost 6 million. Though the records are incomplete, the picture is one of EC bed capacity rising by 14% in the period 1980-1987, with Greece and Portugal growing at the fastest rates (35% and 25% respectively). Growth in Germany accounted for an 18% increase in beds which now total close to 2 million. Slowest growth in capacity came from the Benelux countries, while Ireland recorded a drop in bed places. This increase in capacity, despite the fall in the number of hotels, is related to the sharp increase in the average accommodation capacity per establishment.

Low levels of demand for beds in Ireland, the Netherlands and Denmark resulted in these countries recording the lowest occupancy figures in the EC in recent years.

These countries achieved no more than 37%, while the highest occupancies were recorded for, not surprisingly, Spain, Greece and Portugal who achieved 56.6%, 56.4% and 48.7% respectively. Estimates for the late 1980s put EC hotel occupancy at no more than 50%.

The degree to which the EC tourist indus-

Table 1
Hotel nights in EC countries, 1988
(thousands)

Country	Domestic tourists	Foreign tourists	Foreign as % of the total
Belgique/België	2 416	5 423	69
Danmark	4 656	4 377	48
BR Deutschland	117 208	26 392	18
Hellas	10 791	33 005	75
España	48 987	88 351	64
France	83 535	37 186	31
Ireland	1 660	5 005	75
Italia	117 965	70 406	37
Luxembourg	70	969	93
Nederland	5 469	6 761	55
Portugal	5 779	12 941	69
United Kingdom (*)	95 000	N/A	N/A

(*) 1987 figure
Source: WTO Yearbook 1989

try benefits from intra-Community trade was demonstrated in the overview to this chapter: the EC hotel industry relies heavily on the intra-EC component. Data on the capacity of hotels by category is available for six EC countries. Two key trends emerge:

- ❖ the highest qualitative level to be registered is in the countries where investment in hotels has been most recent, that is in Spain and Portugal;
- ❖ where inbound international tourism is strong the quality of accommodation has improved, whereas low hotel categories have prevailed where domestic tourism is the chief source of tourism demand e.g.

France, Italy.

A trend common to all EC countries is the decline of one star hotels; this confirms the simultaneous trend of smaller, older establishments dropping out of the market.

Market performance

In 1989, the majority of hotel markets experienced growth in demand. There were, however, variations in performance. France, and particularly Paris, benefitted greatly from the Revolution bicentennial celebrations whereas Italy was badly affected by publicity surrounding algae pollution in the northern Adriatic. In 1990, Spanish resort hotels faced poor occupancy levels largely due to the drop in the

Table 2
Hotels
Estimated room supply in the EC and the USA, 1988

Country	Rooms	Hotels	Rooms/Hotel
Belgique/België, Luxembourg	60 000	1 974	30
Danmark	33 000	1 100	30
BR Deutschland	800 000	20 270	39
Hellas	191 000	4 191	46
España	564 000	22 000	26
France	517 000	20 305	25
Ireland	21 000	859	24
Italia	904 000	30 000	30
Nederland	55 000	1 934	28
Portugal	59 000	307	192
United Kingdom (*)	495 000	18 000	28
EC	3 699 000	120 940	30
USA	3 000 000	43 000	70

(*) Estimate
Source: WTO and Salomon Bros (1990)

UK package tour market. Economic slow-down in the UK has caused the corporate market to manage their domestic travel arrangements and conference demand with a view to cost reductions.

Overall, demand in Europe's main hotel markets will continue to be buoyant in the early 1990s. Business travel, which accounts for at least two-thirds of most leading hotels' occupancy rates, is set to show strong growth, bolstered by economic integration after 1992, declining airfares and future demand from Eastern Europe.

Structure of the industry

The number of classified hotels in the EC amounted to 92,959 in 1988.

Generally the industry is fragmented but the advance of the large hotel chains in the UK, France and Spain means that the structure of the industry varies considerably from one member state to another. The Top 10 chains operating in Europe (both European and US companies) are listed below: these chains are recording growth of over 20% per annum in some years. Amounting to 2,042 hotels and 294,190 rooms they account for 8% of the total rooms available in the EC, with about 2% of the classified hotels.

The relative strength of these chains is clear given that the top ten provide as much capacity as the next forty chains combined. An interesting point is that there is no US chain in the top ten in the EC despite the fact that the USA is home to the world's largest hotel chains.

