

Roland Conrady
Martin Buck
Editors

Trends and Issues in Global Tourism 2007

 Springer

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With 40 Figures and 40 Tables

 Springer

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Library of Congress Control Number: 2007921121

ISBN 978-3-540-70831-5 Springer Berlin Heidelberg New York

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Production: LE-TeX Jelonek, Schmidt & Vöckler GbR, Leipzig

Cover-design: WMX Design GmbH, Heidelberg

SPIN 12018413 43/3100YL - 5 4 3 2 1 0 Printed on acid-free paper

Preface

As other industries, the global travel and tourism industry has been facing immense challenges and highly visible upheaval since the beginning of the new millennium. The International Tourism Exchange ITB Berlin, the world's leading travel trade fair, aims at pinpointing the most important challenges, identifying the trends and offering a platform to solve pressing problems. The ITB Convention Market Trends & Innovations has developed into a center of excellence and a driving force for the global travel and tourism industry, generating a much needed information platform.

This compilation unites the highlights of the convention in articles prepared by renowned professionals and scientists from the industry. Readers may benefit from this comprehensive vision of the developments which are shaping the structure of the global tourism industry today and in the future. This book is indispensable for tourism and travel professionals and well as for academics and students analyzing current global tourism and travel trends.

The first chapter takes up the issue of mega trends in society and in the economy and analyzes their effects on the tourism industry. In highly developed countries, overwhelming demographical change is underway. Schröder and Widmann demonstrate how tourism businesses should adapt to the aging customer base. Diana Jaffé investigates the influence women have in the processes of making travel decisions – a topic which has been completely ignored in the past. In view of the fact that the influence of women in the economy and society (the 'Evolution') is notably growing in almost every country, a valid analysis is urgently required. Market polarization has also finally caught on in the global tourism market. Maria Pütz-Willems identifies development trends in the luxury and budget hotel industry. The low cost segment has been showing signs of dynamic development over the past few years. Based on a European survey of low cost flight users, Gerhild Abler and Michael Ehltling provide valuable insights to the smart shopper consumer profile.

The second chapter deals with the most important challenges in the global air transport industry. Dynamic market penetration triggered by low cost carriers has recently become an issue in all international markets. Adrian von Dörnberg examines the development of low cost carriers in the USA, Europe and Asia. The European air transport market is on the threshold of a merger and acquisitions phase. Jens Flottau interviewed one of the key players in European air transport consolidation, Christoph Franz, CEO of Swiss International Air Lines. Similar to airlines, airports

are going to become crucial players in future developments in the air transport industry. Jürgen Ringbeck devises a scenario identifying the optimal design for the European airport landscape, which would satisfy industry requirements.

The third chapter offers insight into the destination management, a subject area that has been neglected far too long. Large sporting events such as the FIFA World Cup 2006 have the potential to launch positive sustainable developments in the tourism industry. Holger Preuss analyzes the extent to which the FIFA World Cup 2006 has been successful. On another note, shopping has become a key travel experience especially for tourists in the emerging markets in Asia. Werner Friedrich provides suggestions on how destinations can fulfill this important travel motivation. Destinations are, like other products, subject to a lifecycle. Hence, Markus Schuckert, Claudia Möller and Klaus Weiermair examine the issue prolonging the destination lifecycle in the Alps – a fundamental issue for many destinations in view of global climate changes.

The fourth chapter addresses price policy and distribution. Georg Tacke and Claudia Fichtner demonstrate that the commission systems currently used by tour operators are often inadequate to manage travel agency sales. They formulate basic principles for a commission system capable of aiding tour operators to achieve essential control objectives. Martin Buck seizes the opportunity to discuss the current distribution phenomenon in the German market. Drawing on previous experiences with selling travel products through retail chain stores, he discusses whether these new distribution channels could generate serious competition with travel agencies.

The fifth chapter deals with the current developments in travel technology. Web 2.0 refers to a new generation of Internet technologies and the dramatically changed Internet user behavior. Making reference to several analyses from PhoCusWright Inc., Roland Conrady investigates how the global travel and tourism industry has to adapt to the paradigm change in the Internet. Kerstin Markus and Rainer Hartmann demonstrate ways to tap into the 50-plus target group implementing accessible websites in the cruise industry, a growth segment still lacking adequate Internet-orientation.

The great economic significance of the business travel segment is often underestimated. In the chapter six, Gerd Otto-Rieke analyzes trends and challenges for global business travel management.

The seventh chapter provides an insight into the long-term perspectives of travel and tourism. Space tourism, currently a spectacular niche segment, will possibly become more important. New technical potentials and the human desire to strive for unique adventures will open up space as a tourism market. Robert A. Goehlich defines possibilities and barriers for space tourism. The book receives the finishing touches with Eva Ludwig's contribution. She portrays the future of leisure travel in a comprehensive outlook based on a study by the Swiss Gottlieb Duttweiler Institute for Kuoni Travel Holding Ltd. On the whole, readers will appreciate how all the other contributions seem to fit right in with this overall perspective.

This work could not have been achieved without the remarkable dedication on behalf of the authors, who for the most part have taken on executive positions in the tourism economy. Furthermore, the unfaltering diligence of Daniela Rist, Assistant at the Faculty of Tourism and Transport, University of Applied Sciences Worms, and of Alexandra Salamon, former student at the faculty, has contributed to the quality of this book. Our wholehearted thanks go out to each and every one of you who helped make this book possible. Last but not least, we would like to thank Dr. Martina Bihn for continually providing valuable help and advice.

Frankfurt/Berlin, January 2007

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Mega trends and their impact on the tourism industry

Demographic change and its impact on the travel industry: Oldies – nothing but goldies?

Achim Schröder, Torsten Widmann

1 Introduction

The senior market – or at least the hope placed in it – is booming. In the next decade or two, a decline in the birth rate and an increasing life expectancy will lead to a shift in the age structure within society. As such, tourism market segments will undergo changes both in a quantitative and qualitative manner. Although significant effects are not expected for another 30 years, tourism operators have to start adjusting to the situation now and respond accordingly with their product design.

2 Quantitative changes in the potential for tourism demand

The question is not, *if* demand will fall, rather *when*. Every account on population projections assumes an imminent decrease of the population in Germany. As of 2045, at the latest, the population will be less than now. However, this late date implies that the average life expectancy will have increased 7.5 years by 2050 and that the migration balance will have an annual total of 300,000 people (Statistisches Bundesamt 2003). Up until 2015, the medial variant for the population projection presumes a moderate increase in population by approximately a half million people. Subsequently though, the population will continually decrease. As a result, the population will be 75 million in 2050, equivalent to over 7 million less than the current figure (82.5 million).

Simultaneously, society is aging. Within the next few decades, the proportion of people over 60 will visibly rise not only in absolute numbers but also relative to the total population. Thus, the tourism industry will have to adjust to a declining and aging guest potential.

However, since not every person within the total population can travel or even wants to, the sole reflection of the population does not suffice to forecast the development in the number of travelers.

3 Forecasting further development in the number of vacation travelers and attempting a continuative evaluation up to 2050

Using the population from the tenth projection and the information from the Reiseanalyse (a German travel analysis) on travel propensity, Haehling von Lanzenauer et al. (2004) developed a scenario, in which the development trend regarding the number of holiday travelers could be forecast for the years 2010, 2030 and 2050. Information concerning the development of the travel propensity is based on trend prolongations from the Reiseanalyse 1993 to 2003 as well as professional estimations. At any one time, the study refers to the medial variant (5) from the tenth population projection; conversely, the proportion of foreigners was determined using the ninth projection. Population data only refer to people over 14 years of age. This restriction is necessary for carrying out calculations based on the Reiseanalyse, compiled by the Forschungsgemeinschaft Urlaub und Reisen e.V., which only includes German-speaking populace over 14.

Overall, the basis for forecasting the future development in the number of vacation travelers has limited sustainability. Information concerning future development in the population is actually considered relatively reliable; however, the range between the individual variants is considerable (Statistisches Bundesamt 2003). In addition, statements regarding further development in the travel propensity are rather unreliable and depend greatly upon trend prolongation. Since development depends on multiple factors, quantitative information on travel propensity is not available beyond 2015.

In spite of these uncertainties, calculations based on current data and estimations will be performed, with the objective of quantifying and discussing the effects of demographic change on tourism.

The travel propensity adopted by Haehling von Lanzenauer et al. (2004) for 2010 to 2050 will be held constant for all of the continuative calculations carried out in this article. Since a scientific standard can not possibly deliver sufficient projections for the development in travel propensity beyond the year 2010/2015, the travel propensity of 78 %, adopted until that point, will be held constant in the ensuing calculations. The author places emphasis on the exemplary character of these assumptions and explicitly draws attention to the assumed precision of the calculations! First and foremost, the calculations should serve to demonstrate the demographically conceivable effects.

Based on a German-speaking population (over 14 years old) of around 65 million and a travel propensity of 75 % in 2002, a total yield of 48.8 million vacation travelers arises. In the near future, the slight decrease in the number of the German-speaking populace over 14 years of age (−1 %) will continue to be counterbalanced by a slight increase in the travel propensity (78 %, +3 percentage points) until 2010. Hence, up to that year, the number of vacation travelers will increase slightly to a total of 50.2 million (+3 %). However, assuming a constant travel

propensity, the emerging decrease in population will subsequently lead to a decrease in the number of vacation travelers up to the year 2030. This trend will continue to intensify significantly until the year 2050. Consequently, there will be 8.2 million (−17 %) less travelers by 2050.

Table 1. Vacation traveler up to 2050: Total^a

Year	Change compared to 2002	Population ^a	Travel propensity	Vacation travelers	Difference compared to 2002	Difference compared to 2002 in %
2002		65,000,000	75 %	48,750,000		
2010	−1 %	64,350,000	78 %	50,193,000	1,443,000	3.0 %
2030	−8 %	59,800,000	78 % ^b	46,644,000	−2,106,000	−4.3 %
2050	−20 %	52,000,000	78 % ^b	40,560,000	−8,190,000	−16.8 %

^aNot including foreigners or individuals under 14 years of age.

^bPersonal estimations. Source: based on work by Haehling von Lanzener et al. (2004, p. 48) and calculations performed by the authors.

Arguments that an increasing travel propensity could temper the effects of the decrease in population are justifiable; nonetheless, this increase can not fully counteract the decrease in the number of travelers. To do so, the travel propensity would have to increase to 94 % by 2050. This value is unrealistic: even in optimal conditions, the average travel propensity reaches the upper limits with 85 % (F.U.R. 2004). And, in the best of circumstances, the decrease in population, shaped through demographic change, inevitably leads to a decrease in the number of vacation travelers. Depending on the variant of the population projection, this development could arise around the year 2030 or even be postponed until 2050. However, it could also occur as soon as 2015 – in such a case, the tourism economy would have merely 10 years to adjust to the downturn.

A shift in the age distribution also accompanies a decrease in the population. Such a development will occupy and leave its mark on future tourism. In the short and medium term, this shift will be more significant than the decreasing number of vacation travelers.

4 The boom market seniors

The proportion of vacation travelers depends on the number of individuals who can and also want to travel. Aside from financial reasons and available time, the health of the individuals also continues to play a vital role. Despite the propagation of the “New Age”, health problems and restricted mobility play an ever growing role with advancing age and have to be diligently taken into consideration. Nevertheless, senior tourism is fittingly regarded as the largest growth market and the shining light within the industry.

To be more precise, a noticeable decline (of over 30 % by 2050) in the number of travelers aged 14 to 40 years-old and 40 to 60 years-old is to be anticipated in the next few decades. Even a travel propensity of 100 % within these age groups in 2050 would not suffice to counteract the losses triggered by population development.

In contrast, the number of people over 60 years-old will continually increase from the current 20 million to almost 28 million by 2030. Subsequently, the medial variant (V5) will presumably stabilize. Approximately 20 million people currently number among this age group. A travel propensity of 68 % results in 13.4 million vacation travelers. Due to the increasing population within this peer group, the number of vacation travelers will increase to 14.7 million (+9.5 %) by 2010, assuming a simultaneously increasing travel propensity resulting in 73 %.

Provided that the travel propensity stays constant from this point on, the figure would rise to 18.3 million by 2030 – corresponding to over a third more than the current number. In comparison to the 14 to 40-year-olds (2030: 15 million) and the 40 to 60-year-olds (2030: 13,2 million), the 60-plus peer group should be the numerically largest group of vacation travelers (2030: 18.3 million). In the years following 2030, the absolute number of vacation travelers in this age group will decrease by about 10 % to 16.4 million by 2050. However, in comparison with the other two age groups, it will remain the quantitatively largest group (14 to 36-year-olds: 12.9 million and 40 to 59-year-olds: 11.2 million).

Nevertheless, this portrayal neglects the fact that, as a target group, the 60-plus age group does not demonstrate homogeneous travel behavior. According to Tourist Scope, the travel propensity of the 65 to 75-year-olds was around 73 % (2002), whereas it only amounted to 48 % in the 75-plus group (Hering Schuppener/Consellgruppe/Sülberg 2004). Thus, a differentiated investigation into the 60-plus segment is urgently required!

If the 60+ age group is subdivided in the “young elderly” (60 to under 75) and the “older elderly” (75 years-old and older), different tendencies would become quite apparent. Comparing the two age groups clearly shows that, in particular, the 75+ group will continually grow till 2045. And by 2050, their number will have doubled to 13 million (2002: 6 million). In contrast, the number of people aged 60 to 74 (2002: 14 million) will have hardly changed by 2015. Afterwards though, it will undergo a short-term 30 % increase by 2030, corresponding to 18 million people, and then once again fall to its current level by 2045/2050.

In order to clarify and more precisely differentiate the quantitative dimensions that increased aging within a society imposes on the senior market, the number of “young elderly” and “older elderly” vacation travelers will be calculated until 2050. In this study, the standard assumption will be taken that – *ceteris paribus* – the travel propensity determined by the Tourist Scope for 2002 remains constant in both groups¹.

¹ The changes described are therefore based solely on demographical development. Socialparameters, which are expressed in travel propensity, can not be taken into considera-

The model calculation clearly indicates that the “young elderly” will be *the* growth market until 2030, with over 2 million additional travelers (as compared to 2002) anticipated. However, the boom will end soon after and, by 2050, the number of vacation travelers within this age group will most likely be even lower than the current figure! For the most part, long-term hopes are based on an undifferentiated examination of the 60+ age group and do not consider that older seniors, owing to their increasing numbers, will in particular have to cope with any developments following 2030. However, the “older elderly” are currently characterized by a notably lower travel propensity, which will continue to be sustained in the future. Thus, it is foreseeable that, in the future, the older elderly will travel a lot less than the young seniors mainly owing to health issues.

Table 2. Vacation travelers until the year 2050: 60 to 74-year-olds^a

Year	Change compared to 2002	Population ^a	Travel propensity	Vacation travelers	Difference compared to 2002	Difference compared to 2002 in %
2002		13,300,000	73 %	9,709,000		
2010	-3 %	12,901,000	73 % ^b	9,417,730	-291,270	-3.0 %
2030	22 %	16,226,000	73 % ^b	11,844,980	2,135,980	22.0 %
2050	-9 %	12,103,000	73 % ^b	8,835,190	-873,810	-9.0 %

^aNot including foreigners.

^bPersonal estimations based on information from Tourist Scope 2002.

Table 3. Vacation travelers until the year 2050: 75-plus^a

Year	Change compared to 2002	Population ^a	Travel propensity	Vacation travelers	Difference compared to 2002	Difference compared to 2002 in %
2002		6,400,000	48 %	3,072,000		
2010	11 %	7,104,000	48 % ^b	3,409,920	337,920	11 %
2030	42 %	9,088,000	48 % ^b	4,362,240	1,290,240	42 %
2050	74 %	11,136,000	48 % ^b	5,345,280	2,273,280	74 %

^aNot including foreigners.

^bPersonal estimations based on information from the Tourist Scope for the year 2002.

Source: Based on work by Haehling von Lanzenauer et al. (2004, p. 52), Hering Schuppener/Consellgruppe/Sülberg (2004, p. 14) as well as calculations performed by the authors.

tion owing to in-existent data. Until now, forecasts for travel propensity development differentiated according to younger and older seniors have not yet been made. Haehling von Lanzenauer et al. (2004, p. 53) assume that the travel propensity for the „young elderly” is above whereas the travel propensity of the “older elderly” is below the average travel propensity for the 60+ segment, which is 68%. However, they do not specify the exact figures. Tourist Scope estimates the travel propensity for the 65 to 75-year-olds to be 73% and that of the 75+ segment to be 48% (2002). Unfortunately, no other assumptions regarding future developments in travel propensity were to be found.

Assuming that the travel propensity remains constant, it is obvious that only the older elderly group will exhibit a steady growth rate until 2050. Thus, by 2050, there might be over 2 million more elderly travelers than in 2002. The increasing significance of this segment makes developing special products for the particular needs of this target group (i.e. health care, travel companions) indispensable. In turn, such measures could very well trigger a new rise in the travel propensity within this age group, so that the number of elderly travelers could rise rather than fall.

Due to demographic and social changes, senior tourism will be – at least middle-term (until 2030) – the “engine of growth” in tourism (Forschungsgemeinschaft Urlaub und Reisen 2004). The number of travelers will increase circa 3.4 million by 2030. Subsequently though, this volume will shrink and arrive at merely 1.5 million more travelers in 2050 than the current value. As such, the proportion of the older elderly will be unmistakably higher and the proportion of the young elderly will be lower than at the present.

5 Trends in selective tourism market segments

Amid the indicated results of demographic development, two market segments will be more closely examined; both are influenced by social-demographic change in a different way, yet are nonetheless largely affected by it. The first segment includes senior tourism because of its growing market potential as well as the changing supply structure in tourism brought on by the requirements of this age group. The second segment is tourism with children owing to constant changes in the lifestyle structures: the future is “children with many parents, and not parents with many children” (Ott/Pape 2002).

5.1 Development trends in the market segment “senior tourism”

The proportion of seniors in the vacation travel market will increase. They are going to hang around for the future of the engine of growth in tourism. In fact, they have already been occupying this position for the last few years (Forschungsgemeinschaft Urlaub und Reisen 2004).

Short-term to middle-term development in senior tourism

As a result of socio-demographic development and the fact that the baby boomers from the postwar period in Germany will become senior citizens within the next decades, growth in the senior tourism market segment can be easily predicted on a quantity basis at least. A large proportion of this market segment is still well secured (statutory retirement provisions, bonds and real estate assets) through socio-economic influencing variables. Thus, this group possesses a large buying power

for tourist consumption (Schrand 2003), even though health issues such as reduced mobility may restrict the travel propensity.

Most likely, the activity level of senior citizens will increase with better health care and a more socially and environmentally aware lifestyle, so that the physical disposition for traveling is given. From the moment people cease to be active participants in the labor force, the time available to use at their discretion swells considerable. Senior citizens already have experience in traveling and are well-informed through new media; thus, they will express more and more travel preferences in the future (Danielsson/Loorz 2000).

According to Homann (2002, p. 29), the greatest desire for the senior target group is to maintain health and independence. Hence, the target group will invest in preserving their familiar lifestyle and standard of living. Time line analyses confirm that seniors strictly adhere to certain travel behavior, which they developed in their middle age, except that, with advancing age, they preferably refrain from long-distance trips. With respect to the intended destinations in the near future, as deduced by Danielsson/Lohmann (2003, p. 19) based on the *Reiseanalyse 2002*, Austria, Spain and Italy will remain the most popular foreign destinations.

As a result of the abovementioned improvements in the quality of living in elderly individuals, the 70 to 80-year-olds in particular will be able to considerably increase their travel propensity. The *Forschungsgemeinschaft Urlaub und Reisen* (2004, p. 120) estimates that a growth of 38 % or 1.6 million in this age segment is likely to occur within the next five years, before the growth potential becomes exhausted on a middle term basis.

Long-term development in tourism for seniors

However, whether or not the financial and health situations of the elderly population continue to be so positive in the long-term is more than uncertain. Furthermore, as previously stated, the segment for the seniors market is based on the elderly, whose travel propensity still lies notably lower than in comparison to that of the younger age groups.

The trends previously described in tourism for seniors will indeed endure over the next two decades; however, when the subsequent generations, whose retirement provisions and health care depend on personal initiative, reach retirement age, the disparities initially ascertained will intensify. The current generation, which will reach senior status in circa 20 to 30 years, will have experienced different formative events, which in turn will influence their travel behavior in the elderly years. Accordingly, this generation grew up with relatively high wealth secured through state welfare programs, which has nevertheless been successively dismantled in the course of their lives and has to be replaced with personal responsibility for financial security and for the assumption of costs. The TUI market research came to the estimation that the senior market will basically split into two customer groups, namely the materialistic “Master Consumer”, “Adventure Consumer” or “Happy Ender” on the one hand, and the “Savings-Oriented Consumer” or the “Silent Partner” on the

other, who in spite of having a comparatively lower budget will still demonstrate great interest in participating in vacation tourism and occupy a large market volume (Horny 2004, p. 2). The tourism economy will then have to cope with the challenge of developing products suitable for both target groups.

5.2 Development in the market segment “tourism with children”

The market segment “Tourism with Children” will now be described in detail, given that the demographic development will present quantitative changes not only in regard to the number of children but also in regard to classifying lifestyle and the stages of life.

Short-term to middle-term development in tourism with children

By 2010, 8 % less children, 8 % more families with only one child and 12 % more single parents are expected in the group “children under 14 years-old”. Thus, arithmetically, this development would decrease the number of vacations with children to 13.2 million. Nevertheless, the actual decrease will likely be more modest because the number of households with children will decline more slowly than the number of children. Therefore, until 2015, the decrease should lie approximately by 5 %.

The great importance placed in family vacations remains intact in spite of demographic change. Vacations involving single child families and children accompanied by seniors will become of greater importance. In 2003, 11.5 % of all vacation trips involved children up to the age of 14 traveling in the company of adults over 50 years-old in, half of which were over 60 years-old. Getting together with children continually gains importance for the increasing number of senior citizens. This segment is characterized by specific travel behavior (i.e. less dependency on seasons, higher expenses, and longer stays).

From the tourism perspective, the development in the number of single parents is still relevant to some extent. In 2002, less than 4 % of all vacation trips with children involved single parents (approx. 500,000 vacations). However, single parents in everyday life seldom embark on vacation alone: in 87 % of the cases, they usually spend their vacations with at least one other adult (Forschungsge-meinschaft Urlaub und Reisen 2004, p. 113ff.).

Long-term development in tourism with children

From the current perspective, the trend regarding the market volume will in the long-term stabilize following 2015. However, the slightly decreasing tendency will resume around 2025 or 2030 (Haehling von Lanzener et al. 2004, p.22).

6 Those still traveling in the future: Consequences and recommendations

Travelers are getting older

The shift in the age structure until 2020 and the aging society associated with this change will influence the tourism market with significantly more force than the decrease in population within the same period. As per the medial variant of the tenth population projection, the population in 2020 will correspond approximately to the current figure. Thus, a slump in tourism demand within the next few decades is not at all foreseeable. A slight increase in travel propensity could compensate declining tendencies in such a manner that the number of travelers and the number of vacations would stagnate at the current level. Nevertheless, the age structure will indisputably undergo a drastic shift within this period, resulting in an aging society.

Synchronizing marketing and product design to the needs of elderly customers

Marketing tourism products also has to cater more dynamically to the needs of older customers than in the past. So far, the endeavor to give tourism a youthful image has dominated the scenario: “fun and action” are at the forefront, whereas “tranquility and security” play a rather lesser role. In the future, marketing travel products and destinations will also have to be tailored to the needs and desires of older people, yet without appearing “old”.

In practical situations, marketing must not exclusively portray elderly individuals and communicate tranquility and security; rather, it has the obligation to cater to the changing qualitative and quantitative aspects of senior tourism. In order to successfully address the senior citizen target group with a marketing strategy, thorough knowledge of their needs, requirements and desires is essential. Biological changes such as impaired visual acuity or reduced color perception, restricted visual field and range as well as physical mobility generate special needs for the elderly, which also have to be met on vacation. Therefore, the accessibility, which companies strive for, has to extend throughout the entire service process. For elderly individuals with restricted mobility and health problems, vacations for senior citizens should be conveyed as a brand they can trust to receive respectful care and competent attendance.

Recognizing and using opportunities for Germany's tourism

Destinations, which consciously cater to the senior segment – i.e. spas and health-oriented locations, – will be able to profit from demographic change. On one hand, senior citizens are (inevitably) health-conscious and on the other will continue to be financially well off in the near future. Senior tourism is also characterized by a

notably lower seasonality than in the case of other age groups. Thus, a feasible and wise step would be to combine the concentration on the senior market with an improved product vis-à-vis a child-friendly atmosphere. Tourism with children as a complementary product would prevent destinations specialized in senior citizens from being labeled as “senior citizens homes”. Many senior citizens do not want to just spend time with people of their age or even with older people, they prefer to gear their lifestyle and leisure activities towards a younger peer group. Overall, the senior market is characterized with heterogeneity, which has to be addressed in a lot more detail than has been in the past.

Creating target group specific and differentiated products

The tendency to split the senior market in two directions will intensify on the long-term: on one hand in the market segment of “Adventure Consumers”, who make large tourism expenses, and on the other in the market segment of “Savings-Oriented Consumers”, who despite having a lower budget continually uphold a fondness for traveling. Thus, the tourism economy will have to develop products designed specifically for each of target groups. Amongst other things, the special needs include providing care and support services.

Promoting tourism for senior couples

Senior tourism will progressively develop into tourism for couples in the adventure as well as in the savings-oriented consumer segments. Although the requirements of senior couples hardly differ from those of younger couples, elderly senior couples in particular will most probably ask to enhance a “normal vacation” with the comfort and care in trips especially tailored for seniors. This situation rings true particularly when one of the two depends on suitable care and support services and when the need for care presents a travel restriction for the senior couple. Even products for seniors traveling alone will continue to be requested. Since women have a higher life expectancy, older individuals traveling alone will continue to be predominantly female, even if a slight increase in the male percentage is to be expected.

Identifying the 75-plus boom market

The number of 60–74-year-olds will increase by approximately 2 million individuals by 2030. As such, this growth along with the anticipated increase in travel propensity within this age group should have positive effects on senior tourism. Nevertheless, the fact that the number of people with health problems will increase in correlation with the continually aging society can not be forgotten. Thus, the number of chronically ill elderly individuals will also grow as the proportion of elderly individual in the overall population increases. A large fraction of these individuals will no longer be able to participate in tourism, unless – as proposed –

tourism providers manage to supply suitable, high-quality care and support service at a reasonable price. This development will become particularly relevant following 2030, when the number of 60 to 74-year-olds diminishes and the number of the 75-plus age group continues to grow. Consequently, age and health will become societal issues, which in the future will proliferate in the tourism market with considerable more energy than in the past.

Making vacations possible for family members of individuals in need of care

In consideration of the trend towards tourism for senior couples, supplying care for the ill partner would be beneficial, on one hand, by making vacations in general possible and on the other, by allowing the other partner to relax through the reprieve granted to them. These issues are of course only viable with chronically ill individuals who are still relatively mobile. In acute cases of long-term illnesses, the mobility in the affected individuals is usually restricted to such an extent that participating in tourism is impossible. Thus, from the tourism perspective, it is essential to take measures to make traveling actually possible for family members (such as the partner or child/children) indirectly affected by an individual's illness – the travel behavior of these family members is also restricted as a result of the care required.

By the year 2050, the intergenerational support coefficient will have tripled; as such, there will be three times as many individuals over 80 years-old, who will have to rely upon the descendant generation for personal and/or financial care. Considering the particular situation of each individual, this state of affairs implies that, in the future, children of elderly individuals will be even more encumbered, either through the personal and/or financial care – assuming expenses for outside care assistance. In order to make vacation trips possible even for these persons (and their families), certain measures should be implemented: facilities for short-term care and flexible support services should be encouraged, and short-term care insurance should be incorporated into the service catalogue.

Taking changes in the professional and family life into consideration

Despite the current focus on the “senior” market segment, the younger target groups should not be neglected. Without a doubt, individuals under 60 years of age still represent the largest proportion of travelers (currently 35 million) – and this trend will continue as such even in 2050. Thus, a (supply-oriented) policy, receptive to children and families, is of great importance – even in tourism.

(Dis)regarding single parents as a target group

More and more patchwork families and single parent phases are replacing the classic family structure. Even so, results from the Reiseanalyse (see Forschungsgemeinschaft Urlaub und Reisen 2003) demonstrate that the market share for traveling in the company of a child (an adult and a child) lies around just 3%. In this

case, selective marketing research could be applied to measure whether special products for individuals traveling alone with children are profitable or whether the demand for such a product exists. If it does, the products should include the following component: qualified child care ranks number one, enhancing the leisure effect for single parents and children. Single parents would then have the opportunity to meet individuals engaged in similar personal circumstances and even give them the opportunity to find a new partner when desired. In addition, supplying camps for children and youth lasting one or several weeks seems sensible. Single parents could thus benefit from the opportunity to relax and even go on a child-free vacation.

Temporary singles

Due to the ever intensifying requirements of the labor environment, people are continually being deprived of the luxury of determining their leisure time. Professional obligations will eventually result in partners not always being able to travel together. If such a partnership involves children and if one of the parents wishes to travel alone with the child or children, then products for single parents could also be attractive for families. The first “single & child” products or economical trips for “small families” are arising in this field, for instance with the tour operator ITS. By the same token, Thomas Cook offers fixed rates for children. In general, such offers apply when a child is accompanied by an adult – family ties are not taken into account (Aschenbach 2005, p. 18). Nevertheless, as a matter of principle, vacations with the family should continue to be encouraged. For example, companies could grant parents with school-aged children precedence when planning the company’s vacation schedule, as is already the case in most companies.

Family tourism remains vital

Despite all of the individualization trends, family continues to be a relatively stable guest segment. Due to professional responsibilities of both parents, time spent together in leisure as a family is indeed becoming scarcer; however, this deficiency could possibly increase the disposition to spend more money on “valuable” free-time content. When on vacation, this clientele would place great value on high quality as well as comfort and convenience. Similarly, this trend can already be observed in families with double income and no children (DINKs – Double Income No Kids).

Vacation from the children – with the children

Along with providing parents the possibility of embarking on something alone or in pairs, joint family-oriented activities also have to be developed, so that the essential motives for traveling with children are met: “having time for one another” and “being free, having time”.

More facilities should be incorporated in vacation destinations, where parents can leave their children in the care of qualified staff and engage in day trips or evening activities. Since building said facilities and creating new jobs contribute to a collective family-friendly atmosphere in society, public funds are available. In fact, some of the latest family vacation products are heading in this direction, allowing grandparents to travel along for free. With this special, childcare facilities in the hotel hardly incur any expenses. Family tourism is thus an opportunity for Germany's tourism, given that, in addition to senior tourism, tourism with children is an important pillar for the national tourism economy.

Recognizing family tourism as an opportunity for Germany's tourism

In order to strengthen and maintain this pillar, it is essential to emphasize the advantages of tourism in Germany (i.e. healthy climate in the mountains and on the German coast, minimal danger of sunburns, very unlikely probability of natural catastrophes) and cater more to special requirements. In particular, German coastal regions could profit from the large popularity of seaside vacations when traveling with children. Hotels could accommodate this guest group by providing families adjoining rooms or larger rooms with space for one or two cots. Financial support for renovations would provide hoteliers additional motivation. Implementing a standard certificate for outstanding family-friendly hotels throughout the republic is worth contemplating. Families may also ask for menus and mealtimes catering especially to young guests.

The tendencies and possibilities for action previously described reveal that the tourism economy is by no means being left to its demise through demographic change and the ensuing socio-economical effects – assuming of course action is taking action in time. It becomes just as apparent that predicting various possible development paths is vague at best and corresponds only to specific target groups. Last but not least, continual engagement in this topic, along with constant development and construction of a database, create an essential basis for the tourism economy and science when evaluating and reacting to future trends.

7 Other research requirements for tourism science

The particular question, which needs to be answered in tourism science, corresponds primarily to the following focal issues:

Research in age-related travel behavior

Whereas the importance of seniors within the populace structure can be quite certainly estimated for the next few decades, it is rather uncertain how and whether travel behavior in the older population will change in the future. In particular, differences between the travel behavior of young seniors and that of the elderly sen-

iors have to be taken into consideration. Will the trend persist, in which elderly individuals prefer to travel (once again) inside Germany, as elderly seniors currently do? Or, will they carry on in old age with the travel behavior acquired in their middle age and then completely cease travel activity when traveling to foreign countries becomes impossible owing to health issues?

Status-quo forecasts shed just as little light on the situation as trend prolongations. Thus, tourism research has to rise to the difficult task of developing methods, which can aid in predicting this future development.

Monitoring population development and achieving development in travel propensity

Currently, a universal agreement on whether tourism will quantitatively decrease or increase in the middle term is not possible. Estimates range from a significant decline or a consistency to an increase in the figures until 2025. This wide development corridor, which regards an increase or even a decrease in tourism demand as realistic, poses a large factor of uncertainty in future-oriented tourism planning. Therefore, the mission for tourism research is to do its utmost at minimizing this uncertainty by periodically observing demographic change – and simultaneously bearing in mind tourist aspects such as the development in travel propensity in different age groups. Only with such monitoring can socio-demographic development be identified in time and answers to the challenges at hand devised and implemented.

Examining the travel behavior of foreign citizens

Thus far, observations on the future of the tourism market in Germany have disregarded the group of foreigners in Germany. Extensive studies regarding the current and future travel behavior of foreign citizens do not exist at the present. Therefore, in conjunction with the expected progression of foreigners immigrating to Germany, compiling a relevant database is vital.

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Eve-olution¹: Women’s rising power in travel decisions

Diana Jaffé

The German travel and tourism market is definitely attractive. Germans are and will continue to be the world travel champions. Of the total 623 billion US\$ that were spent on international trips in 2004, 71 billion originated from Germany. This figure represents 11.4 percent of all global tourism spending. In comparison, Germans represented less than 1.3 percent of the world population in the same period.

However, Germans who travel are spoilt and demanding. For most, traveling has been a completely natural part of life for decades. Traveling has become integrated into general consumer awareness. Therefore, the label travel consumption is by all means admissible. And inevitably, every travel service provider has to observe tourism from the standpoint of consumer behavior. Thus, it is of utmost importance to understand who makes which travel decisions in what manner – and first and foremost why.

Table 1. Top 3 countries for tourism spending in international travel

Rank	International tourism expenditure in billions of US\$			Market share 2004	Population 2004 (in billions of US\$)	Spending per capita (US\$)	
	2002	2003	2004				
	World	485	524	623	100.0	6,373	98
1	Germany	52.5	64.7	71.1	11.4	82	861
2	USA	58.7	57.4	65.6	10.5	293	224
3	Great Britain	41.4	47.9	55.9	9.0	60	928

Source: World Tourism Organization (WTO): “Top Spenders”, December 2005

¹ Faith Popcorn, Lys Marigold: EVEolution: The Eight Truths of Marketing to Women, Hyperion (June 14, 2000).

1 Travel decisions: Who makes them?

The assets of private households in Germany amounted to 4.26 trillion Euros at the end of 2005. In 1994 however, they merely came to 4 trillion DM. Thus, in just eleven years, the assets of the German people have more than doubled. German households saved 180 billion Euros in 2005 alone (Deutsche Bundesbank 2006). Even if around three quarters of the capital has been invested in real estate property, a large portion of the remaining quarter is still available for consumption.

1.1 Who decides how to use the household income and assets?

Several studies vary slightly, but agree for the most part. They demonstrate that, in the USA, between 83 and 87 percent of *all private consumer decisions* are made by women. In contrast, these reports state that only 13 to 17 percent of all private consumer decisions are made by men without significant or marginal influence from a woman. The study results baffle everyone who is addressing gender-specific decision-making power in end consumers for the first time. The following examples, also taken from the USA, confirm to what extent women determine spending:

- Home furnishings 94 %
- Vacations 92 %
- New homes 91 %
- Home improvements 80 %
- Cars 60 % + 30 % influencing others²
- Consumer electronics 51 %
- New bank accounts 89 %
- Healthcare 80 % and 2/3 of all expenditures

And more: Women in the USA

- write 80 % of all checks
- pay 61 % of all the bills
- hold 53 % of all stocks
- influence 75 % of the finance decisions (Peters 2003)
- buy 65 % of all Volvos and 31 % of all Mercedes Benz

² Thus, in the USA, men only make individual decisions regarding vehicle purchases in 10% of all cases.

In view of these statistical results, it may appear astounding that an investigation has not yet been performed, which can provide information on the distribution of decision-making power in private consumer spending for Germany. In 2004, the Gesellschaft für Konsumforschung Nürnberg (GfK) extracted the only existing figure from their data stock following a special request from the author. This figure states that 90 % of all fast moving consumer goods (FMCG)³ sold can be traced back to purchasing-decisions made by women.