The pressure for increased size comes from the economies of scale in marketing and the greater ability to meet the trend toward market segmentation with a complete range of differentiated services. The strength of the chain to invest in compu-

Table 3
Hotels - Major hotel chains

Rank	Company	Number of hotels	Rooms
1	Accor (F)	688	69 171
2	Club Méditerranée (F)	178	39 595
3	Sol Group (E)	139	35 444
4	Trusthouse Forte (UK)	338	34 215
5	Grupos Hoteles Unidos (E)	140	25 812
6	Golden Tulip (NL)	144	24 892
7	Pullman (F)	100	19 691
8	Queens Moat Houses (UK)	155	16 949
9	Hilton International (UK)	59	15 552
10	Mount Charlotte (UK)	101	13 469

Source: The European hotel industry - Dawn of a new era
Salomon Bros. Published in September 1990

terised reservation systems is another factor which will shape the industry in the coming decade.

The Single Market will attract investment from large chains and investors from other sectors, and there is a danger that this concentration may threaten the competitive position of the many small, independent hotels and restaurants that create the uniqueness of the European tourism product.

This effect will be increased by the wave of expected mergers which will improve the overall competitiveness of the industry but may threaten smaller independent organisations.

Smaller and independent hotels and restaurants must be encouraged to invest to upgrade quality to meet the increasing

competition from chain-owned hotels. They

can also focus on the quality of personalised service as a means of maintaining

a strong competitive position. In addition,

cooperation in promotion, reservations systems and information systems must be de-

veloped to address the economies of

scale that the large chains are applying.

Across the Community 8,172 hotels have

formed voluntary hotel affiliations and con-

sortia and this number is expected to

grow in the next decade.

On a general note, HOTREC warns that

the hotel and restaurant industry must take advantage of developments in the tourism sector or face loss of independence in the face of mergers of airlines and tour operators.

Segmentation

Segmentation in Europe is still in a state of relative infancy, compared with the USA

where it has reached maturity and caused

an excess of capacity over demand. Paris-

based Accor has the most highly de-

veloped set of branded products in the

EC, ranging from the four-star Sofitel to

the one-star Formule 1. It is also the only

European hotel company which can claim

a pan-European presence with repre-

sentation in every western European

country except Denmark, Ireland and Luxembourg. Accor is the largest hotel operator in France where it has 55 per cent of its worldwide room supply and a 9 per cent share of total rooms.

The United Kingdom, after France, is the next most developed EC country in terms of segmentation. Trusthouse Forte, having recently acquired Crest Hotels from Bass,

have consolidated their position as UK mar-

ket leader with 6 per cent of total room

supply, three times the size of its nearest

competitor. The majority of THF's portfolio

in the UK is generally unbranded, though

the up-market Forte brand and budget

Travelodges are an indication that this

lack of segmentation is being addressed.

THF are now seeking to expand rapidly in

continental Europe.

Segmentation in West Germany is less de-

veloped, with the majority of chains at the

luxury end of the market. Elsewhere, little

segmentation exists. Product niching has

become blurred in the USA through the

over-rapid expansion which occurred in

the 1980s. In Europe, cultural differences

will impel hotel chains to adopt flexible

strategies towards branding.

Table 4
Hotels affiliated with a voluntary hotels chain

Rank (!)	Country	Number of hotels		Rooms	
		1989	1990	1989	1990
1	France	1 702	5 048	46 905	127 124
2	BR Deutschland	539	597	31 471	58 650
3	United Kingdom	1 258	749	30 421	55 000
4	España	174	797	15 961	39 900
5	Italia	142	441	8 546	36 000
6	Nederland	129	107	7 761	10 105
7	Danmark	136	158	7 027	9 800
8	Ireland	158	110	5 614	6 400
9	Portugal	47	98	4 849	3 600
10	Belgique/België	76	52	2 392	3 324
11	Hellas	8	6	903	711
12	Luxembourg	13	9	303	250
	Total EC	4 382	8 172	162 153	350 864

(!) Ranked by number of rooms in 1990
Source: Revue Technique des Hôtels et Restaurants, 1990



Market segmentation will probably accelerate after 1992 which will reinforce the dominance of the large hotel chains.

Investment

Of total investment by the world travel and tourism industry in new facilities and capital equipment in 1987, 58% was invested in Europe. The WTO estimates that construction of new hotel rooms will continue to increase by at least 1.5% a year, as it has from 1984 to 1988.

In post-1992 Europe the financing and building of hotels will be easier with the free movement of capital. Takeovers will increase as firms find this a better entry point than starting from scratch on alien territory and current players seek further economies of scale. Britain's Bass plc has bought Holiday Inn International, Hilton International has gone to Ladbroke, Grand Metropolitan has sold its Intercontinental to Seibu Saison.

The rise in business travel will create demand for hotel bednights and airport locations will become prime sites as well as those alongside roads. As a whole, the three key investment areas will be:

- ❖ roadside locations especially for budget travellers;
- ❖ resort areas with golf and watersports;
- ❖ large business parks where stand-alone restaurants will be developed next to hotels.

With the development of high-speed rail links, rail networks may begin to draw passengers from the air on the basis of comfort and speed. This will certainly result in shifts in investment in accommodation. Increasingly, in the budget sector, traditional European heavy construction will give way to prefabricated units; this has already started to be introduced in France

and the UK.

Big investors in the EC hotel industry in the next five to ten years will be:

- ❖ Accor;
- ❖ Ladbroke Hilton;
- ❖ SAS International;
- ❖ Trusthouse Forte;
- ❖ Days Inn;
- ❖ Quality International;
- ❖ Mövenpick International;
- ❖ Pullman;
- ❖ ITT Sheraton.

It is expected that chains from the US will invest heavily to improve their share in a market which, as table 4 demonstrated, does not include them in the leadership.

Market saturation in the USA together with burgeoning recession are forcing American hotel companies to look towards Europe for expansion (eg. Hyatt, Conrad). The concentration of interest resulting from the political and economic changes related to 1992 and the integration of East and West Germany will have a positive "ripple" effect on hotel investment in the EC.

One issue which may prevent greater investment in the EC is the opening-up of Eastern Europe which is attracting funds which would otherwise have been invested in the EC. For example, Meridien and Radisson have indicated a strong commitment to investment in former Eastern Bloc countries.

Another concern for investment is that, although the elimination of restrictions on the mobility of capital may encourage the large-scale investors, the great number of small operators which comprise this sector may well continue to be hampered by the reluctance of banks and other financiers to inject cash into an industry which many do not understand. This will add to the con-

centration of the industry and the weakening of the independents.

Conferences and exhibitions

The worldwide conference market is generally estimated to be worth \$70-90bn.

Though there are no reliable statistics measuring the total number of conferences and exhibitions held worldwide, there is a record of international, non-governmental association (usually non-commercial) conferences. According to figures from the Union of International Associations (UIA), Europe takes a 60% share.

Within Europe, the UK is the most popular destination; the value of the total conference market in the UK was put at 1.4 billion ECU in 1987 and the exhibition market put at 1.3 billion ECU.

A UIA survey of 1800 European organisations carried out in 1988 found that the preferred type of venue is:

- ❖ Conference centre, 39%;
- ❖ Hotel, 41%;
- ❖ Other sites, 20% (including universities).

The importance of the conference market for the hotel industry is clearly apparent. Despite the lack of statistics and quantifiable data as evidence, the European conference market is known to be buoyant.

The information available suggests that annually the number of meetings and conferences held is increasing at a rate of 8% and there are no indications that this trend will not continue for the foreseeable future.

It is believed that the Single European Market will further stimulate travel throughout Europe and increase competition between European venues. The increasing eagerness on the part of delegates to travel outside Europe is increasing the

pressure on European venues to become more professional and sophisticated.

In future years the size of meetings may well fall in both the corporate and association sector as a result of the increasing specialisation of business. Another forecast for the 1990s is that new technologies will have an effect on the meeting business with conference hotel bed rooms being equipped with computers and/or access to data bank terminals for the use of delegates.

A current trend is for tele-conferencing facilities which have been established in many hotels. However, these are seen as a complement to, not a substitute for, traditional meetings, and no real threat to the industry.

Exhibitions can be segmented into:

- ❖ Specialised trade shows and exhibitions;
- ❖ Public consumer shows;
- ❖ Agricultural shows and fairs;
- ❖ Private exhibitions.

There is an increasing tendency for exhibitions to accompany conferences. Exhibitions are profitable whereas conferences

are not, and the addition of an exhibition is seen as a way to subsidise the whole event. This is especially common with scientific and medical events. Similarly, exhibitions and trade shows are increasingly incorporating supportive conferences and seminars. Research shows that 36% of international associations have an annual exhibition alongside the conference.

The latest development in Europe is the construction of purpose-built centres that have large auditoria with comfortable, permanent, theatre-style seating. The top venues will have separate exhibition space. In addition, these venues provide high quality banqueting, audio-visual equipment, simultaneous interpretation booths, syndicate rooms and other facilities. The majority of large European conference centres are multi-purpose, now holding sporting and entertainment events to increase occupancy levels.