In other countries, the slightest spur of such data is simply missing. However in 2004, the Belgian consulting firm, Félosophy, determined that in Belgium women made or at least greatly influenced 79 percent of the private purchasing-decisions. Nevertheless, even if figures exist in a range of purchasing decisions, their credibility is quite often dubious. For example, at the German book trade association, 60 % of all books are said to be purchased by women. TNS Emnid revealed that women actually only purchase 4.3 books a year and men 3.7 (TNS Emnid Medienforschung 2006). When this question is put to booksellers, they answer in unison that the gender-gap is enormous and that they sell at least 80 % of all books to women. This example certainly does not represent a single exception. In all actuality, most businesses greatly overestimate their knowledge concerning their customers. As a result, people, whose participation in the decision-making process is marginal at the best, are quite often addressed, while the decision-makers are falsely addressed or, in the worse case scenario, completely ignored.

1.2 The myth of the “mutual purchase decision”

Whether certain purchase decisions are made predominantly by women or men depends greatly on the type of purchase. In certain circumstances, the division of tasks can depend on complicated criteria configurations. Hence, men are often obliged to make purchases, which impose an extreme burden on them and their partners alike, since evaluating these particular products or assortment requires specialized and/or complex knowledge.

In the business world, the image that men often make decisions alone while women make important purchases only after having spoken with their partner is quite prevalent. These assumptions were reflected in various quantitative studies using surveys. When couples were questioned individually, men often asserted that they make many purchase decisions alone, even if this affirmation contradicts reality. Men tend to have a warped perception when confronted with such issues, as these actions are associated with their self-perception. In addition, men often subconsciously suppress their partner's actual contribution to the decision making process. By the same token, when women are questioned, surveyors obtain answers which are just as inaccurate. In all areas of their life, women place a great

³ The so-called everyday goods and products for the daily needs: food, hygiene articles etc.

value on relationships and consensus (Tannen 1999). They perceive mutual decisions even when these discussions never occur. Women often make a choice and then look for confirmation and acceptance on a personal level. It usually has nothing to do with an objective discussion, but with presenting their reasons for their choice, and thereby establishing common ground and fulfilling a typical characteristic of female communication. In contrast, women do not like it when their partner questions their choice on an objective level and actually assess such statements as a personal attack. Genuine discussion hardly ever takes place because, in the event that a spouse is more knowledgeable in a certain topic, this partner may – or even has to – make the decision.

These distortions surface only after directly comparing the statements issued by women and men. Afterwards, it becomes quite evident that the declarations made by women and men overlap considerably in certain situations but exhibit a large disparity in others (Jaffé 2005). Hence, surveys are not able to offer valid results for certain questions: both male and female consumers can only give analogical responses for their (mis)perceptions and predictions. Thus, this attribute appears to be the source of any misconception on the part of the decision-makers in businesses. Research methods differing from direct surveys are needed in order to gauge behavior and motivation.

1.3 Target group analysis

The target group “Women” is extremely attractive for the economy. Women represent the majority of the world population with 52%. Furthermore, in most countries, they increasingly receive better education, which automatically leads to a higher income. To a certain extent, dramatic developments can be observed. Many third world countries, and even some emerging markets, are targeting female employees and encouraging women to increase their autonomy, in order to stabilize first of all their self-sufficiency, then society and finally even the political situation.

In western countries, a shift in power has been emerging for years: men still have a firm grip on control in families with little education; however, they are losing authority in families with a high level of education. The average income for men and women becomes increasingly equivalent the higher the level of education. In certain occupations and age groups, the income is already identical. The largest salary differences are found in the gender-specific job choices which require training. However, age is also important for this assessment, since women in the 50-plus age group often find themselves limited in their occupational qualifications as a result of traditional or economic motives. In Germany, every seventh woman already earns more than her partner. As such, the entire situation has to be considered if any conclusions are to be made about the average income. For the economy, this situation means that, with more and more frequency, women with a labor-force participation rate of over 65 percent (men: 81%)⁴ have

labor-force participation rate of over 65 percent (men: 81%)⁴ have not only their own income at their disposal but also that of their partner.

With increasing education and new-found financial independence, the number of single or separated women is steadily rising. In Germany, the divorce rate has constantly been over 50 percent since 2001. At the same time, women initiate 58 percent of the separations. In only 6 percent of all cases do both parties file for divorce. Financial independence as well as a comparatively good social system on an international level ensures that women in Germany can maintain a secure existence as well as a self-perception completely independent from a man.

Nevertheless, the economy views women as a very attractive target group because they do not just make economic decisions for themselves, but also for their entire social environment of family and friends. They are responsible for purchasing an extensive array of products for family members as well as birthday presents and other gifts for friends and colleagues. For each item they buy, women consider the interests of every person, who could be effected in anyway through the respective purchase, use or possession. They take all interests and preferences into consideration even if they are "just" buying something for themselves.

Women are extremely loyal customers, as long as they are satisfied with a product. They change suppliers a lot less than men. As part of their social role, their relationship-oriented nature and their communication behavior, women often exchange information regarding good and bad experiences with products, services, manufacturers etc. even outside decision-making processes. Travel anecdotes and vacation experiences characterize an enthusiastic and inexhaustible repertoire. Female social behavior practically compels women to make recommendations. Therefore, if a woman is satisfied with a destination or an operator, she makes sure that everyone hears about it. For businesses, this particular type of advertising is unique and priceless. It possesses an especially high level of credibility and can only be influenced with high quality products.

1.4 Traveling in the female perception

In the travel and tourism industry, vacation and business trips are usually considered separately. Female travelers do not conform to this division. Even though women may partially place different values on certain conveniences during a business trip than on vacation, especially when they are traveling with family, they perceive the world and their life as a whole. If they are on a business trip, they definitely observe the conveniences that are suitable for a vacation and vice versa. Successful solutions and sensible concepts penetrate into the professional and private life. Thus, in view of the facts that the number of female business travelers is increasing and that women are still those who predominately organize and book businesses trips, this position should be closely examined.

⁴ Statistisches Bundesamt, Mikrozensus.

2 What is gender marketing?

Gender marketing is the consequential view of the market from the perspective of female and male consumers. However, if biological aspects play a larger role than sociological aspects, the term gender marketing as such is actually inaccurate. The biologically correct term is “sex”. “Gender” embodies a social concept which also unites other complex constructs of sexual identity, whereas an individual’s sexual identity and corresponding behavior can differ from their external appearance. In the past, gender marketing has born the aforementioned distinct biological traits, where the chromosomal appearance and the subjective sexual perception have corresponded. For many issues, sexual orientation does not play any role and is thus disregarded. In other areas, heterosexuality is simply assumed or a differentiation to homosexuality clarified. However, using the consequentially correct term of sex marketing would immediately create false connotations. Hence, the author uses the term “gender marketing”.

Gender marketing is not only defined by the new biologically detailed knowledge. In fact, the needs of male and female customer are stressed and must therefore receive priority. Fundamental concepts are crucially important because women in particular do not view the world in a linear manner but rather in its innately complex context.

Experience shows that setting up a “female department”, which is responsible for “female desires”, is not very promising. By definition, marketing has to take place throughout the whole company on every level. To be precise, implementing new knowledge is of top priority, particularly when so many deep-rooted stereotypes have to be broken, as is unfortunately the case for gender issues.

The fact, that gazing into the “gender looking-glass” inevitably leads to completely new insight within most industries, proves that gender marketing is not just a marketing trend. This is where gender marketing attains its particular attraction: precisely in markets with an identical or interchangeable surplus – at least from the consumer’s perspective, innovative products and services with a unique selling proposition (USP) can be developed. At the same time, since the range of products is so broad, the problems of largely fragmented markets (Jaffé 2005) as well as complicated decision-making environments can be avoided (Schwartz 2004). And furthermore, gender marketing can contribute to accurate brand positioning as well as to better differentiation from other market participants.

In the middle and long term, the growing importance for the “gender” factor will inevitably lead to other significant changes in companies. Laws and regulations concerning equality of treatment and changes in market and consumer perceptions in particular will lead to alterations in workflows as well as in organization structures.

The most important prerequisite for a greater appreciation of the context is represented in the following statement: “Women are not different from men; women and men simply differ from one another.” Hence, the – often unconscious – prevail-

ing opinion, that men are the standard and women a deviation, obviously no longer holds water. This point of view is being replaced with the conclusion that two standards co-exist in harmony: the female and the male principle. Both are to be handled with respect.

3 What new aspects does “gender” contribute to marketing?

In opposition to many other theses, gender marketing assumes that for the most part individuals make decisions unconsciously. Thus, physiological, sociological and psychological factors contribute to the decision-making process.

3.1 Biological factors

Even a physical build can affect the way in which the person perceives experiences or even copes with certain situations. Thus, some national and international standards (DIN, EN, ISO) actually need to be put to the test immediately, in view of the fact that they act for only one gender the majority of the time at most. The average seat height for chairs and other seats (approx. 44 cm) is too high for the average German woman (165 cm). She can either lean against the back or let her feet touch the ground. The only possible way of accomplishing both actions is to wear high-heels or perform back-wrenching movements. Men of average height (177 cm) are spared from such hassles.

Traveling can also present numerous perils, which can be easily eliminated by properly assessing the situation. It all begins with the sensation of discrimination and harassment, which women traveling alone often experience, includes the unbearable confinement even in the business class of some airlines, which poses more inconvenience for men than for women, and reaches as far as banal problems such as how all the luggage is to be handled on route, especially when it is not located on a luggage cart. Wheeled suitcases are truly a wonderful invention: however, they prove almost useless for mothers traveling with at least one small child, especially when she has to cope with the all the luggage, the child (or children) and a stroller. To pull this feat off, a woman would need more than just two hands and above all great physical strength. Although a porter may be requested at train stations if needed, women have to fend for themselves in all other situations such as in airports and when in transit. Naturally, the same goes for fathers who travel alone; then again, they normally embark much more infrequently in public transportation.

Differences present in the physical build, the development of the five senses, the brain structure as well as hormonal influences are largely unknown and are therefore disregarded by many suppliers in the travel and tourism market, be they manufacturers, service providers, tour operators, transportation companies or in-

frastructure providers. Although some things may seem quite trivial, the trade businesses could nonetheless provide vast support services. Maps displayed in public areas indicating the legendary “You are here!” label should help guests to orient themselves. However, maps cannot fulfill these requirements if they are hung in line with the cardinal points (N, W, S, E) and if the observer is a woman looking to orient herself, when she is already in the north and has to proceed in one of the other directions. If by chance she is one of the 90% of women who have an average technical visual ability, then in the worst case scenario she will be unable to find her way since the map is upside down to her and since she can not mentally turn it. Most women turn city maps in their hands as they feel inclined or in the direction of travel in order to find their way. A rotatable illustration would be an effective solution for all travelers and could be easily implemented in analog or even digital form at a minimal cost.

3.2 Psychological factors

As for the psychological factors, only a few which are relevant to purchase decisions will be discussed. In order to understand to which extent women and men assess products, point of sale (POS) and communication actions differently, becoming more familiar with their consumer psychology is essential.

Women distinguish between purchasing and shopping, whereas men distinguish between necessary and luxury purchases. Luxury purchases include all things that men find interesting and pleasurable and are often directly related to their hobby. Men and women place different importance on atmosphere, the content and quantity of information as well as services. Even the way in which women and men move through stores and Internet shops diverges. They differ in their typical everyday activities, in their stress sensitivity and the sources of stress. Both have distinct requirements for their vacations, even if they use the same descriptions.

In many cases, characteristic female traits can be traced back to their former roll as gatherers. In such circumstances, the evolutionary imprint in humans, which has been developing over millions of years, continues to have effects. Women, previously gatherers and currently customers, want to get a general view of the total supply. For them, it is important to constantly be able to discover new things. A range of products, which is too wide and unfiltered, can cause problems, because they have to get an accurate overview of the total supply before making a definite decision. Women feel confident that they are able to make the best decision in view of all conceivable options and are proud to possess these skills, whether they truly have this talent or not. Women do not consider if each decision actually needs to be maximized, or whether or not a choice, which is adequate and associated with lower costs, would be satisfactory (Schwartz 2004). Furthermore, during the selection process performed by women, typical female traits such as the ability to communicate, value orientation, practicableness, pragmatism, sensitivity to ambiances and atmospheres, orientation to relationships with individuals, animals, plants and objects as well as their love for beauty, to name a few examples, merge.

In contrast, during necessary purchases, men proceed more strictly toward an end result, which should be accomplished through the quickest possible means. These powers for gentle strategy can be traced back to their evolutionary role as hunters. They do not want to be bothered with unnecessary things, possess considerably more spatial-visual skills than most women, are performance oriented and competitive and prefer male companionship for many activities, including watching team sports such as football (Schwanitz 2001).

Naturally, the preferences of each sex are also reflected in their travel plans. Women quench their desire to continually discover new things on city tours. They believe spas can alleviate their stress. Whatever the case may be, an Ayurveda trip to Bali will most definitely satisfy their aesthetic-visual needs. Conversely, men want to invest time in their hobbies, intellectual interests or an active sport, pursue the *dolce farniente* or even embark on an adventure. In addition, inherent human nature is blossoming, as revealed in an actual travel trend: singles' trips are booming. Singles, both male and female, dream of meeting their partner for life on a trip.

If a family wants to go on a trip, money is not the only decisive factor for determining the destination and length of stay; in fact, the woman in particular plays a large role, considering as many interests of the family members as possible. She often puts her own interest last.

3.3 Decision-making

In order to develop tourism products, the knowledge of preferences and the deep-seated and usually unconscious motives as well as an understanding on how men and women purchase or book trips is needed.

Generally, the male process for purchase-decisions proves to be quite clear⁵. For a man to be able to make such a decision, he first compiles a list with all the essential characteristics and requirements, at least in his mind. He then begins to look according to these criteria catalogs. As soon as he comes across the first product that fulfils all of his criteria, he calls off his search and initiates the payment process.

In the same way, women begin with a criteria catalog; however, for the same problem, this list is usually quite a bit longer than a man's from the outset. If she is making decisions not only for herself, but also for example for a trip for two or even for the whole family, her criteria catalog obviously also contains all of the necessary requirements for all travelers, according to her personal perspective. Once her list has been compiled with all of the essential requirements, she begins searching. Products and services are examined one by one. However, a woman would never call off her search with the first promising product, which fulfils her criteria. In fact, she prefers to assemble a general view of the total supply. During this process sequence, the gatherer constantly encounters new and interesting

⁵ The process deviates with luxury purchases.

criteria, which she immediately adds to her criteria catalog if suitable. Thus, something completely fatal occurs: she progressively learns and increases her expectations. Every newly found feature compels her to once again verify if her previous choices comply with all of the desired criteria. If in the end no product remains, which fulfils all the requirements, she will most likely look elsewhere. Only as a last resort will she discard some criteria. On the other hand, if a lot of options are still available, which she can not differentiate or prioritize, she will decide according to the price. Therefore, the female purchase decision is an iterative process.

3.4 The extended marketing mix

The classical marketing mix consists of product, price, promotion and place. Gender marketing broaden the marketing mix with the dimensions

- Market research: developing new methods
- Service: providing new or complementary services to support women and men in their different lifestyles and everyday life
- Relationship management: building genuine relationships with female customers including employee training in various communication styles
- Company policy and ethics: the holistic female perception leads to an assessment of “company behavior”, as also demonstrated in financial investments; women invest preferably in companies they know and value and whose products they possibly use.

Gender marketing provides two different approaches, thus also two product categories, for classical product development. The first category contains products which were developed for men *or* women. The second includes products, which actually work for women *and* men, however were developed with completely different methods than in the past. Products from the second category fulfill the needs of women and thus are more efficient for men than all other products. Product development within the second category takes the female decision-making process with its comprehensive and optimal criteria catalog (see above) into consideration. And it even offers men useful features, which they would never have considered themselves. The second approach is not suitable for every product area, however can be used more often than commonly believed. It possesses an extremely large potential for innovation.

On the whole, the same principles apply to the development of tourism offers. Thus, products optimized for the feminine or masculine needs can be generated. On the other hand, trips and additional services, which combine the needs of both partners, are also conceivable. It is of utmost importance to consult the female criteria catalog, which incorporates the needs of the fellow travelers and quite often also of those remaining at home.

3.5 The distinctive gender roles for the tourism industry

The extent to which gender is already impacting the travel and tourism industry is present everywhere. Thus, spa trends that were once formed by women have now become a standard feature in all of the higher hotel categories. In contrast, men are instigators and fans of unusual or even extreme sports. In order to pursue these activities, special environmental conditions are often required; hence, participating in these sports automatically entails traveling. Thus, the fact that a large number of men feel drawn to participate at least once in their lifetime in an adventure excursion, a sailing voyage around the world or even a survival training program is not astonishing in the least (Focus Medialine 2005)⁶.

A topic which is still not receiving just attention is women at advanced age who travel alone. Demographic development shows that, within a few years, the so-called aging society will be confronted with a wealthy and elderly social class, which will not consist of couples but of widows.

3.6 The current tourism offer from the perspective of female decision-makers

From the consumer perspective, tourism products are for the most part interchangeable at least in the volume market. Numerous products only offer very few differentiating characteristics. Arbitrariness and anonymity reign almost everywhere and the traveler, with or without companionship, can quickly become part of this arbitrariness. Traveling is often exhausting; thus, on personal vacations at least, the desire for relaxation is omnipresent.

Due to the vastness of the supply, the selection process itself is quite difficult. Many travel agencies are often no longer able to offer genuine assistance. In addition, Internet travel shops are hardly ever optimized for consumer needs. Therefore, personal recommendations between friends and family are all that remains. This advice is especially valuable because the people making the recommendations are familiar and thus predictable.

Two interesting niche providers undoubtedly stand out from the common products. They demonstrate how a product assortment with indisputable added value can emerge: for over 20 years, the Berlin travel provider "FRAUEN UNTERWEGS – FRAUEN REISEN"⁷ has been creating completely unique trips with everything a female spirit could desire, except maybe male companionship. In contrast, "Babyreise"⁸ specializes in travelers with babies and small children. The company, established in 2005, provides parents with a planning and travel preparation

⁶ Source: A Forsa survey with 1,000 German men aged 31 to 69 on behalf of epicure.tv and F.A.Z. Institute, February 2005.

⁷ <http://www.frauenunterwegs.de>.