Of the 20 most popular conference and exhibition centres in the Community which offer conference capacity for over 2500 delegates, 9 are in the UK and 5

are in Germany. Germany accounts for 51% of the floorspace of the ten largest exhibition centres in Europe (as an example the Hanover Conference Centre and Exhibition Grounds offer over 1/3 million square metres of exhibition space).

A number of large conference and/or exhibition centres are under construction which will add to the capacity of EC conference facilities. The most significant include conference centres in Cardiff and Birmingham (UK), Granada and Barcelona (Spain) and Brighton (UK).

Written by: DRT Europe Services

**The industry is represented at the EC level by:
HOTREC: Confédération des Associations Nationales de l'Hôtellerie et de la Restauration de la Communauté Européenne; Address: 80, rue de la Roquette, 75544 Paris Cédex 11 France; tel: (33 1) 47 00 84 57; fax: (33 1) 47 00 64 55**

Consumer catering

Demand for restaurant and consumer catering services is highest in the Member States which combine a strong tourist trade with a high national attachment to eating out. The sector is changing with the invasion of big name chains in fast food and conventional restaurants, which implies a trend towards concentration and away from the excessive fragmentation that characterises the sector.

Consumption

The turnover of restaurants, cafes, and other places for "eating out" in the EC can be estimated to be worth around 101 billion ECU. Countries with the highest per capita expenditure on consumer catering are those where a strong tourist trade combines with a high level of spending by a home population that includes eating out as part of its way of life - Spain, France, Italy.

Most growth in expenditure over the last decade has taken place in the UK, Denmark and Belgium, while Germany, Portugal and the Netherlands have seen the smallest improvements in this sector. Italy is also considered to have experienced strong growth in the last decade.

An interesting indication of the importance of this sector is to assess the proportion that consumer catering takes of total consumer spending - an EC average would be around 5%. Yet there are substantial variations between member countries: in Spain the proportion is considered to be almost three times the EC average; in Portugal it is almost twice that; while in the UK and France it is around just 3.5% of consumer spending. The catering sector clearly plays a vastly different role in the

economies of the members of the EC. There are similar variations in the characteristics of demand in the consumer catering sectors. Fast food has been a rapidly growing element of the retail catering market and it is reported by Euromonitor to account for 4.5% of total consumer catering turnover in Europe. However, while its popularity has led it to form 8% of sales in the UK, having shown rapid expansion since the mid 1970s, it accounts for just 1% of turnover in Italy.

The pizza restaurant is now an internationalised concept but while the major chains have had large-scale success in winning share in, for example, the UK they have faced stiff competition from independent Italian restaurants in France, Germany and of course Italy. However increasing exposure of the core 14 to 25 age group to the US and UK food cultures will heighten awareness of the fast-food throughout Europe and new opportunities for outlets located in modern retail/leisure centres will increase their proportional representation. The growth of tourism is clearly a major source of business for the consumer catering industry in the EC. Even when staying in self-catering accommodation the tourist tends to eat out rather than cook for him-



Table 1
Commercial catering in the EC
Consumer catering as % of total consumer spending

Country	1980	1984	1988
Belgique/België	3.1	3.2	3.3
Danmark	4.3	4.1	4.8
BR Deutschland	2.5	2.5	2.5
France	3.3	3.5	3.5
Italia	3.7	4.5	4.7
Nederland	3.4	3.3	3.3
United Kingdom	3.5	3.5	3.5

Source: Euromonitor

self; when staying in hotels and similar establishments there may be no choice but to frequent restaurants, cafes, etc. However, the increasing trend for local residents to eat out distorts the full effect of demand from the tourist. If the EC catering industry is to follow the USA, where it is often cheaper to dine in a fast food or family restaurant than to buy equivalent ingredients and cook at home, then the tendency for locals to choose to eat out on the basis of cost and convenience will become more established. Already in the EC eating out has become both more commonplace and relatively less expensive. Though consumer catering is taking a larger share of private expenditure it should be noted that it is highly vulnerable to dips in disposable income. As the markets in some areas reach maturity and as the consumer boom ends there is a danger that growth will slow down.

However, while it appears that the fast food sector is approaching maturity in some countries like the UK, there is clear evidence that, on the one hand the more underdeveloped markets of Southern Europe are likely to mirror the experience of the UK in the forthcoming decade, and on the other hand new trends or sub-markets will offer growth potential. The interest in healthy food will present a challenge to caterers in the next few years as will the demographic shift to an older population which, to-date, has not been a target of the large catering chains. There is a tendency towards loss of national identity in the catering sector, coupled with increased confidence and sense of experimentation of consumers. Conventional food service styles, products and concepts are being rendered obsolete by 1990s lifestyles. The youth market is dominated by fast food, but there are signi-

ficant trends also towards, inter alia, healthy foods, pasta and the replacement of red meat and red wine by their white counterparts and by fish. One exception to these trends is the resurgence of regional cuisine, especially in France and Germany. However, the overall trend is towards homogenisation, with the fast food-led multiples changing eating culture, even if France, Spain and Italy are working hard to preserve their own national culinary identity in the face of the US-inspired attack.

Structure of the industry

The catering industry in the EC remains highly fragmented despite the growth of the big name chains. Europe continues to offer an enormous range of family-run restaurants, cafes and bars that are central to the appeal and character of the industry. There are approximately one million establishments involved primarily in the provision of catering in the EC. However, there is a decline of the traditional, indigenous, independently-run operation. Yet the structure of the industry differs greatly between countries. The UK has the highest concentration of all EC countries, with Germany and France close behind. Indeed it is the UK, as well as the USA, that is the base of the giants of Europe. The largest operator of units which primar-

Table 2
Commercial catering in the EC
Growth in consumer catering sales (%)

Country	1980-1984 (yearly average)	84-85	85-86	86-87	87-88	1980-1988 (yearly average)	1980-1988 (total growth)
Belgique/België	1.2%	2.9%	1.9%	4.5%	4.3%	2.3%	20.0%
Danmark	2.4%	6.2%	5.7%	4.5%	-4.3%	2.7%	23.6%
BR Deutschland	-0.8%	0.0%	3.1%	3.0%	1.9%	0.6%	5.0%
France	1.0%	1.9%	0.9%	0.9%	0.0%	1.0%	8.0%
Italia	3.8%	2.6%	1.7%	1.7%	1.6%	2.8%	25.0%
Nederland	-1.0%	0.0%	1.0%	2.0%	0.0%	-0.1%	-1.0%
United Kingdom	1.9%	2.2%	4.4%	6.7%	5.0%	3.2%	29.0%

(%) At constant 1980 prices
Source: Euromonitor



ily offer food is fast food specialist McDonalds, which ran 1,023 outlets with a turnover of 1,771 million ECU in the EC in 1990. As can be seen from Table 3 this leader is followed by Grand Metropolitan which runs pubs as well as a number of restaurant chains. In fact, Grand Metropolitan is the only general caterer which has a number of brands right across Europe; the majority of large groups tend to domi-

nate their own home markets but fail to extend internationally.

Grand Metropolitan bought the Wienerwald chain of 230 roast chicken restaurants in Germany, the largest chain after McDonalds. In addition, its Wimpy buy-out gave it 22 continental European Pizzalands.

The fast food sector is of special interest given the advance of McDonalds. Take-away outlets such as fish and chip shops,

Imbisse (German snack outlets), and sandwich bars have traditionally been operated by family businesses, but this fragmentation is being altered dramatically by the march of the chains which are changing the structure of the fast food industry right across the EC. McDonalds is the overall leader in Europe achieving in 1988 a turnover three times that of its nearest rival, Burger King. However, with Burger King

Table 3
Consumer catering - The top consumer catering groups

Ranking and origin	Name of group and presence in Member States	Group companies	Turnover (mio ECU)		Total outlets	
			1990	1989	1990	1989
1 (USA)	McDonalds all Member States	McDonalds	1 771	1 539	1 023	873
2 (UK)	Grand Metropolitan B,D,DK,E,F,IRL,NL,UK	Berni, BurgerKing, Country Carvery, Old Orleans, Pastificio, Pizzaland, Wienerwald	869	701	994	901
3 (I)	SME Sirea I	Autogrill, Ciao Motta, Alemagna, Arabesque, railway catering	609	555	340	337
4 (F)	Casino F	Aquarelle, Blue Grill, Casino, Dune, Hippopotamus, Quick, Free Time	521	475	292	265
5 (UK)	Whitbread B,D,F,UK	Beefeater, Churrasco, Pizza Hut, TGI Friday, Roast Inns	488	408	535	469
6 (UK)	Trusthouse Forte F,UK	Happy Eater, Harvester, Kelly's Kitchen, Kentucky Fried Chicken, Little Chef, Welcome Break, Wheelers	467	450	901	831
7 (D)	Lufthansa Service D	airport and airway catering	390	299	N/A	N/A
8 (D)	GFN D	motorway service stations	380	343	325	281
9 (F)	ACCOR E,F	Actair, L'Arche, B&Burger, Boeuf Jardinier, Café Route, Cesario, Courtie Paille, Churrasco, L'Ecluse, LeNotre, Pizza del Arte,	376	341	364	330
10 (F/B)	Wagons-Lits B,D,E,F,I,NL,P	Eurest Relais, catering in airports, airway, railway and shipping catering	369	367	121	113
11 (F)	Agapes Restauration E,F,I	Amarine, Flunch, Pic Pain, Pizza Pai	309	280	154	147
12 (D)	DSG D	railway catering	297	265	304	282

Source: Neo Restauration

and Wimpy now combined by Grand Metropolitan, the battle is sure to heighten.