⁸ <http://www.babyreise.de>.

service. The staff knows exactly what is required: The selected hotels have cribs, an assured supply of diapers and all other necessities that parents and children could ever require. Parents are thus spared a middle removal, which otherwise accompanies every trip with small children. In return, the hotels guarantee that the parents also receive relaxation and time for one another.

Many large and small niches, special interests and tendencies are waiting to be discovered and harvested. These initiatives are the only ways for tour operators, and even travel agencies, product developers and other travel service providers, to attain a real competitive edge and win the favor of their customers – and sustain this success.

4 Checklists

Two checklists should help to develop a product assortment according to the characteristics of gender marketing. The first checklist deals with questions regarding information and data collection to start with. The second provides tips and thought-provoking issues for the development process. These checklists are predominantly adapted to the needs of female travelers for two reasons: On one hand, in the USA and also through conjecture in Europe, the principal decision-makers for vacations are women. On the other hand, the female catalog of requirements is, as previously mentioned, more detailed and comprehensive and even takes the desires of possible fellow travelers into consideration.

4.1 Market and consumer research

Travel developers and providers can clarify the feminine thought process before beginning a project by answering the following questions:

- What do we actually know about our female and male customers?
- What do we not yet know that could nevertheless be important?
- Which method should we use to find out what we want to know, avoiding falsification?
- How do women think? What do they expect from us?
- How can we earn their trust?
- How can we reduce their stress?
- How can we develop a genuine relationship with them?
- How are we going to develop a respectful in-house atmosphere?
- How can we improve her life?

4.2 Questions during the planning and development process

- Does our product range consider the needs of
 - couples
 - families
 - singles / individuals of various ages traveling alone
 - single parents
 - etc.?
- The end of all copycats: Do we offer enough benefits and USP?
- Can we provide more USP or value added services?
- Does our product line consider status factors for all income levels?
- Gaining attention: What are we doing better than the others?
- Do we listen to our female and male customers? (Or have we delegated this task to a call center or another third party?)
- Are we so close to our female customers that we always obtain input for our market research?
- Do we seriously contemplate the different age-groups and their needs?
- Do we offer more than our competitors? If so, are we being compensated?
- Are our female customers so enthusiastic that they remain loyal and even provide us with some advertising by talking about us?
- Have we adapted our distribution channel and our communication to the decision-making women?
- Do we really respect our female customers? If so, is our respect also so obvious that they can perceive it?

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Polarization of markets: Luxury and budget hotels

Maria Pütz-Willems

Disparity is occurring even in the hotel industry. Travelers are being put up in completely different beds: in expensive and economical beds, with a thickness of 60 cm or a thinness of 15 cm, in rooms with a dimension of 16, 36 or 350 m². Travelers shower in extravagant marble bathrooms or in self-cleaning plastic sanitary booths. Luxury and budget hotels are repositioning. In addition, the newly aroused brand loyalty is eliminating the mainstream.

When the French Accor-Group entered the German market with its first two star hotel Ibis in 1982, price-performance advocates in countries neighboring Germany just shook their heads: Who would want to stay in such a scaled down hotel? Good performance at the lowest price just wasn't conceivable! However, in the meanwhile, this brand has doused the fire in many mama & papa pensions. And, the end of the budget campaign is absolutely nowhere in sight. In some regions of the world, even in the luxurious Dubai, the one, two and three star hotels are just starting to move in.

Growth in emerging markets is no longer conceivable without the budget sector. Naturally, luxury hotels are the first on site. But the question remains as to how China and India are going to tackle the flourishing travel boom in their countries without affordable accommodations. Insiders agree: luxury requires budget.

1 One or two stars: Playing with the customer's expectations

The previously pitying smiles have transformed into highly perceptive observation. The budget hoteliers have taught the luxury hotelier how to calculate costs. A room for 29, 39, 49 Euros? And without charging double markup during trade fairs? It works. Do budget hotels have to be located at the edge of the city, in bleak business parks that are deserted in the evening? No, they no longer have to be. Nowadays, the terms budget and city center are no longer in conflict.

Currently, budget hotels are active in two official star categories: in one and two star hotels. The budget hotel product is best defined using the term “price-performance”. Customers/guests have already learned to think in a cost effective manner; hence, they decrease their expectations when faced with a specific (low) price. Germans are the only ones capable of sabotaging this spirit: with their well-known demanding attitude and the internalized mentality that “stinginess is cool”¹, Germans stand out as eternally insistent and insatiable. In their own country, in view of the long-standing slack economic situation and the increased sales tax in 2007, Germans are slowly losing their shame of admitting they stay at two star hotels. In keeping with the Ibis example, underground garages house not only medium-sized vehicles but also luxury class sedans.

The value placed on goods and services is changing. Aldi customers drink champagne while guests at budget hotels book opera boxes. Budget hotels have achieved a new dimension of flexibility – incidentally long before the low fare carriers took on the classic airlines. In this case, the hotel industry was for once the forerunner and not the airline industry.

Paying extra for breakfast in a budget hotel is now common practice. Televisions do not always have cable, thus putting an end to endless TV; the outside world can only be concealed with window blinds and not with classical roller shutters. Room service is a taboo; in urgent situations, hunger can be stilled with convenience food from the vending machines in the lobby and then warmed in the central microwave. Many travelers are willing to put up with such conditions when they can then stay overnight at a more economical price.

2 Even budget includes a service promise

When the budget pioneer, Ibis, began expanding, it confronted the standards: Accor “promised” the same quality in all of its houses at the same price. The hotel chain defined the lowest criteria acceptable under the brand umbrella – and thus, in the middle-class oriented markets (such as Germany), Accor successfully distanced itself from the unfamiliar motels, unknown guest houses and dubious hostels located at the edge of the city. As the years past, Accor raised the stakes once again with its „15 minute promise”: Guests, who notice any deficiencies, maintain the right to have these faults remedied within a quarter hour, otherwise they pay nothing for their room. Such service initiatives broach the issue of service in 2 star “no-service” hotels and therefore add to the perplexity.

The budget market no longer has to justify itself. It is a stable component in the hotel product line. Its success stories are being repeated throughout the world. Budget brands with extremely different characteristics include names such as (in alphabetical order): Campanile, easyHotels, Etap, Express by Holiday

¹ A mentality developed from a marketing gimmick: „Geiz ist geil!”

Inn, Formule 1, Ibis, Kyriad, Motel One, Première Classe, Premier Travel Inn and Travelodge.

Success in numbers: according to figures from the French Louvre Hotels, there were 3,720 budget hotels in Europe with a total of 276,617 rooms in 2005, of which over 80 % were in the hands of six large hotel chains. France has the largest market for budget hotels in Europe. Overall, 1,969 branded hotels offer 133,810 rooms in the 0 to 2 star categories, which correspond to a market share of 35 %. Great Britain takes second place. Both of the British middle budget brands, Whitbread's Premier Travel Inn and Travelodge, control almost two thirds (63 %) of the market. Out of the large European countries, Spain and Italy are the stragglers in the era of budget hotels. The situation is particularly bizarre in Italy: there are no budget hotels whatsoever in the low to middle-priced sectors. A law from 1925 enforces that single rooms have to measure at least 8 m² and double rooms at least 14 m² for hygienic reasons. In contrast, the standard double room at Formule 1 is only 9 m² and does not appear any better at Etap with its 12 m². The budget giant Accor asserts that the regulations in Italy make operating low-price brands inefficient (figures from: "Noch lange keine gesättigter Markt – Überblick in Zahlen und Fakten: Budget-Hotels in Europa", hospitalityInside.com 03.02.3006).

3 The new budget design wave

The fascinating fact about this relatively young budget market segment is that these economic hotels no longer look like identical twins. The more providers there are in the market, the more coverage budget hotels acquire. And, the slight nuances between the providers become greater. A new wave of "budget design hotels" is rising. Fulfilling basic needs is no longer enough; conveying new living experiences and new quality ratings at a moderate price is the new trend. Budget hotels undermine many higher-ranked three star hotels with this price-performance rate.

Currently, the German hotel chain, Motel One, is clearly setting the course for this trend: a few designer armchairs and some Murano lighting in the lobby lent the two star hostels a posh splendor. And, thanks to an integrated fireplace and lounge, the lobby has transformed from an uncomfortable arrival and departure area into a cozy waiting room for guests tired of staying in their rooms. Last October, the chain set the bar for quality even higher. They are abstaining from constructing triple beds in all of the new houses: The pallet bed above the double bed has disappeared. In addition, Motel One has improved the overall optical atmosphere in the room: In the future, for just 45 Euros per room, guests will be able to sleep in comfortable double beds, which look much more stylish with two decorative pillows and a colorful bedspread. Classical televisions have been replaced with LCD flat screens; the rooms are equipped with a mobile workstation, lounging furniture and air conditioning. A wood frame adorns the head of the bed and also accents the windows. Curtains have replaced the blinds in the windows. The

wash area integrated in the room now draws attention with a round designer basin – a unique concept. In the new washrooms, dark granite defines the optical character and a “rain dance” shower revitalizes the guest in the morning.

4 More international budget concepts to come

Motel One is shifting the classical categories and is certainly competing with three star hotels and most definitely with medium-sized businesses that do not have an individual image. However, budget hotels can reside in a lower hotel category just as well – in the one star hotels. These so-called “low budget hotels” only stand out as a result of one quality: “no frills”. This category includes for example the British brand easyHotel as well as the Yotel! Hotels chain, which is currently in the design stage.

In a discussion about luxury versus budget at the first Hospitality Day during the ITB 2006, the founder of easyHotel, Stelios Haji-Iannou, described the service with the following motto: “Sleep, shower & go.” Guest should only use the room for basic necessities such as sleeping and showering and then leave. In any case, the size of the rooms does not leave many other alternatives.

Rooms at easyHotels are similar to solitary cells, as is to be seen from the first continental European product designed by this Englishman. In the former hotel “Badischer Hof” near the Basel exhibition grounds, the rooms contain one bed and a flat-screen TV on the wall. WLAN can be requested at an additional charge. In general, there is just enough furniture. Thus, the rooms can be cleaned within just 15 minutes. In addition, the orange-colored washroom is simply an extremely compact unit with a shower and toilet, just like Stelios uses on easyCruises, the cruise ships.

The Englishman’s concept seems to be bearing fruit. These compact living cells make providing “standardized” accommodations at an affordable price possible, even in otherwise expensive locations, i.e. London Center, Kensington. Stelios would also like to start building hotels outside of England, in locations where his low fare airline, easyJet, also lands.

5 Concepts to be modified to mentalities

Expensive metropolises such as London are also a text market for Yotel, a new variation of the Japanese “capsule rooms”. In a self-proclaiming marketing campaign, the company described their new hotel “as the world’s most revolutionary hotel concept”. The first two hotels from the Yo! Group are going to be located inside the terminal buildings at the Heathrow and Gatwick airports for spring 2007, and later also in London City. Their first peculiarity is that guests can even book for just four hours.

The two founding members, Simon Woodroffe and Gerard Greene, are trying to combine extreme guest requests: Each “capsule” is equipped with free Internet access, a flat screen TV, sound system, air conditioning, work area, shower/WC and “lots of storage area” – all located in the on average 10.5 m² room. Since all the rooms are windowless, the Yotel founders perceive great expansion opportunities in the world’s mega-metropolises.

However, insiders are skeptical about such assumptions, owing to the fact that highly standardized concepts also require “standardized customers”. This concept could easily collapse as a result of the mentality of the people in the various regions. For this particular reason, the “Formule 1” hotels from the French Accor Group were destined to failure in Germany. In contrast to France, the low budget concept, which provides one communal washroom per floor, was not well received by German guests.

6 The luxury market

Budget is no longer simply budget. At present, even the target groups for budget products have to be treated differently. Thus, the market is making economically priced accommodations difficult not only for strategists but also for the luxury hotel sector representatives. A clear segregation is emerging even in the five star segment.

The luxury market has begun to soar. Conrad Hilton’s credo “Location, location, location”, which the market had been decreeing a decade ago, no longer holds absolute validity. Luxurious design and lifestyle hotels and even four star superior accommodations can now be found in direct proximity to established luxury hotels. These luxury competitors are located in the second row, at the next largest square or at the center of the nearest “in-neighborhood”. Just like the budget hotels are picking at the three star segment, the five star hotels are losing their unique positioning to creative and niche-oriented first class hotels. The effect: the mainstream is being washed out.

7 7 stars: Indicators for the luxury diversification

The so-called luxury hotels are looking for a way out of this cycle. Their marketing strategies are willfully rescinding the well-known five star classification system and are simply “inventing” new and unparalleled categories with 6 or 7 stars. Thus, from a purely visual and marketing perspective, the gulf between luxury and budget seems to be widening.

At the moment, defining the measure of luxury or the type of luxury (services) these so-called “six” or “seven” star hotels provide is impossible. It still remains a marketing gimmick without substance. And, it does not appear that these new inventions are going to be admitted into the existing official star classification system, which is controlled by the trade association and/or government in the individual European countries.

The so-called “hardware” for a luxury hotel is barely even increasable – a marble bathroom remains a marble bathroom and antique furniture is antique. Of course, the average room size can increase; regular suites can be transformed into spa-suites; butler service, Internet access and mini-bar can be integrated in the price. However, these are short-term “increases in the range of services”, which are primarily based on the level of equipment and furnishings. The new standards, which are determined by “the other end of the market”, depend on the personnel and their individual engagement towards the guest, who is no longer treated as “the King” but as a partner and friend.

8 Services justify the price

The budget hotel industry defines itself with price which limits service. The luxury hotel industry defines itself with services which justify the price. The latter is becoming more and more difficult. Personnel costs are sky-rocketing in numerous regions of the world: they are noticeably swelling in Asia, and, even in Dubai, hotels are complaining about the lack of qualified employees, which are essential for delivering the promised service standard.

The luxury hotel sector, which subsists thanks to their guest, is thus caught in an increasingly difficult predicament. Houses, in which the personnel costs amount to approximately 40 or over 50 %, have to contest with their actual structures. In addition, the competition in the top segment has increased to such an extent that attaining a high (net) average rooming tariff – desired by the hotel management and in particular by the investors – is practically impossible. The best example for this situation is Berlin. There are 17 hotels in the five star segment; from time to time, some of them actually offer a dumping price for accommodations at 100 Euros per person. Slowly, hoteliers are realizing that generating higher room revenues for occupancy is preferable. Ironists express this situation positively: Berlin is the European capital city with the best price-performance rate. Customers are happy and hoteliers continue disputing. In a talk regarding the hotel situation in Berlin during the “Hospitality Day” at the ITB 2006, hotel managers placed the responsibility on the incorrect establishment and investment policies established by the city council, sluggish urban marketing and of course the miserable infrastructure for tourism (no international airport!).

9 Luxury – an investment sophistication

All the same, these arguments do not change anything in the market. From the investment perspective, luxury hotels are still some of the most popular investment opportunities: patrons therefore are setting a benchmark, using funds to round off the portfolio balance. Investments of 600 million Swiss Francs, for example, in the

Dolder Gand Hotel in Zurich, which is currently under renovation, can no longer be anticipated. Every investor already knows the rule of thumb that “Every star costs yield”; nevertheless, in certain markets – such as “emerging markets” in particular – the construction of luxury hotels has not diminished. Investors, who have been satisfied with houses operated by the two leading luxury brands, The Ritz-Carlton and Four Seasons, often remain loyal to the operator and even help them develop new hotels in new markets.

Luxury hotels only suffer from yield starvation effects instigated by real estate holders if they are located in saturated markets (in the Occident). At the moment, the most extreme example is New York. Currently, a shortage of hotel rooms is prevailing. In the last few years, well-known hotel brands have disappeared because their real estate property was demolished and replaced with apartment buildings. More money is to be made with selling condominiums than with letting hotel rooms. Some hotels return with a trimmed down hotel size, and instead offer more “residences”.

In the USA, Ritz-Carlton and Four Seasons have been financing their five star houses with luxury condominiums, which are often part of the hotel building, for years. However, the global hype in this new financing form is novel. This sensation has also ensnared other hotel groups, young and old, in the strategy: whether Kempinski, Hyatt or Farimont, numerous groups have already begun developing their model of “Hotel Living”. At this stage, time-share and vacation club ownership models enter into effect.

Meanwhile, the classical luxury hotel sector is struggling to define how the guest behavior will change over the next few years. As a result of its high investment costs and high current costs, luxury real estate requires a décor and a product which remain contemporary for well over several years.

10 Luxury touches lifestyle

A study on the topic “The World of Travel in 2020”, initiated by the American Cendant (now Wyndham) Group, identified that the future traveler will look for adventure-oriented trips, controlled danger, an unusual destination and personal challenges/limits. In addition, this traveler does not visit a destination twice and does not interpret luxury in monetary value: luxury no longer has the same price.

Do such conclusions mean that luxury has to be redefined or that a new type of luxury has to be created? The discussion on budget and luxury hotels at the ITB 2006 identified the perspective that luxury hoteliers take in regard to guest behavior in the future. Simon Cooper, President of the Ritz-Carlton Hotel Company (currently with 61 hotels throughout the world), may predict the latest trends and developments until 2010. He reported that the number of luxury travelers has significantly risen but that focus is currently being placed on the changes in customer demands and wishes, which stand for luxury. Even Cooper deals with guests look-

ing for unique events and experiences, which they can cherish. He predicted that “the more unique and rememberable an experience is, the more value it will have for guests.”

The Englishman, Sir Rocco Forte, once an owner of an international hotel chain (Forte Hotels) and currently occupied with building a collection of independent luxury hotels (Rocco Forte Hotels) throughout Europe, defines luxury for the future as having a less formal and stiff atmosphere, freed of regulations and codes. Sir Rocco predicted “professional service with a friendly touch”.

11 Migration from traditional to designer hotels

From rationality to emotions, from continuity to spontaneity: it actually sounds as if luxury is transforming into a lifestyle. In the ITB discussion, Claus Sendlinger, CEO of Design Hotels (with over 140 hotels throughout the world), described the bridge from luxury to lifestyle – reflected through a new type of guest in the late eighties: the young traveler with sufficient money. These guests chose and choose design hotels based on a luxurious standard as a reflection of their demanding personal life. Sendlinger asserted that “design hotels have specialized on a different and novel segment in the luxury hotel sector.” However, this segment is not in competition with the traditional luxury hotel sector. Aspiring professionals are willing to pay 150 to 200 Dollars at the most per room but not several hundred Dollars.

None of the three hoteliers are worried about a “migration” from traditional hotels to designer hotels. Everyone is trying to fine-tune their services to their clientele or even “invent” new services.