Another characteristic of the fast food sector is the development of franchising. In the UK, franchising is most heavily developed in the burger market (eg. Burger King), chicken (Kentucky Fried Chicken) and Pizza delivery (eg. Perfect Pizza), where the product is more controllable and catering predominantly systemised. However chains need to minimise the possibility of franchisees setting up in competition, an occurrence which troubled Kentucky Fried Chicken in recent years. Franchising in continental Europe is less highly developed. In France McDonalds, Chantegrill and Tarte Julie are the most numerous of the franchisees, though other operators (eg. Burger King) are delaying franchise plans until a wider portfolio of units are established.

It has been predicted that franchising is likely to become more prevalent. As growth in the consumer catering market slows down in some countries, especially in the USA, many existing operators will

look to change their sales organisation, as well as to expand in foreign markets in order to maintain sales growth.

Investment

Expansion across Europe is expected to take place in the next five years. The low concentration in a number of high-spending EC countries is seen as an opportunity, especially for the fast food firms which are encountering market maturity and saturation in their current markets. Such firms have conquered the USA and established a strategic base in the UK from which to make an assault on the rest of Europe. The attitude of the large chains to the incumbent competition is revealing: "Europe is fragmented and under-represented. There is no competition, only independent operators", one executive has declared. An example of the invasion of investment comes from PepsiCo, which through its association with Whitbread, is spreading Pizza Huts through France and Belgium, and has recently bought the 29 strong Churrasco steakhouse chain in Germany. If it were not for the UK giants

the dominance of US brands would be considerable.

Other than in the fast food sector the pattern of investment is expected to mirror the interest of the hotel industry in roadside operations. According to one industry executive, "the whole element of freeing the market in 1992 is in travel - in improved accessibility, the Channel Tunnel and an increase in tourists. The biggest opportunities are roadside or roadside linked". Meanwhile, Eastern Europe offers a situation where an immature and underdeveloped consumer catering sector awaits renewal and is ripe for development by Western firms.

Written by: DRT Europe Services

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This sector has been affected by the Gulf War, and its depression has led to emergency measures to support airlines in particular. Before the disruption caused by the conflict, demand had increased continually, with the business, package, and incentive travel parts of the market being especially important. The opening-up of Eastern Europe will offer greatly increased opportunities.

In the travel agency sector, concentration is occurring, with the investment required for Computer Reservation Systems favouring the large chains.

Consumption

The upward trend of international and domestic tourism is clearly a cause of growth for the travel agents, the tour operators, and the ground-handling agents and tour firms.

However, the growing popularity of short car- and rail-trips to places in the home country or in neighbouring countries are usually not a source of income for the travel services sector. In this respect it is threatened by improved infrastructure, technological advances and an increasing confidence in and tendency to international communication which encourages and enables the traveller to provide his own transportation and/or book direct with the hotelier. The travel agents and tour operators are approaching a point where they must prove their usefulness to an increasingly independent short-breaker. Some of the new holiday centres and chains are marketing with direct booking lines; in the telecommunications age the notion of the travel agent and tour operator as intermediaries is out-moded for certain forms of

tourist activity.

Notwithstanding this, the travel services sector is a vital one for the two major elements of EC tourism: package holidays and business travel. In each case the sector provides a degree of distribution that the principals (airlines, hotels, etc) could not achieve, and a degree of choice, value-for-money and convenience that the consumer could never achieve.

The travel agency and tour operating sectors are estimated to be worth over 45 billion ECU in turnover, with most demand and most growth originating from the UK and Germany. Because of the economic downturn in the key consumer nations, deterioration in the quality of package holidays, competition from new destinations and the threat of air traffic delays, package holiday spending in the Mediterranean area has fallen.

The importance and sophistication of this market varies across the Community. In the highly developed markets in the UK, Germany, France and Italy, recent growth has seen greater segmentation; there has

been the introduction of specialist programmes for the older age group, for those interested in small hotels, for those interested in cruising, and many more. The vast majority of package holidays are beach-based on the shores of the Mediterranean. In the last two years, however, the most popular resorts in Spain, Greece and Portugal have seen demand drop by as much as 50% as the big holiday firms extend their formula of high volume operations on low cost charter flights to Florida, the Caribbean and Mexico.

Europe is estimated to take between 40-50% of the \$700 billion worldwide business travel and tourism industry that serves the corporate traveller. Making arrangements for the businessman accounts for around a half of the revenue of the travel agency sector in the EC and business travel in all its forms, such as meetings, conventions and incentives, accounts for at least two-thirds of most leading hotels' occupancy rates. Airlines also depend heavily on full-fare paying business travellers. Importantly, the business market is less volatile and vulnerable to recession than is the leisure sector. The business traveller is thus now the prime target for the marketing efforts of airlines and hoteliers.

The changes in Eastern Europe will increase business travel, but the infrastructure needs to be improved in order to meet travellers' needs.

Whether as part of a package holiday or as part of a business trip, the most important source of business for travel agents is air travel which has a high distribution through the retail trade and provides high commission income. The growth of air travel in the EC has been rapid. In

1984 Eurocontrol, which monitors flights in Western Europe, estimated that by 1995 some 3.6 million commercial flights would be leaving or arriving at Europe's airports. That level was almost reached in 1988.

The package holiday market is an important part of air travel; in 1986 non-scheduled airlines carried about 60% of all revenue miles of European airlines.

Structure of the industry

There are at least 40,000 enterprises acting as travel agents and tour operators throughout the EC. The historical picture of many small, independently-run agencies still prevails in general, though the more sophisticated markets of the UK and Germany show a high and an increasing level of concentration. The benefits of economies of scale in computing and marketing have bred the mega-firms: in the UK, Thomson and the International Leisure Group lead the way; in Germany, TUI and Neckerman are dominant. Despite the occasional foray abroad these firms have restricted themselves to their home markets. Under the Treaty of Rome tour operators and travel agents have had the right to expand across borders for some time. With the Single Market, only the abolition of exchange controls and the freer mobility of labour will formally affect their position and encourage them to act now. Trading conditions and practices, not legislation, have prevented tour operators succeeding in trans-national business in the past and this will continue to be the case. However, the Single Market is likely to lead to some expansion into other member countries, probably arising from alliances and joint trading relationships.

The travel firms will be most affected by

cost increases resulting from much tougher consumer protection provisions. The Package Tours Directive which aims at tighter liability between agent/tour operator and the client has been agreed and is passing through the European Parliament. Several large tour firms have taken steps to adjust their responsibilities before the new Directive comes into force. The travel agent is threatened by the growth of giant tour-operators who may find it easier and cheaper to sell direct when entering a new foreign market rather than deal with many, probably hostile, native travel agencies. The end result may be a concentration of the travel agency sector with pressure from increasingly competitive and sophisticated airlines and tour operators demanding greater flexibility and effectiveness, in-store service and ticketing. Application of the new technology will enable the travel agent to maintain his power. With access to the vast reservation and information banks of the travel firms the agent will be the all-important interface with the customer; the quality of his service will determine whether he can be successfully bypassed or not.

Travel agents are also concerned about the effect of increased responsibility from the new consumer protection laws. It may be difficult for the smaller independent agencies to cope with this responsibility and there is a likelihood that the industry will concentrate. Furthermore, the expansion of the large retail chains has enabled them to improve their cost positions beyond the reach of the independents who are increasingly incapable of competing with the cut-price marketing of the big firms. The small independents are now faced with attracting custom on the basis

of service, or extinction.

The EC's largest travel agents are:

- ❖ Thomas Cook, United Kingdom;
- ❖ Groupe Havas, France;
- ❖ Wagons-Lits, France;
- ❖ Lunn Poly, United Kingdom;
- ❖ Pickford's Travel, United Kingdom;
- ❖ Deutsches Reisebüro, Germany.

Investment

In the more developed and mature markets for travel services - UK, Germany, France, Italy - there has been a trend for the large firms to invest in vertical and horizontal integration, while in most other EC countries the sector has remained fragmented. The vulnerability of the market to income fluctuations has caused several companies to seek integration, agreements and diversification that should provide flexibility. Tour operators have been investing in airlines, hotels, and coach operations as well as in acquisitions. Travel agency chains have been moving into businesses compatible with their activities, for example car rentals.

The most significant capital investment that the travel services sector will be making in the next five years will be in computerised reservation systems (CRS). The initiative comes from the US experience which has seen CRS majors change the face of retail travel and the distribution of principals. Though CRS has already made inroads into the distribution of European scheduled air reservations, the final outcome of the full revolution is unknown given that they have yet to sign up the package holiday firms, who in the last ten years have developed their own systems for viewdata reservations. What is clear is that there will be multi-million ECU investment across the EC as reservations and

ticketing practices are changed.