Hence, luxury is currently changing – just like the definition of budget. Each segment is encountering its target groups. In contrast to the past, these two segments are not positioning themselves against one another any more. To be more precise, each segment is generating new competition for itself. Thus, the hotel industry also reflects the ever-widening gulf within society.

Smart shopping in the European low cost flight market

Gerhild Abler, Michael Ehling

1 The smart shopper consumer profile

Before concentrating on the issue to what extent smart shopping contributes to the success in the budget flight sector, the smart shopper consumer profile has to be defined and characterized. It is erroneous to put the smart shopper and the budget shopper on the same pedestal since they differ considerably in their consumption preferences, in particular in regard to quality and brand preference. Hence, in contrast to the budget shopper, the smart shopper is not fixated on low prices in terms of a low absolute amount. In fact, a smart shopper is more concerned with obtaining an optimal price performance rate. Equipped with well-defined quality awareness, often combined with a high brand orientation, the smart shopper aspires to acquire high quality products or services at bargain prices respective for these products and to gain price advantages, be they with the original price or compared to other customers.

The root of this consumer behavior does not lie in a shortage of money and thus an external necessity for saving, but in fact in the self-confidence of knowing the market and supply structure and taking advantage of it. The smart shopper knows what he wants and how to get it; he is well-educated, well-informed, socially successful and well aware of status and has an above-average income. He operates the Internet with ease, is willing to take time, but also enjoys analyzing offers and compiling price comparisons. Hence, he forms an exact idea of how much a product or a service should cost.

The principal benefit which a smart shopper can reap from his behavior is successfully using this market knowledge and cleverness as a personal advantage. The resulting feeling of success increases his self-confidence and thus stabilizes this consumer behavior. In addition, competitive comparison with others increases the satisfaction of attaining an attractive bargain on preferential terms, i.e. at a lower price than the others.

The smart shopper is proud of his successes and gains prestige accordingly. Success can result from either purchasing a premium product at a relatively low price as well as a medium quality product at an absolutely rock-bottom price.

Last but not least, the smart shopper has the advantage that his successes contribute to easing the purse-strings and thus enable him to afford even more such positive shopping experiences – what is once again perpetuating this behavior.

In summary, the smart shopper acts from a position of strength: he pays attention to the price performance ratio simply because he wants to, and not because he has to. Thus, the smart shopper represents a consumer profile, which can be encountered in increasing numbers and in many industries. In fact, this consumption behavior is already increasingly dominant in many industries. The smart shopper reflects the shift in market power from the supply-side to the demand-side, which particularly the Internet continues to accelerate.

2 Low cost flight users epitomize smart shoppers

If consumer behavior and target groups in the European low cost flight market are more closely examined, as is the case for the Low Cost Carrier Monitor (TNS Infratest), a comprehensive market research with over 11,000 interview in the five large European markets, it becomes obvious that low cost flight users exhibit many traits associated with the smart shopper consumer profile. Low cost flight users include consumers who have flown with genuine low cost carriers as well as consumers who have purchased low cost flight products from any airlines.

Socio-demographic aspects confirm that low cost flight users do not purchase bargain tickets out of necessity: They have a quite high educational level and an income which is higher than the average air passenger, who on his part is already above the social average. In addition, they often fly more than average – once again confirming the theory that low cost flight products have contributed more to intensifying the flying frequency of existing customers or even, in the worst case scenario for operators, to a cannibalization of higher-priced offers than to notably opening up the airline market to completely new target groups.

More specifically, the focus on brand and quality set the low cost flight user and the smart shopper apart from the simple bargain shopper. As such, the low cost flight user most definitely places value on the airline he uses.

Over half of the low cost flight users in the most important European markets¹ (51.4%) consider the specific airline brand important or even very important when selecting a low cost flight offer. In contrast, only every 20th user claims that the airline brand is completely irrelevant for their travel selection.

Alongside many established brand airlines, a series of newcomers in the low cost carrier segment enjoy a positive brand image. However, the latter impose some radical convenience and service restrictions on their customers. Disregarding this fact, the airlines are considered safe and reliable and benefit from the image of

¹ Great Britain, Germany, France, Italy and Spain.

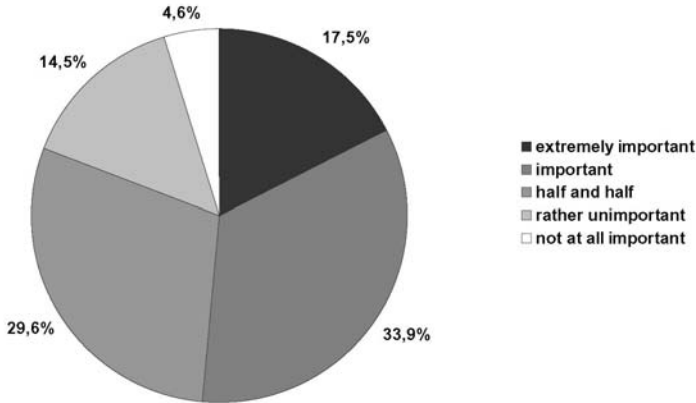


Fig. 1. Significance of the choice of brand

a cheeky and innovative price breaker, who defied the established airlines and flipped the price structure in favor of the consumers.

Thus, low cost flight users have two available options to attain an especially rewarding bargain all the while ensuring their minimum requirements for brand or quality. Either they purchase a ticket from an established brand airline at a relatively low price, without having to comply with considerable compromises in convenience and service. Or they fly with a no-frills airline even though they are not entitled to the same convenience and service and settle with an extremely low price. An additional motive for using no-frills flights – at least in most of the markets surveyed – is still the attraction for new experiences and thus the benefit of being able to competently participate in conversations about flying.

Last but not least, research and booking behavior confirm parallels to smart shoppers. The large majority of low cost flight users are well-versed with Internet use, enjoy organizing their trips themselves and invest a lot of time and energy in always finding the most attractive offer. Many low cost flight users research various relevant offers and, in the course of a decision process, decide which of the offers presents the largest benefit in terms of price, performance, service and brand. These sometimes difficult decisions nevertheless offer an additional attraction: they require above-average market awareness and the ability to interpret and evaluate complex relationships.

Years of market observation and numerous consumer surveys such as the Low Cost Carrier Monitor allow us to conclude that low cost flight users epitomize the smart shopper profile in the European airline market. With his self-confident and systematic demand for the most performance at the lowest price, he stabilizes and animates the supply of low cost flights. Operators have to adapt – if they have not yet done so – to the growing dominance of this consumer group.

3 Even with low prices the consumer expects good service from brand airlines

The market entry of the no-frills operators, which provide sometimes extremely low prices, poses a threat to the brand airlines; they could lose customers and their margins could succumb under the pressure. Brand airlines are meeting these challenges by implementing a doubled alignment in their product line.

To counter the loss of market shares, they initiate price offensives, demonstrating that bargain ticket sales are obtainable from sources other than no-frills operators. On the other hand, in view of the sinking prices, they also attempt to stabilize their margins by reducing services and consequently costs. However, the dilemma, in which brand airlines have fallen, is that although consumers greatly welcome price reductions, they are less inclined to accept the counterbalance of service cutbacks in established airlines than in market newcomers.

For several years, a strong decline in consumers' willingness to pay has been observed in the airline market, triggered by the lowest price offer from no-frills operators and the price offensives initiated by brand airlines aimed against the no-frills carriers. Interestingly enough, brand airlines often surpass consumer price expectations with their offers as a result of this downwards price spiral. As such, consumers would have often been prepared to make greater compromises.

Therefore, three fourths of low cost flight users would have remained loyal to brand airlines even under different and less advantageous conditions; every fourth would actually even accept a higher price.

Brand airlines have to face the challenge of correctly adjusting their pricing to the consumer expectations and refrain from driving the price excessively low despite the large demand for low cost flight offers. Consumer research provides excellent instruments for such a precise pricing.

In addition, surveys identify a second challenge: as a result of learned product expectations and brand images consumers have become less willing to forego valued services with established operators. It is much easier for them to accept the new business model of the no-frills operators, which is based on a tradeoff between price and performance right from the start. Thus, many consumers tend to expect more service from brand airlines than from no-frills operators or contrarily are disgruntled when they perceive the absence of these services.

Various implications concerning brand airlines can be derived from this consumer behavior:

1. In the future, a principal objective for brand airlines has to include a successive improvement in their own cost structures.
2. Brand airlines have to differentiate their product. On one hand, they have to decrease certain services in areas, which consumers or individual target groups will be less likely to miss, and, on the other hand, offer better performance in areas which specific target groups deem relevant and for which

they are willing to pay more. Such relevant added-value services should manage to animate smart shoppers to accept a higher price – as this consumer group is much more interested in optimizing their personal advantage than in an absolute low price. Evidently the smart shopper will indeed pay a lot of money for an interesting product or an interesting service. Price and product research can aid in the area of product differentiation and optimization as well.

- It is necessary to implement an expectation management, to that effect that reductions in service – provided they can be noticed by the consumers – are communicated offensively, to ensure that the consumers do not feel unpleasantly surprised by a constantly changing product. In this respect, the strong presence of smart shoppers in the low cost flight segment can be of a certain advantage, since these enlightened consumers understand the link between price and performance relatively well and are thus definitely open to changes. From the airline perspective, implementing evident service reductions can be favorable, not in the core brand, but rather in a sub-brand which combines lower cost structures, a respectable price image and the impression of reliability of the main brand.

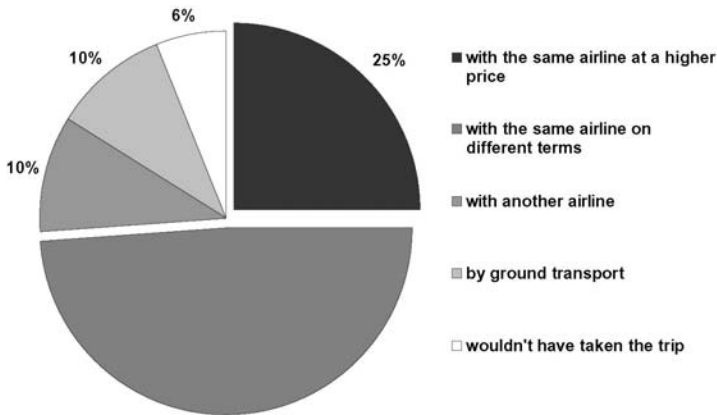


Fig. 2. Alternatives to the low cost trip (on flights with brand airlines)

4 Classifying various airline concepts

In the last few years, the market entry of low cost carriers has divided the commercial aviation market, which had been a two-part system with scheduled and charter carriers, in three. In one corner, brand airlines have a rather classical offer which is oriented to network coverage, easy access and service – the latter has nevertheless become tiered according to the price of the ticket. In contrast, no-

frills operators often forsake the convenience and service in brand airlines and require consumers to accept compromises in return for the extremely low prices. The third group arose as a fusion of these two extremes, creating hybrid operators, whose performance portfolio contains various conveniences. Hybrid operators on the one hand include traditional leisure carriers, which have driven their business with attractive pricing and an increasing number of destinations. On the other hand there are, newly established low cost carriers that have not fully prescribed to the no-frills concept (in the negative sense from the consumer perspective). For example, boarding passes are issued, free drinks are served or the airplane has more spacious seating. Another large difference between the no-frills operators and the low cost carriers in the hybrid group is that the no-frills operators generally only operate out of airports that are not located in the brand airline networks – out of outlying regional airports; whereas the hybrid operators meet the consumer preferences and also operate out of larger airports.

Nevertheless, even these abstract classifications do not do justice to the current situation in the commercial aviation segment since the boundaries between the groups are rather ambiguous than obvious.

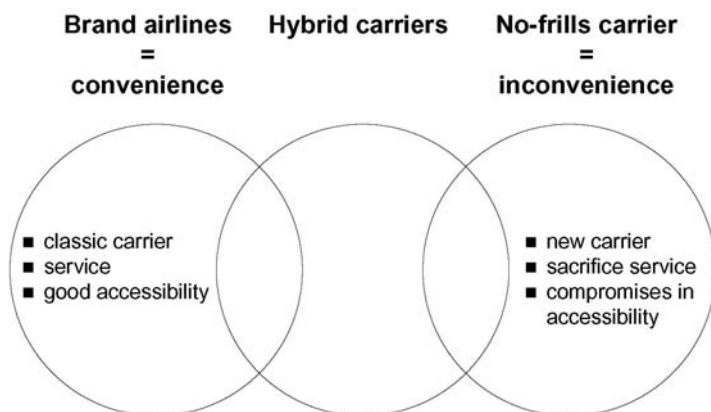


Fig. 3. Definition of terms (from the perspective of the consumer)

5 Brand airlines and hybrid carriers will presumably grow more rapidly in the low cost flight segment than the no-frills carriers

A glimpse into the most important European markets should shed light on how demand behavior is expected to influence the development of the commercial flight market and in particular the low cost segment in the near future. First of all, consumers in individual countries have a different attitude towards the low cost

segment as a result of being exposed to this sector for more or less time. Whereas Great Britain has been realizing sustainable change in the market since the early 90s in particular with Ryanair, low cost flights have only been in other markets for a substantially shorter time. To that effect, market penetration for low cost carriers paints a completely different picture in each country.

In contrast, observations, concerning the potential or more precisely concerning the fraction of the population which claims to want to use low cost flight offers in the future, point towards the span between the markets becoming considerably smaller. Thus, it has come to the point where almost every second person² imagines embarking on a low cost flight, even in Germany the market with the lowest potential – relatively speaking. Considering that, in Germany for example, only about every third citizen aged 18 years or more took a flight last year, there is undoubtedly an immense potential of such offers.

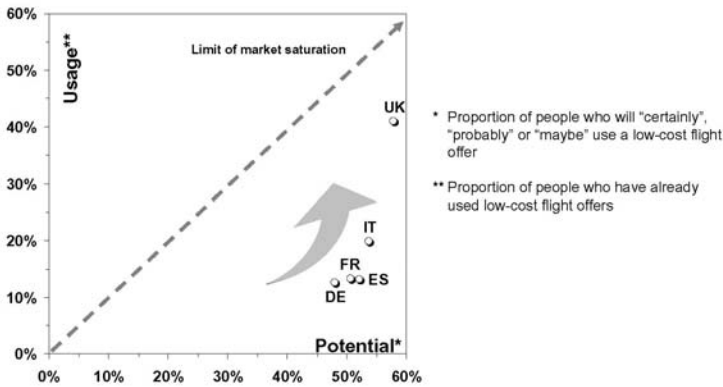


Fig. 4. Phases of market development

Although interested consumers throughout the surveyed countries expect the low cost segment to continue its growth, the market opportunities prove to have a considerably more optimistic outlook in Italy and Spain than in France, for example. This may perhaps be associated with the strength or weakness of the flag carriers in their own market as well as with the urban and rural structure and the transport infrastructure in each country.

Since the markets create such a high potential for low cost flights and the majority of the interested consumers actually bestow an increasing significance on this segment, the determining factors for further growth are given. This situation might not hold so much weight in the British market, which is already quite mature, but is that much stronger for the markets in Italy, Spain and even France or Germany.

² Based on the total population 18 years and over.

In spite of a consolidation process, the supply of low cost flights in the market will continue to expand in the near future. This increase will be a direct result of brand airlines further removing services from their short haul products and intensify price offensives, and at the same time, no-frills airlines and hybrid operators implementing additional offers, to attain a sustainable market position. In the end, success in this highly competitive market environment depends purely on a carrier's ability to adapt to the special situation in each market. Thus, as a result of various consumer expectations, airline profiles and regional features, the possible winners and losers differ in each market.

In Great Britain for example, where the potential has already been extensively exploited, the no-frills carriers have virtually already assumed the status of established airlines. EasyJet's business concept does not strictly adhere to the no-frills philosophy and thus has a distinctly superior image over its main competitor Ryanair amongst the consumers. In a market which is expected to endure relatively weak growth in the future, an enhanced service and as such operating out of centrally located airports, can generate the decisive competitive advantage.

Italy has a completely different outlook. The no-frills airlines have an image similar to brand airlines. Whereas, consumers perceive the new product as innovative and readily receive it, the willingness to pay is decreasing. Such an environment makes it particularly hard for brand airlines and hybrid carriers to hold their ground: the additional services they offer set them apart just slightly if at all. Due to topographic conditions in Italy, the purported disadvantage of flying from regional airports does not weigh so heavily on the airlines and in particular cases can even turn into a competitive advantage. Hence, Ryanair is able to hold its ground in such an environment, where low cost tickets are sought. Therefore, no-frills airlines will presumably be able to mobilize the potential with greater ease than other airlines.

In contrast, consumers in France, Spain and Germany, the relatively young low cost flight markets, are more interested in service – or at least have been so far. In such circumstances, a low price alone does not hold the key in airline selection. Generally, if the consumers in these countries expect service, they usually also show willingness to pay for it. Although the consumer price expectation in these markets is considerably lower than in the past, a direct result of no-frills airlines generating the lowest price offer and the brand airlines initiating price offensives, consumers are not ready to renounce all comforts just to benefit from the lowest possible price. In fact, in Spain, a latent distrust in low cost carriers has manifested to the extent that the majority actually worry that the cutbacks also infringe on the safety. Thus, viewed as a whole, opportunities for brand airlines and hybrid carriers to open up the existing potential for low cost flights are more abundant in France, Spain and Germany within the next few years.

In addition to this detailed constellation according to which consumers, except perhaps for Italy, require for basic service and convenience, the demand for service substantiates the smart shopping mechanism. On one hand, consumers can be rather "unfair" to brand airlines, setting higher expectations on them than on the

newcomers, yet all for a similar price and as a result of learned brand images. However, the smart shopper learns quickly and does not penalize traditional airlines for making certain service cutbacks; in fact he sees it simply as another part of the game. He wants performance and accepts on principle that this service costs money; nonetheless, he still tries to get it at an especially low price or at a lower price than others. Therefore, in the long run, he encounters opportunities to obtain an attractive product at very attractive prices in particular with brand airlines and hybrid airline operators – all the while taking advantage of the competition between the airlines and the their combined costing for different customer or target groups. In other words, as soon as and as long as the smart shopper has the choice to get more for his money, his behavior will continue to contribute to moderation and in this particular case to a hybridization of the puristic no-frills approach.

6 Conclusion

For the future, the answer to the question as to whether or not individuals would fly at any price is “no”. As a result of the smart shopping consumer behavior, which greatly contributes to shaping the European flight segment, a simple low price alone, obtained by waiving service privileges, is by no means sufficient in the long-term. Fascination for new products quickly fades. In the end, smart shopping and particularly the ever-present action of considering the most advantageous offer between brand, quality/service and price places all players under dual pressure to provide service and a low price, be they brand airlines, hybrid carriers or no-frills airlines.

Reference

Abler G, Ehling M (2003–2006) Low Cost Carrier Monitor (TNS Infratest)

- The Low Cost Carrier Monitor is an empirical study conducted by TNS Infratest, which companies can purchase in an open multi-client concept. It determines detailed and substantiated potentials for low cost carriers, the structure of low cost flights as well as the images, strengths and weaknesses of airlines operating in the low cost flight market from the consumer perspective.
- Since 2005, the Low Cost Carrier Monitor has been conducted in Germany, France, Great Britain, Italy and Spain. Every wave consists of approximately 11,000 interviews, over 5,000 of which include low cost flight users. The next update will be available at the beginning of 2007.

Aviation management

The global phenomenon of “low cost” carrier growth

Adrian von Dörnberg

1 Introduction

The airline industry has been witness to increased additional turbulence as a result of the entry of airlines adopting new business models referred to as low cost carriers, no-frills airlines or budget carriers. Whereas some budget carriers, such as Southwest airlines, have been competing in the US market for over 30 years, they have only been flourishing in Europe for the last 10 years and are at an early development stage in Asia Pacific and the rest of the world.

Prominent examples for budget airlines include Ryanair and EasyJet (Europe), Virgin Blue (Australia), West Jet (Canada), Air Do and Skymark (Japan), Air Asia (Malaysia) and ValuAir, Jet Star and Tiger Airways (Singapore). The proliferation of budget carriers has been so rapid that four out of every five airline markets (i.e. the areas served by a pair of airports) now feature a budget carrier.

The airline environment has changed drastically. In addition all aspects of the business model continue to change at an ever increasing rate. The low-cost phenomenon equals innovative use of economics, marketing, geography and management. At the moment, legacy carriers face several major issues: Are you interested in the future of your industry? Where do your future customers come from? Are you interested in identifying the risks that might threaten your business model? Do you want to become more aware of what your business competition is thinking? Do you want insight into innovations that will shape the future marketplace? Are you interested in how future consumers in the airline industry may change? Many legacy carriers lack an action plan for identifying the top trends that will drive future change in the airline industry or in global mobility. Radical change is coming; the future of air transport is highly dynamic, disruptive and multidimensional.

Airline management needs to address ways to forecast air travel, identifying the patterns that lead to change, and to navigate through the trends that will shape the future of the airline industry and market. It is crucial to realize the mindset change (in prospective customers or society), to consider the impact of airline manage-

ment decisions now and in the future. Are legacy carriers the reactive victims of the future, more precisely of the phenomenal low cost carrier growth? Low cost airlines are convinced that they can change the future by changing customer perception. The low cost or budget airline model is based on

- a future vision – clear vision of where air transport/mobility is headed,
- a sound strategy to get there,
- tools to persuade key parties (colleagues, teammates, ground staff, etc.) to commit to a shared vision and strategy,
- effective execution.

In addition, the issue has been addressed as to whether ‘low cost DNA’ is the key to successfully manage a no-frills airline (Bell 2006). Bell states that low-cost carrier DNA “features some or all of the following:

- direct experience in conceiving, launching or operating a low-cost/low-fare carrier,
- intimate knowledge of the low-cost airline business model,
- an ability to work within the new-generation airline organizations,
- featuring limited resources and an environment in which everyone does „real work”,
- a relentless, even obsessive focus on cost containment and avoidance,
- creative and innovative thinking – finding new ways to do business (Michael Bell, In the blood, in: *Airline Business*, Sept. 2006, p. 94).

Nevertheless, low cost DNA is a myth. Low cost carriers may have top-notch executives, but they do not have low cost DNA. To the contrary, management teams at Jet Blue, Virgin America, Air Tran are recruited from legacy carriers. Tony Davis at the helm of TigerAirways, Stefan Pichler and Andrew David at the top of Virgin Blue earned their talents at traditional carriers and are living proof that the answer lies more in mindset and flexibility than in pure experience.

Remarkably, low cost carriers contract more professionals from outside the industry than legacy carriers. Examples include Clive Beddoe (WestJet) from real estate, Tony Fernandes (AirAsia) from the music industry, Stelios Haji-Ioannou (EasyJet) from shipping, Michael O’Leary (Ryanair) from public accounting and Andy Harrison (EasyJet) from the automotive industry.

Legacy carriers, searching for low-cost carrier personnel who will bring the “secret formula” with them, will therefore be disappointed: it is pure myth. The success story of low cost carriers and budget airlines begins and ends with the focus on consumer behavior and technology. What lies behind this statement?

2 The driving forces – consumer behavior and technology

Since a large extent of marketing performance is based on non-economic aspects (consumer behavior and mindset), both the airline industry and individual players have to respect and understand it.

The generic model of the “hybrid customer” is reshaping consumer travel habits. Vacationers in Europe used to book package tours, organized and sold by major tour operators (TUI, Thomas Cook, First Choice, KUONI, etc.). Not anymore. In 2005, approximately 30 percent of visitors arriving in Mallorca came via low cost airlines and booked their hotel rooms over the Internet. Since they ended up paying little air fare, many upgraded to more expensive hotel accommodation (4 to 5 star hotels). The extremely low fares offered by low cost carriers attract passengers from the higher cost full-service airlines; they also generate significant new traffic. Contrary to popular belief, they carry business passengers, although this varies significantly from route to route, as well as leisure passengers, attracted in part by the high frequency on some legacy carrier routes.

In general, consumer demand for air travel is driven by low price (in the mass-market environment). This potential demand includes individuals motivated to travel but who are unable to do so due to financial constraints. The ‘Airbus Traffic Forecast’ identified a “giant pool of first-generation flyers in India.” The demand can be nearly fully served by new low cost entrants in the Indian market. In comparison to the market share of low-cost carriers in North America (about 30 percent), in Europe (about 28 percent) and in Asia (about 9 percent), Asia still demonstrates a huge potential for low-cost carriers.

Aircraft technology appears to be changing the picture as well. The Boeing 787 is a midsized, long-range aircraft; this plane clearly aims to provide non-stop service between midsized cities that would normally be linked by a hub. Technology and population growth clearly point toward more point-to-point service, at the expense of the hub-and-spoke carriers. Point-to-point air travel may be destined to make the hub system obsolete, except on the longest trunk routes. That would open a lot more US and European markets to discount, low-cost service. This development poses a serious challenge for all major airlines.

Double digit growth and high profit are part of the low-cost phenomenon – Swissair, Sabena and many other legacy carriers went out of business, US carriers are professionals in filing for Chapter 11 bankruptcy protection, Alitalia, Olympic and other carriers are only surviving through heavy state aids/subsidies. There will be no end of the game for the next decade.

3 The value chain for low cost air transport

The value chain for low cost air transport is shaped by consumer behavior and society's mindset. The first priority for the "Southwest Airlines way" is to take care of relationships – with their employees, among their employees, and with outside parties; the carrier is creating a "*cosa nostra*" culture which can be characterized as defensive and aggressive simultaneously.

Apart from establishing a distinctive culture and certain team spirit, the budget airline business model encompasses various characteristics.

3.1 Operational

- Single country or narrow regional (i.e. Europe, Southeast Asia) coverage, thus eliminating the need to pay overseas allowances to crew.
- A standardized fleet consisting of one type of aircraft (or family variants such as Boeing 737/Airbus A 320) which reduces maintenance and repair costs and ensures that pilots can hop across routes (same type-rating).
- Higher aircraft utilization. It was estimated that British Midland, a conventional airline, used a plane for 8.4 hours per day, while EasyJet pushed up the utilization rate to 10.7 hours. Southwest Airlines' average utilization rate for a Boeing 737 was 11.3 hours per day versus the 9.8 hours for Delta. Higher utilization is made possible by servicing less congested secondary airports and achieving faster turnaround times, which can be as low as 20 minutes, operating point-to-point rather than hub and spoke service, and not assigning seat numbers to facilitate embarkation.
- Booking (for most budget carriers) over the Internet to save on travel agent commissions, which can amount to 9%; the cost of handling paper tickets (issuing e-tickets or paperless tickets); and wages paid to reservation agents. Budget carriers have fewer reservation agents and they are typically paid at minimum wage.
- Higher seating density typically in a single class configuration (relative low seat pitch: 29–31").
- Continuously seeking ways to reduce costs. Almost all budget carriers have minimal cabin service (i.e., no free meals), which reduces the number of flight attendants needed. Use the minimum number of cabin crew allowed by safety regulations during a flight.
- Operating at the highest load or seat factor possible.
- Offering only point-to-point services as opposed to multiple stop operations. Avoiding interline activities at airports or with other carriers.

- Operating effective yield management systems resulting in ticket prices varying according to how far in advance the purchase is made.
- Increase revenue by offering additional services such as car rentals and hotel booking and travel insurance products at the time of booking or respectively at the time of ticket issuing.
- Making full use of special offers and even free tickets so as to gain market share against established competitors.
- Minimizing ex gratia payments to customers in carriage and issuing tickets so that no change is permitted to existing bookings or, if permitted, then only after the customer pays a substantial administration charge.

3.2 Airports

- Operating from subsidiary/secondary airports of major destination or from regional airports where landing charges, operating costs and even parking charges are much lower. Airports may be some distance from the city center/cities within minimum catchment areas.
- Multi-skilled ground staff.
- Effecting very rapid turn-around times at all airports and to arrange for staff to work more productive shifts and timings. The use of non-congested airports enables the airline maximize in-flight or revenue earning hours per aircraft per day.
- Using designated low cost infrastructure at airports (low cost terminals i.e. Singapore, Berlin-Schönefeld, Bremen, etc.).

In terms of marketing, innovative low cost airlines lead in fares, Internet sales, billboard and newspaper advertising and even benefit from high-profile public relations activities on the part of the airline CEOs (O’Leary, Stelios, etc.). A cost comparison between a conventional short haul airline and a low cost airline demonstrates a significant, sustainable cost advantage of up to 60 percent (Rigas Doganis, *The airline business in the 21st century*, p.150, table 6.6).

Consequently, the competition afforded by low cost operators in contrast to the larger network carriers has redefined many airline management principles

4 The future of low cost air travel in a competitive industry

There are at least two scenarios for air travel.

4.1 Scenario A

The future shape of the global aviation industry is likely to contain a limited number of global mega carriers, with smaller airlines integrated into their operations with strategic alliances and other partnerships (for example larger carriers with part ownership in smaller carriers). A more hierarchical-oriented system of route provision is also likely to evolve; airlines will be forced to deal with larger passenger volumes in a “hub and spoke” system to achieve efficient operations, with passenger volume tied to aircraft type. The major constraint for evolving business activity will be the availability of non-congested airspace and airports with sufficient capacity.

The “Airbus traffic forecast” identifies a 4.8% annual increase in air travel demand for the next 20 years. The shape and direction of the aviation industry will be driven by new entrants, large emerging markets (India, China) and increasing liberalization. According to Airbus, the world airlines will be operating 1263 large passenger aircraft to link dynamic hub cities by the year 2025. This scenario may prove to be wrong.

4.2 Scenario B

Deregulation, new business models and evolving consumer behavior – all factors that contributed to the low cost carrier revolution on short haul flight – will soon be playing out in the long haul environment. As previously stated, additional pressure for change will come from the introduction of new aircraft technologies and last but not least from the increasing financial pressure on traditional flag carriers to reduce their own internal cross subsidies between long and short haul networks.

As a result, point-to-point flying will grow as more passengers fly direct routes rather than through hubs. Passengers, aided by distribution technology, will increasingly manage their own connections, flying more on short haul point-to-point carriers (low cost airlines!) to meet or leave their long haul flight. The advent of the new generation of mid-sized widebodies (B 787, A 350) will lower the threshold, at which small and medium-sized carriers (and low cost start-ups) can economically participate on long haul routes.

An airport as a “virtual network provider” is not a fiction any longer (Berlin airport management recently started a platform). An airport can play an active role to provide long haul and short haul connectivity through low cost airlines, attracting the right mix of short haul connecting low cost airlines to providing seamless on ground transfers.

Hub-by-passing could be an element for future long haul low cost travel. There are only a few (and in the long term maybe zero) small, high-service airlines analogous to the boutiques seen in other industries. Instead, carriers compete almost exclusively on price. And, largest participants seldom compete most effectively.

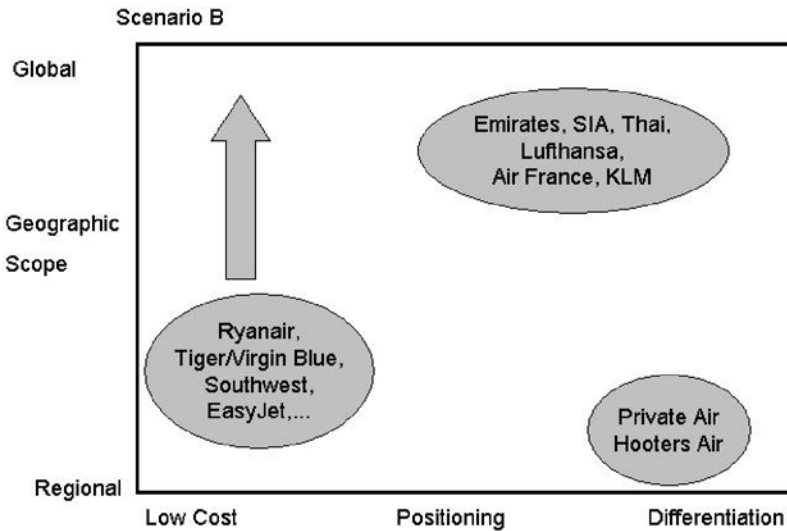


Fig. 1. Scenario B

Consumer behavior, airline and aircraft technology, decentralized population growth and many elements of the short-haul budget carrier business model will open windows for low cost growth on long haul point-to-point air transport in the future.

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Consolidation in the airline business

Jens Flottau

Interview with Christoph Franz, CEO of Swiss International Air Lines

When Christoph Franz joined Swiss International Air Lines in mid-2004, both he personally and his new employer were seeking a new start in life. The Deutsche Bahn had let Franz go following an ill-received introduction of a new pricing scheme for the German railways that looked somewhat similar to airline practices. And Swiss needed a new CEO who would forcefully guide it through its deepest crisis and into profitability.

Two years later, both he and the company can look back at 2004 as a positive turning point. Swiss' financial performance is surprising to most observers. After years of cost cuts and lay-offs, the company is actually starting to hire employees and expand its long-haul fleet. In addition, Christoph Franz has quickly established himself as a driver of change in an industry still dominated by tradition and reluctance to reform.

Two years ago, Swiss was slowly drifting towards insignificance, if not worse. The company was entangled in Swiss domestic politics and suffered great losses. In addition, deep rifts split the company; the former Swissair and former Crossair staff were all carefully watching for equal treatment. The CEO was André Dosé, a former Crossair pilot who rose through the ranks. Regardless of his individual skills, Dosé was accurately viewed as a Crossair man and as such could not be seen as neutral in the many internal fights. So in the end, when Dosé had to resign as a result of an investigation into an earlier Crossair crash, Swiss was looking for an outsider that could bring new perspective, personal independence and possibly even a link to a strong partner.

In the Dosé era, Swiss had decided to join the oneworld alliance under the assumption that British Airways would eventually also buy a stake in Swiss to ensure its long-term survivability. But the deal faltered when BA decided to back out of its commitment towards Swiss. Thus, right from the beginning, Franz needed to make a key strategic assessment: Go it alone or look for a new partner? His appointment was perceived by many as a sign that Swiss was looking to link up with *Lufthansa* – although Franz disputes that version. Nevertheless, he came to the

conclusion that Swiss would be best situated under the roof of the *Lufthansa* Group and the deal was announced during the ITB 2005.

In a long talk at the ITB Aviation Day in 2006, Franz reflected on his decision and the integration process while also looking at the broader industry picture. From his perspective, the European airline industry is still far too fragmented and needs to consolidate. The Swiss example shows that at least in some cases consolidation can be the right path to follow. The process has been so successful that Franz is now seen as a serious candidate to run Lufthansa's passenger airline business and as a possible successor for Lufthansa Chairman/CEO Wolfgang Mayrhuber. If this happens, Franz will return to a former employer: As a young manager, he was part of the restructuring team that saved Lufthansa from bankruptcy in the early 1990s.

Flottau: Exactly one year ago, we sat here with analysts talking about the possibility of Lufthansa taking over Swiss. Two days later, the deal was announced, but Swiss is still in the process of restructuring and integration. Mr. Franz, where exactly are you in the process?

Franz: We are right in the middle. We started a year ago and, as always, you start by thinking and comparing. Then you set up work groups that do further planning, but there is a time when implementation begins and you have to bring something to the market. We started by integrating schedules on the routes between Germany and Switzerland in the winter schedule. This was just the beginning, as we are harmonizing schedules on long-haul routes with Lufthansa and other Star Alliance partners. We are just about to merge the Swiss and Lufthansa frequent flyer programs. We are also looking at synergies on the cost side where we believe it makes sense.

Flottau: You went into the Lufthansa alliance in a financially weak position. Now the fuel prices are soaring. Is the goal to achieve a break-even result still realistic?

Franz: Well, I didn't tell my colleague, Wolfgang Mayrhuber, in advance that fuel prices were going to rise 40% since the agreement was announced. We still had to deal with it. And I think the company has shown great inner strength to pull itself out of the red figures. I'm still confident that we can reach break-even on the operating level.

Flottau: Swiss went into the fuel crisis without any hedging contracts. Do you already benefit from Lufthansa's hedging deals?

Franz: We have started to build up a hedging position ourselves, but since we started later, we had to do it at higher prices. It has not shown the same alleviating effect. But over the course of the year, we will be fully integrated into the Lufthansa hedging program. It will be a service provided to all airlines within the Lufthansa group.

Flottau: You took quite a few issues along into the merger that originate from the Swiss inception in 2002, a deep-rooted conflict with pilots, for instance. But you seem to be making some progress in this respect.

Franz: Because of our difficult economic situation, we were forced to negotiate collective bargaining agreements with all of our employee groups. Management, too, has made a voluntary contribution. We have agreed on a new contract with the ground staff. In Germany, people are debating on whether to change to a 40-hour work week. Here in Switzerland, 42 hours are the norm. You simply don't get more than five weeks of vacation. We have got a new pay deal with cabin crew that makes us competitive in the European environment. Our employees have made a significant contribution, earning my respect. We are now confident that we can reach an agreement with our regional pilots. If we don't succeed, then work contracts on a personal basis will be applicable. We will also have competitive costs.