Most hotels and hotel chains have developed their own in-house reservation systems, such as INNSITE and HANK, but the challenge now is to link them to the mega airline CRSs like GALILEO, AMADEUS, SABRE and WORLDSPAN. In this, the major chains of hotels and travel agents are better placed to afford the investment required, and smaller operators face a serious threat. Technologically, there is a great need for new central switch systems to enable local CRSs to be connected to the airline systems.

Incentive travel Incentive travel can be defined as tourism activity that is undertaken by groups or individuals who have "earned" their trip as a result of their performance for the sponsoring company. Although the accent is on relaxation and enjoyment the majority of trips incorporate a conference element, though this may be limited to an informal meeting.

Geographical characteristics of demand for incentive travel Geographically, the USA dominates the world market as a generator of incentive travel demand. The North American incentive travel market continues to grow, though as it matures its characteristics change. Certain destinations have become "tired" as the market grows more demanding. Europe, however, retains its position as the premier foreign destination. Europe is now generating highly significant volumes of demand for incentive travel - this trend will continue in the short, medium and indeed long term. The United Kingdom is regarded by the travel trade as the second most significant generator of demand.

The value of incentive travel expenditure which is generated by Europe is estimated

to be 4.8 billion ECU of which 1 billion ECU is spent outside Europe.

Asia and the South Pacific basin will benefit most significantly from the emerging Japanese incentive travel market but Europe can also expect to benefit to an extent.

Criteria in destination selection Accessibility and standard of accommodation are the most important criteria in destination selection. Europeans appear to be more particular about the standard of hotel accommodation than their USA counterparts.

France, Spain and West Germany have been the most popular destinations in Europe and London is the favourite city.

Though the most usual destinations are seaside resorts and city centres, the value of incentive travel is that it often provides a source of business to hotels outside their peak months.

Eastern Europe is predicted to be the fastest growing incentive travel destination of the 1990s. The Mediterranean, and Spain in particular, are losing their market share, due to changing market expectations and the overcrowding and "tired" image of some resorts. However, some towns and resorts are actively addressing this issue by developing and marketing a more up-market destination product.

Characteristics of users There is little relationship between a company's size and its propensity to operate incentive travel. Financial services, the motor, pharmaceutical and computing industries are the key generators of demand by the industry sector. New industries are being attracted to the concept of incentive travel as a motivational tool - accounting firms, health care, home improvement, publishing, cookware and legal services are examples of industry sectors now all

Table 1
Travel services
European travel receipts
(billion ECU)

Generating market	Incentive travel
Europe domestic	1.5
Intra-Europe	2.4
North America	0.7
Rest of the world	0.1
Total	4.7

Source: European Incentive Travel Survey 1990 Touche
 Ross Greene Belfield-Smith Division

generating demand.

The incentive travel market is difficult to target directly. The travel trade tackles marketing through assertive courtship of the major incentive houses, whose expertise and innovation creates new destinations and experiences.

Receipts from the incentive travel

market The value of receipts from the worldwide Incentive Travel Market for European countries is put at 4.6 billion ECU. The importance of domestic and intra-European travel is clear; it accounts for over 80% of total receipts.

Two per cent of all expenditure on busi-

ness travel and tourism by Europeans is incentive travel oriented, and the rate of growth is considered to be between 10% and 15%.

The incentive travel market generates income for all components of the tourism industry with approximately half of total expenditure made on accommodation and catering. Travel and travel services account for about one third of expenditure though traditional high-street travel agents are responsible for organising only a quarter of programmes. The fact that six in ten programmes require meeting facilities indicates that this market is a source of income for the conference sector too.

According to corporate buyers the following expenditure is expected for different destination types:

- ❖ an incentive featuring a domestic location will last just over three days and cost just under 750 ECU per delegate;
- ❖ an incentive destination within Europe will last on average six days and cost 1650 ECU per delegate;

- ❖ A long haul destination elsewhere in the world will involve a stay of up to eight days and cost around 2400 ECU.

Future trends for incentive travel The key future trends emerging are the widening of participation to involve additional categories of staff, and the emergence of new industry sectors. The incentive houses have identified that there is significant growth in incentive programmes targeted at all types and levels of employees. Thus, incentive travel is decreasingly confined to the upper market sector. Group sizes are decreasing, but the number of movements per annum in incentive programmes is increasing.

Written by: DRT Europe Services