Flottau: How much do you save?

Franz: Our expenses for the regional pilots will be roughly cut in half, but you have to keep in mind that we have also reduced the fleet somewhat.

Flottau: When Lufthansa went in, you couldn't paint the bleak picture of Swiss possibly going bankrupt without major staff concessions. Didn't that make your negotiating position more difficult?

Franz: I think you are right. A year ago, I thought that people would be willing to make concessions because they could see it was worthwhile and that we could get the company going in the new group. Today, I'm a little more sober. Unions interpreted things differently, kind of like: we now have somebody who pays the bills and I don't have to contribute any longer. That's somehow logical, too. For us, this meant that we couldn't get new pay deals ahead of time. We had to wait until all of the contracts were up for renewal. In the mainline fleet, we still need to negotiate.

Flottau: Do you aim for cuts similar to what you have already achieved elsewhere?

Franz: Not quite, because we are not reducing the fleet. However, significant concessions will have to be made. We would lose credibility if we pushed higher concessions on the employees that earn the least and allowed the best-paid staff to maintain all privileges. Thus, there's little room for strategic maneuvering. I fully understand though that for every single employee getting less money is bad. On the other hand, in this competitive environment we can simply no longer afford to slowly die as a result of our existing cost base.

Flottau: A question put the other way around: What would have happened if Lufthansa had not invested last March? Where would Swiss be now?

Franz: The company would have seen pretty significant result improvements nonetheless. We had planned to halve the operating loss compared to 2004. We could probably have reached this objective in spite of the high fuel prices and Lufthansa synergies coming in later. Emotionally though, we would have had a different situation. There's a huge difference between being unsure about survival – and that was the outside perspective on Swiss for three years – and today's self-assuredness. The question whether or not we are remaining in the market is no longer being asked, and for a reason. That's very important for perception and particularly for a Swiss airline that apparently has to be some kind of flying bank.

Flottau: If we look into the details of what is currently going on in terms of integration: What are the working groups doing right now?

Franz: Right from the beginning, we identified several areas where we could achieve some cost savings through synergies. Financing costs for example: it is obvious that a small, loss-making airline can benefit from the financial strength of Lufthansa. These benefits also apply to insurance costs. However, we really focused on the customer first: How can we harmonize schedules, how can we get better tenders between Germany and Switzerland? The second important issue is frequent flyer programs: We have decided to discontinue our own program and become a Miles & More member like LOT and Austrian.

One workgroup is dealing with the future sales and distribution network. We currently have two, one for Lufthansa and one for Swiss. How are we dealing with that? We are trying to move into the same terminals at airports and use the same counters or at least neighboring counters. If you are flying from Frankfurt to Sao Paolo and back via Zurich, then you always want to use the same terminal. It's not always very easy; changing lease contracts is a lengthy process. Thus, we initially focused on our three hubs. In Zurich, Munich and Frankfurt, the two airlines are under one roof.

Flottau: You mentioned sales and distribution and the two networks. What's the solution?

Franz: There is no one size fits all solution. You have to deal with different market structures and customer groups, so we went ahead and developed typical models. We took the models and looked at which one fits best in a particular market. There may be instances where it makes sense to keep a separate sales force, but we are at least trying to move into the same offices everywhere, so people can communicate and jointly approach corporate customers. Then there could be a structure with Swiss staff embedded into the Lufthansa organization but dedicated to Swiss sales. In small markets, it does not make sense to maintain both organizations, so sometimes Lufthansa will act as the general sales agent for Swiss, and vice versa.

Flottau: How much of your time in the office do you dedicate to integration and how much do you deal with Swiss as such?

Franz: I would say about 10%. The competitive pressures in this industry are huge and therefore achieving a turnaround is really demanding. On the other hand, things are going smoothly on the level of workgroups. As such, I'm not needed as a mediator all the time.

Flottau: Let's talk about culture for a moment. When you look at some of the U.S. carriers that are the result of mergers such as US Airways: after years or sometimes even decades, they still have huge cultural issues to resolve. This situation only involves corporate cultures. In the case of Swiss and Lufthansa, you are dealing with companies in different countries. How much of a problem is this for you, or am I completely overestimating the issue?

Franz: I think you cannot overestimate such a topic. The issue of culture – how people deal with each other – is the deciding factor for success or failure. We are in a privileged position in the Lufthansa/Swiss cooperation in view of the fact that the cultural integration is working exceptionally well. And, it's not only on the CEO level, but also in the organizations where we are not personally present all the time.

Flottau: To make matters worse, here we have a much bigger company taking over a smaller unit. Are there examples of Swiss practices being adopted by Lufthansa?

Franz: You are right. From the perspective of the smaller partner, there are danger and concerns that the larger partner will impose certain practices. But we have to admit that we benefit from the Swissair heritage: Lufthansa and Swiss people consider themselves to maintain the same level of professionalism. No-one can force this attitude; the mutual respect has grown over many years. Such respect leads to very honest cooperation and has turned out to be enormously helpful. And as you said, Lufthansa people are actually looking at Swiss processes and find them quite sensible. For them, it's a big benchmarking exercise. It's a huge benefit that both sides look at processes and can learn from each other. If you just merge things without comparing, you may benefit from synergies, but you also miss out on learning opportunities.

Flottau: Correct me if I'm wrong, but isn't the Swiss cargo handling system more sophisticated and isn't Lufthansa looking at switching over?

Franz: Both carriers are looking at upgrading their systems. If you look at Swiss, the share of cargo revenues is comparatively high. Our cargo revenues are about the same as British Airways', but we are a much smaller company. Lufthansa has realized that we are achieving a lot with a small team.

Flottau: When you think of rules one should adhere to in mergers, one is "no one way street." Can you think of others?

Franz: No one way street is important because it has something to do with self-confidence. It's really helpful to get the feeling that sometimes the big partner can

learn from you. Another point is: Yes, we want to achieve synergies, but it's always the smaller partner who is raising his hand. We have an enormous interest in getting the synergies, we have to improve our financial results and become a good company. If you want to remain relatively independent, you have to deliver value to the group on your own.

Flottau: Lufthansa currently controls only 49% of the company through the Swiss foundation, because otherwise traffic rights would be endangered. When do you think this issue will be resolved and how much do these restrictions affect you in daily life as an airline?

Franz: We are following developments closely, but it is basically an intergovernmental issue. At the beginning, we thought it would take us two years to get all the bilateral agreements sorted out. And now, after one year, we are just about where we had expected to be. Some agreements have already been changed, some are almost done and in some cases, we are still negotiating. Nonetheless, I expect that Lufthansa will be able to take majority control of Swiss in about one year. For us, it doesn't really make any difference. We have already set up as a group with Swiss as the subsidiary. Our Lufthansa colleagues are already on the administrative board and we also need their approval in any important decisions.

Flottau: A few days ago, we saw the quarterly results at Aer Lingus, Alitalia, Iberia and Austrian. They were all worse than the previous year. On the other hand, Air France-KLM, British Airways and Lufthansa reported improved results. What conclusions can you draw from these developments?

Franz: We asked ourselves the question: do we need to become an alliance member or part of a large airline group? We were discussing where this industry was headed. It wasn't the 2005 result or our financial situation that led us to our decision. When I started at Swiss, we had a signed contract to join the oneworld alliance. The agreement also included a commitment by British Airways to buy a stake in Swiss. This arrangement was dissolved for certain reasons. We then decided that an alliance alone was not enough, because, at the end of the day, you are responsible for the profit and loss accounts in an alliance. Yes, you can get synergies, yes, you can enter markets together; but ultimately, it's your profit or loss. This situation inevitably leads to friction. Swiss and formerly Swissair have experience in alliances. We have been in six different groups and even founded one ourselves.

Flottau: Isn't that the case with Star Alliance and Eastern Europe? Lufthansa and Austrian are both expanding there and they are competing with their own partner.

Franz: Eastern Europe is growing and Germany is an important trade partner. Austria has long standing cultural ties to the region. So, it is obvious that both airlines want to increase their presence. Although they are entering a competitive situation, they are still partners.

Flottau: Will the Swiss case be the blueprint for others to follow?

Franz: I don't know. It's hard to say. In this market, there are hardly any entry barriers. But barriers to exit are very high for traditional flag carriers, maybe not so much for new entrants. I think in Switzerland it was the traumatic experience of Swissair grounding that made the change of ownership takeover psychologically possible. Emotionally however, it is still difficult and continues to be an issue. It's similar in other countries.

Flottau: Have you already watched the Swissair movie that was such a success in Swiss cinemas?

Franz: Yes, it was very entertaining: a well done documentary soap that made certain emotions resurface in Switzerland. For us, this emotional link was not always helpful, particularly because it established a logical link between the grounding of Swissair and the takeover of Swiss by Lufthansa, with which I disagree.

Fundamentally, I think that this industry is driven by size. Medium sized airlines are having a hard time keeping the pace in terms of growth and profits. My role model is the Netherlands. The Dutch were as emotionally attached to their KLM as the Swiss were to their national airline. KLM was not in an immediate economic crisis, but still they analyzed the market and came to the conclusion that they would enter a partnership with their colleagues at Air France at an early stage in the consolidation process. Dutch companies usually tend to go into partnerships with British companies, so really it is a very far reaching step – you really have to mentally prepare yourself for such a radical measure. Economically, our situation was different, but we took the same path and I think it was the right step strategically.

I believe it is extremely important for the consolidation process to continue in the airline industry. The half-liberalized state, in which we currently find ourselves, is poison for the industry. We can't escape from overcapacity and pricing pressure. Everybody knows this industry is sexy and simply crazy – it's a money-burning machine. We have to change this reality and without consolidation it just won't happen. The kind of consolidation that Air France and KLM and now Lufthansa and Swiss are showing is a fair procedure, where smaller partners can keep their profile.

Flottau: For you, is it an advantage or a disadvantage to run Swiss as a German?

Franz: If I wasn't German, I would not have got the job. It was very important to find somebody who was involved neither in the past and nor with the emotions. But Swiss is a very international company. Our business language is English – the management board members write and speak English. We have colleagues from Sweden, France, the UK and India. So internally, it's not an issue, but we have to focus on keeping the Swiss touch in the airline.

Flottau: What is the European airline sector going to look like in five years? Will we see the big three blocks or will the landscape look like it is now?

Franz: That's very difficult to forecast. I hope consolidation will continue. But we have seen so many forecasts that should have happened a long time ago. I'm always cautious about predicting speed, but consolidation will continue.

Flottau: It seems low fare carriers are much quicker in consolidation. We just have to look at the Air Berlin/dba deal. Are you concerned that they are so much quicker?

Franz: We are already part of the process. I welcome their moves, but I don't think all of them will be successful.

Flottau: A few years down the road, will Emirates, Etihad and Qatar Airways be as big of a threat on the long haul routes as the low fare airlines in the intra-European market?

Franz: On the horizon, we can see massive structural changes in this industry. You don't have to be good at forecasting, the aircraft have been ordered and nobody doubts that the airlines will be able to finance them. Qatar has 60 A350s on order; whereas, Lufthansa only has 87 long-haul jets. The big challenge will be to fill all this capacity profitably and everybody will have to adjust to this pricing pressure. The pressure on yields will quickly move to the long haul markets. We have to continue to cut costs, whoever doesn't will disappear from the market.

Effectively planning and managing European airport capacity

Jürgen Ringbeck

Preface

This article is based on a presentation and subsequent panel discussion at the 2006 ITB Aviation Days conference. The panel was composed of the following prominent German aviation personnel:

Caroline Baldwin	Sales Manager Germany, Ryanair
Martin Gaebges	General Secretary BARIG
Karl-Ulrich Garnadt	Member of the Passage Board Deutsche Lufthansa
Michael Garvens	Chief Executive Officer Köln-Bonn Airport
Dr. Raoul Hille	Chief Executive Officer Hannover Airport

1 Introduction

Management of European airport capacity will play a crucial role in the competitive development of European aviation. Lack of sufficient airport capacity will limit airlines service route offering, lead to upward price pressure and shift traffic to other modes of transportation such as rail, or in the case of intercontinental traffic, to other regions such as the Middle East. Overall, misalignment of demand limits regional mobility and restrains opportunities for economic growth. On the other hand, a substantial overcapacity would lead to inflated infrastructure costs with high aircraft and passenger fees or unnecessary government subsidies.

The art of efficient European airport capacity planning is to provide a market-competitive product to the airlines in which high quality service can be guaranteed at

a low cost. Airport capacity development typically requires a five to ten-year lead time for planning, during which time both short-term capacity needs, as well as the expected long-term growth, must be kept in view. Making matters more complicated is the fact that local interests (for example, noise protection) can sometimes obstruct planning and, however well-meant, substantially delay needed investments.

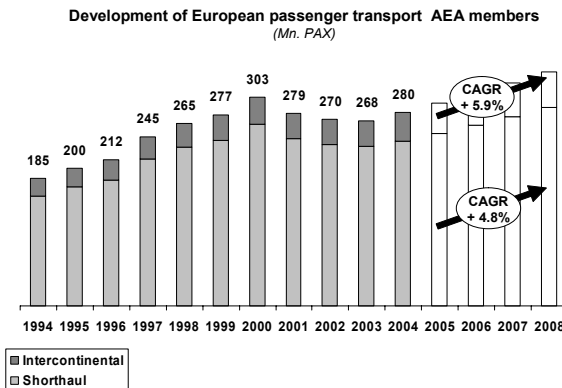
Finally, there are regions and municipalities in competition with each other. Although such competition is welcome in principle, if their development is uncoordinated, from both a national and European perspective, unwanted or erroneous trends such as excess capacity could emerge. These are clearly not in the long-term interest of the customers and community.

Fundamentally, how should European airport capacity be evaluated?

In accordance with an analysis of the AEA members, the European air traffic market registered a total growth of over 60 per cent in the last 20 years. The only exception to this trend resulted from the events of 11 September 2001. For air travel distances within the continent, five-year forecasts estimate an average annual growth rate of five percent. For intercontinental point-to-point routes, projections show that an annual growth rate of six percent is easily achievable.

Continuation of the development of traffic from Low-Cost Carriers is crucial to the success of this forecast. Growth over the past few years has made this segment an important factor for European air traffic, and this growth is expected to continue in the coming years. As a result, an additional 80 million passengers in the European market could be generated during the last three years.

European air transport is and remains a growth industry



Note: "Intercontinental" includes traffic to North Atlantic and Far East / Australasia regions

Source: Historic figures - "AEA Yearbooks", forecast figures - "IATA passenger forecast 2004 - 2008", Booz Allen Hamilton Analysis

Fig 1. European Air Transport 1994-2008

In comparison to the increase in passenger numbers over the past 20 years, however, a rather moderate development of European airport capacity has taken place. The European airport network of approximately 500 airports has been supplemented in the last fifteen years by just over 50 airports. This increase has been made possible primarily by the transformation of military airports, and many of these new civilian airports stayed small in scale. For Europe in the same period, only four new large airports were opened, with only a few large airports undergoing substantial development. A prime example of the difficulty in European airport development is in Frankfurt Airport. In the last ten years, 39 studies, 900 plans and 17,500 pages of paper have been produced, resulting in continual shifts in the development timeline.

The European OAG airport network expanded – mainly driven by 50 regional niche airports

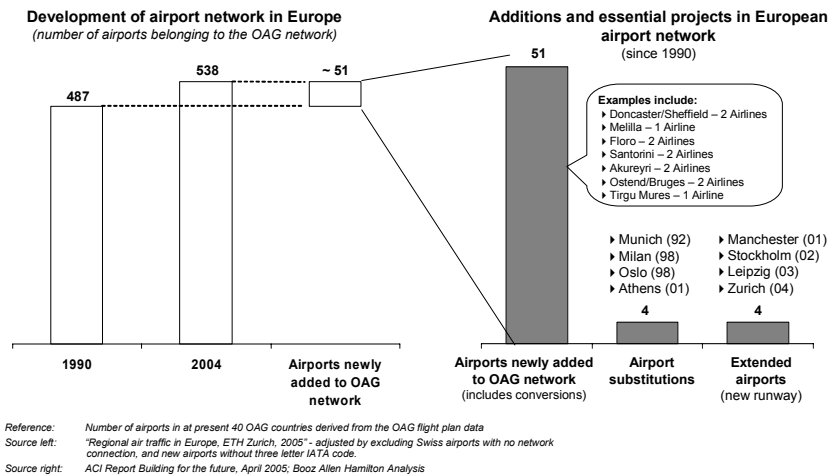


Fig. 2. Essential Airport Expansion Projects in Europe since 1990

For this reason, large European airports have been operating at the edge of their capacity for many years now. In particular, two key traffic hubs, Frankfurt and London Heathrow, are overloaded. Without further development, the capacity shortfall will further increase at many of the large European airports.

A long-term scenario analysis conducted by EUROCONTROL confirms this bottleneck problem at European airports. Assuming 4.3 percent average growth rate over the next twenty years, an undercapacity of 17 percent would develop. In particular, large airports with 80 to 120 movements per hour would experience a long-term capacity gap of nearly 50 percent.

Today the capacity bottlenecks are already significant, especially at the major airports

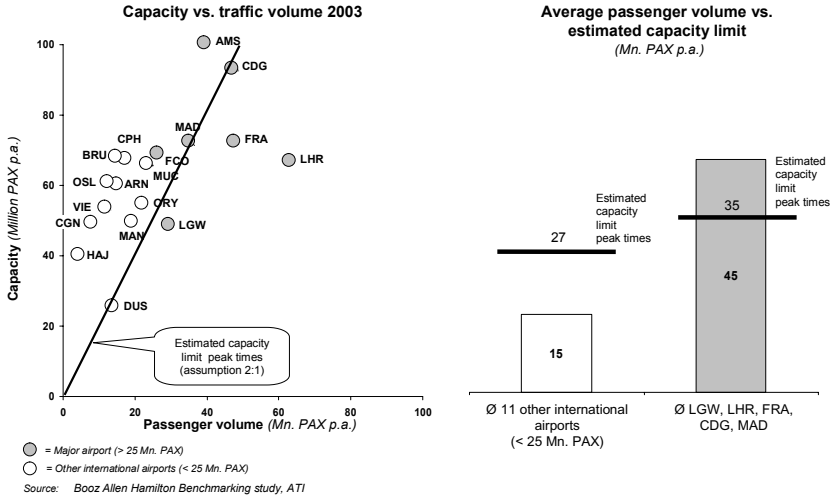


Fig. 3. Capacity Situation at selected major European Airports (2003)

Given a positive growth scenario of 4.3% per year a capacity gap of 17% emerges

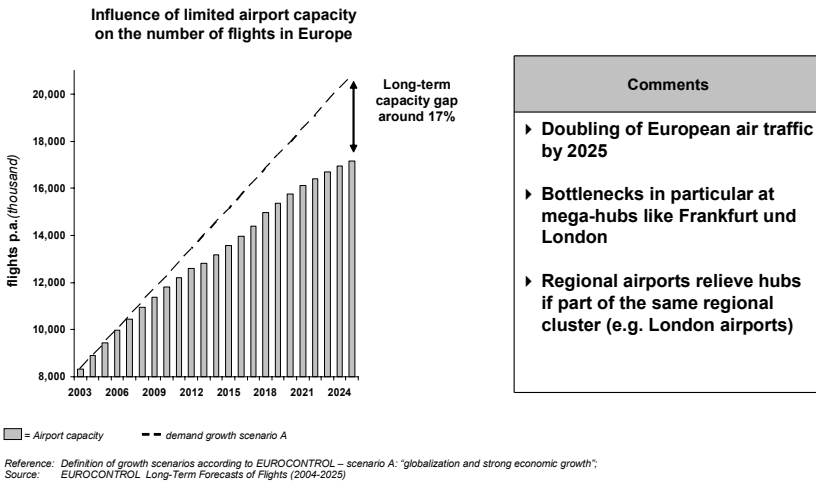


Fig. 4. Long term forecast of European Airport capacity gap 2025

2 How to ensure an effective management of airport capacity?

These considerations in the context of European aviation infrastructure, with a special focus on Germany, were evaluated during the panel discussion. To evaluate European airport capacity, the following questions were discussed with the industry experts:

- How should airports react to the increasing demand in intercontinental air traffic?
- Which regional airport structure best supports increasing demand for regional air traffic?
- What is the appropriate limit to national subsidies with respect to airport infrastructure development? What role should private investors play?
- What role is given to local or regional governmental entities? (such as national governments, regional federations, or the European Union)

How should German airports react to the increasing demand for intercontinental travel?

In Germany, the aforementioned capacity gap is particularly evident with large airports. Since the 1990s, Frankfurt has been operating at the limits of its capacity. In recent years, capacity problems in Frankfurt are further exacerbated through continued traffic growth – today all slots between 6:30 AM and 9:30 PM are assigned. As a result, Lufthansa has driven the development of Munich airport to meet air traffic demands. In the mean time, Munich has gradually turned this airport into a second intercontinental hub. Panel participants agree over the urgent need for development in Frankfurt.

“In Frankfurt, today there is already a clear capacity bottleneck. If the problem of further development is not solved, a drift in traffic streams will result. Munich is already concerned about being close to the limit of its capacity. In general, there are too many and too small hubs in Europe.” Dr. Raoul Hille

Furthermore, opinion over the fundamental necessity for an efficient megahub is divided among panel participants. The unification of worldwide traffic streams at a single hub is both economically and ecologically significant. A competitive infrastructure not only benefits the flag carrier, but is of great importance for the economy. As an export nation, Germany is highly dependent on an efficient aviation infrastructure. At the same time, large airports secure jobs in the airport's surrounding community. German Lufthansa AG, for example, is by far the largest employer in Hessen.

Arising from the bottleneck in Frankfurt, however, medium-sized airports see an opportunity to develop their own business as an alternative solution. Michael Garvens summarizes this position from the viewpoint of Cologne-Bonn:

“Because capacity in Frankfurt is already exhausted, and the capacity limit will presumably be reached in Munich in 2008, Cologne Bonn airport is available in the medium-term as the only airport in Germany with sufficient capacity and appropriate infrastructure for intercontinental operations.”

From the German perspective, this solution is an unsatisfactory alternative. Through a substantial development of its capacity, Frankfurt’s position in relation to Paris and London, and increasingly the Middle East (Dubai), could permanently strengthen as a European megahub. The development of international traffic routes over Germany could be realized through substantial scale effects arising from better demand bundling at a larger hub than by further development of medium-sized hubs.

Which regional airport structure best supports increasing demand for regional air traffic?

Regarding the “catchment area” of international airports in Germany, a very positive picture can be seen. For example, 92 percent of all residents in Germany are within a 90-minute drive of an international airport. Sixty-four percent of all residents still fall within a 60-minute drive. For this reason, better coverage is among the least of reasons for building new airports in Germany. Any new provincial airport development would quickly overlap catchment areas of the existing airports.

This viewpoint is confirmed also by panel participants, such as Martin Gaebges:

“Germany is well equipped with airports, therefore no new airports are necessary. Investment in the development of regional airports is also ecologically meaningless. That brings to the surface a misalignment of the noise issue and thus reduces the quality of living in the region. Examples are the airports at Weeze, Moenchengladbach and Kassel.”

Low cost carriers (LCC), however, are among the proponents of new airport development, led by the lack of efficiency at existing airports. Low cost carriers are concerned not only with airport capacity, but also with an attractive offer of high quality services (on-time departure performance) and availability of capacity (frequencies). The offer of many German airports is unsatisfactory in this regard, and the LCCs see themselves limited in their market development. It has been suggested that airlines should welcome the opportunity to service new and interesting regional markets, when there is an appropriate offer by the airport. Caroline Baldwin, Ryanair, emphasizes this point:

In Germany, at least, building new airports is not the solution

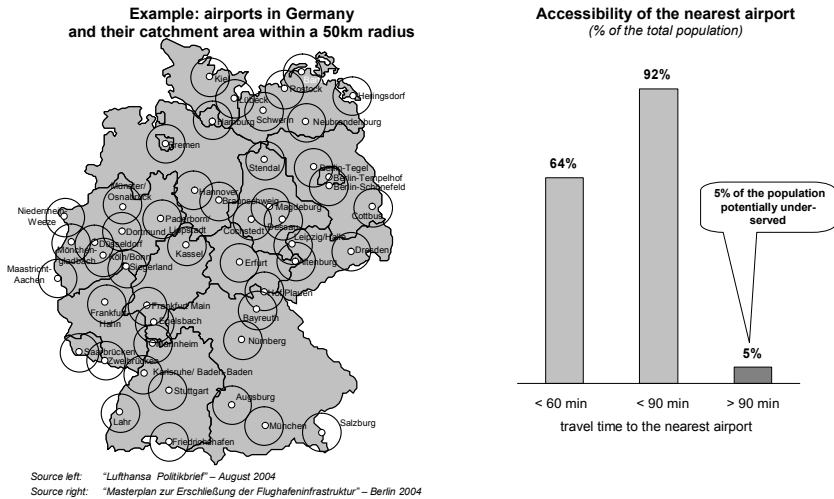


Fig. 5. German airport catchment area analysis

“For Ryanair, cost-efficiency is of crucial importance. In addition, Ryanair needs fast turnarounds of approximately 25 minutes. This is not possible in Frankfurt, for example. In Bavaria, it appears that due to the high costs of the Munich airport, it would make sense to be at a competing airport, thereby energizing competition.”

If the development of intra-European routes, as promoted by low cost carriers, is in principle favorable to European mobility, and thus brings meaningful development to the region, the question remains, which basic conditions would lay the best economic foundation for further development? In other words, which role would private investors play, and to what extent should the state support this type of development?

What is the appropriate limit to national subsidies with respect to airport infrastructure development? What role should private investors play?

First, the philosophy of Public Private Partnership (PPP) is generally divided with respect to airports. Private investors can relieve the public hand of development financing, as well as the development of airport enterprise. At the same time, these objectives are consistent with investor demands for a net yield by applying an economically efficient paradigm of airport management. As airport management strives for more efficient aircraft and passenger handling processes, it can aim to lower flight-dependent costs. As a result, this emphasis on efficiency creates an additional incentive for airlines to approach small airports. Competition is also

stimulated through overlapping catchment areas. In this way, a PPP arrangement makes sense not only in previous times for large airports which are already partly denationalized, such as Frankfurt and Heathrow, but also in present times even for smaller and medium sized airports.

Thus Dr. Raoul Hille sees a systematic privatisation of German airports as a necessary instrument to get a grasp of the uncontrolled, subsidized competition of German airports:

“Through privatisation of individual airports, a competitive distortion develops between private and national airports. A majority of German airports receive national subsidies, such as Kassel. By the development of the Kassel airport, the present traffic is only re-distributed from the surrounding airports without actually generating new demands. A subsidy competition could be avoided by a wide-spread opening of German airports to private investors.”

Private investors can also have a significant regulatory effect, helping to work against and to prevent an inadvertent cannibalization of demand for transportation by tax proceeds. Martin Gaebges identified a further example of public subsidies: *“in Dortmund the operating cost is higher than the gross income. A clear example of state-induced distortion of competition.”* He points out that *“partial privatisation such as with Cologne/Bonn is a meaningful model.”*

Generally it is agreed that subsidizing airports from tax proceeds is not helpful to the current situation. Nonetheless, support of the state could be helpful, if necessary, in an initial phase, if as a result, a new and real demand for transportation is created and a well-founded business plan is developed. Reaching this investment threshold is obviously more difficult for smaller airports than larger. Given Germany's high airport density, along with the risk of failed planning, the threshold for new building projects is high.

In addition, small provincial airports have substantial structural cost disadvantages, especially in the early years, before the airport reaches a critical mass of traffic necessary for efficient operations. Even with larger airports, scale effects are known to exist. On a per-passenger basis, fees fall to a large extent in correlation with the size of the airport. In a recent Booz Allen Hamilton study, the average gross profit (EBITDA) in nine of fifteen medium-to-large European airports was about EUR 6.40 per passenger, clearly lower than in the remaining six largest airports of the examined group which showed an average per passenger EBITDA of EUR 7.90. One reason for this difference is that large airports with rising passenger numbers profit also from non-aviation income through commercial activities.

Economic validation for new airports is no easy task, and the issue of national subsidies must be clearly defined. Government support of airport investments can be meaningful in the early years if it can be shown that the airport is able to operate economically in the medium-term. The question is, when should the break-even point be reached? How can one guarantee it can be reached at all, and that there is no subsequent need for long-term subsidy?

Obviously larger airports have structural advantages (indicated by a sample of 15 leading European airports)

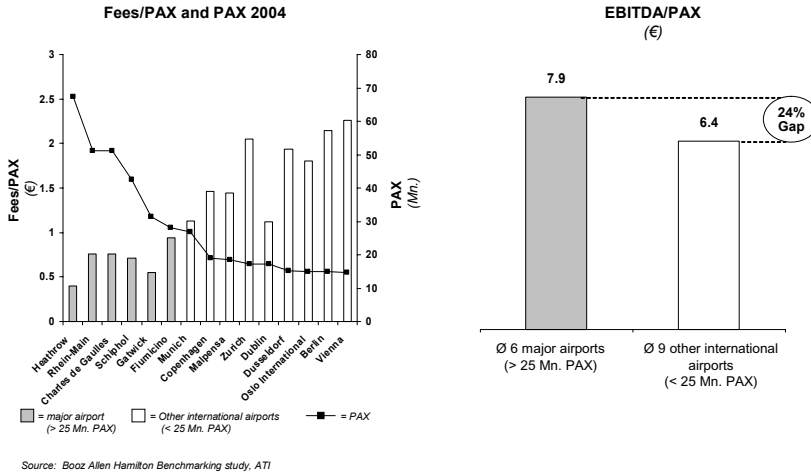


Fig 6. Economies of Scale Analysis for leading European airports

The example of Munich shows that sometimes a long period of development is required until an airport can finally free itself from subsidies. The private participation of Lufthansa in Terminal 2 may be only a mild mitigation. Therefore, Munich is regarded as an infrastructure project with a long-range planning period of 40 to 50 years, with the airport development being financed substantially by the government. According to information from BARIG, each passenger in Munich receives a subsidy of ten euros on average. Karl Ulrich Garnadt iterates this point:

“Munich is important as a second hub for Lufthansa’s infrastructure for German traffic. The airport offers high efficiency with sufficient capacity for the coming years. For the first time since the new construction was completed, 2005 showed a profit. Lufthansa has taken a 40 percent share in Terminal 2, and carries the accompanying risk. The current expectation is that this investment will break even in 2007.”

To suggest that airports can successfully reach profitability in a shorter time period, Caroline Baldwin of Ryanair refers to Hahn Airport, which achieved profitability within six years. Nonetheless, economic viability of new airports in Germany remains a fundamentally difficult venture. A partial privatisation can play an important role in turning around an unwanted national subsidization. Governments should, however, notice a further influence. Dr. Raoul Hille describes the role of the local owner as follows:

“Partial privatization creates an interesting area of conflict: On the one hand, the aim is for optimization of the net yield for the investors, on the other hand there are other expectations of those in the region through participation of the government (such as noise protection and new jobs). Ideally, governments should define the basic conditions of the airport management’s free market agreement with the private investor.”

What role should be given to local or regional government entities? (such as national governments, regional federations, or the European Union)

It was already noted that the government retains an important role in intra-regional coordination with respect to airport capacity. Aviation is a fundamental industry for the region and secures jobs and economic growth. Even if it is economically worthwhile to promote competition between airports – as shown above – through partial privatization, apart from promoting mobility, government leadership can also secure basic conditions necessary for fair competition. Here, monopolistic behavior of airports must be limited in exactly the same manner as permanent national subsidies for airlines. Karl Ulrich Garnadt explains:

“The state must specify principles for the bundling of traffic routes and for hub infrastructure planning, and must establish borders for regional promotion. The European Union must try to define the basic conditions in order to prevent a ruinous competition of the airports („Cannibalization“) resulting from state support. Following principles of free market conditions, a master plan should be provided. For megahubs such as Frankfurt, the European Union should give regulatory guidance to prevent abuse of a monopolistic position with respect to the flag carrier.”

On the other hand, if possible, a bureaucratic adjustment should be prevented, similar to the strategy employed through price auditing procedures in Brussels, which were implemented as a means of preventing monopolistic fee structures from developing over time. Michael Garvens explains:

“Due to the high density of airports in Germany most of them no longer have a monopolistic position. Therefore an adjustment of the price structure does not make sense. Organizing airports into different adjustment categories – such as proposed by Brussels – is too bureaucratic and leads to distortions in competition.”

A positive example of successful coordination in airport planning at an inter-regional level is given by Michael Garvens, in the case of new German provinces:

“The German provinces of Saxonia, Saxonia-Anhalt and Thuringia decided to support only the airports at Leipzig, Dresden and Erfurt through public subsidy, and therefore successfully coordinated a national subsidy over and above that of the local governments.”

3 Summary and overview

After taking stock of the need to further promote European airport capacity development, some substantial results emerge:

As expected, air traffic in Europe will continue to increase in the long run. Without further action towards completion of planning, particularly at the larger airports, significant bottlenecks are inevitable.

In particular, the determined development of an international megahub, such as Frankfurt, must be advanced, in order to secure future potential in air traffic for Germany as well as Europe.

Low cost carriers have created a demand for new, more robust airports with high availability. Nonetheless, in the public interest, tight limits must be set with respect to subsidizing small new airports. The strategic framework for a lasting economic benefit is narrow at best, and a high risk of inadvertent competition exists between airports in which national subsidization is perpetuated.

Participation of private investors (PPP) in the airport sector is welcome. It has already been shown to promote economic thinking in the planning phase, and offers with it incentives for more efficient airport management. In the long run, this effect benefits taxpayers and consumers equally.

In the framework of the European Union, a substantial role is recognized in planning of the region's traffic infrastructure as well as securing fair rules of competition. With increasing participation of private investors in this sector, the requirements for an effective regulatory management will continue to rise.

Destination management

FIFA World Cup 2006 and its legacy on tourism

Holger Preuss

Abstract

This chapter discusses the legacy of the FIFA Football World Cup 2006 and its effects on tourism. First of all, the ‘concept of legacy’ is defined. The problems of measuring and forecasting tourism legacy are then discussed. Facts are presented which demonstrate that benchmarks and methods for measuring tourism growth triggered by a major football tournament are not relevant for detecting event tourism legacy. Hence, a bottom-up approach is introduced, which identifies the event legacy by evaluating all football World Cup-related changes in the host cities and the host country. These changes are the so called six ‘event structures’ (infrastructure, knowledge, image, emotions, networks, culture). Many of them change the location factors and may finally affect the perception of a tourism destination in the long-term.

1 Introduction

The FIFA football World Cup is an extremely expensive event to host. The fact that the final tournament takes place within a four weeks period justifies the public authorities’ wish to invest in the World Cup to create long lasting effects. This claim is understandable when reflecting the negative legacy on stadium infrastructure left by the 2004 football Euro in Portugal or the 2002 football World Cup in Korea/Japan.

A positive legacy is important not only for public authorities but also for the FIFA (Fédération Internationale de Football Association). In fact, there are three reasons why a positive legacy is so valuable. First, a positive legacy avoids public complaints about the FIFA and provides evidence why the World Cup had been good for the host country. Secondly, it justifies using scarce public resources for constructing stadiums and general infrastructure, ensuring that all necessary event structures for the World Cup are ready on time (Preuss, Solberg 2006). Thirdly, a positive legacy motivates other nations to bid for hosting future World Cups.

This chapter will contribute to the controversial discussions regarding investing scarce public resources in a FIFA World Cup. Quite often, only the economic impact of such an event is seen, driven by investments and the consumption of foreign visitors. However, it is also important to consider the event-related changes (supply side) of a host nation. This chapter considers in particular the potential changes in tourism in Germany, resulting from the FIFA World Cup 2006.

2 Literature review and definition of the term “legacy”

In literature an immense variety of so called ‘sport event legacies’ can be found; however, very few of them discuss football World Cups. Surprisingly, a satisfactory definition for ‘legacy’ is not available.

Etymologically, the word legacy means “property left by will” (Harper 2001). As for literature concerning sporting event legacy, this definition is not satisfactory for two reasons: First, whereas a property belongs to someone, the FIFA “remains”, such as image, motivation or knowledge, neither belong to the World Cup organising committee nor to German politicians or the FIFA. In economic terms, some legacies fulfil the criteria of being a public good. Secondly, a sport event legacy also includes structures that were not intended to be left “by will”. These items can be oversized football arenas such as in Leipzig or socially unjust distribution of public money or regional debts. FIFA World Cups are very complex and therefore also generate a tremendous number of unique unplanned legacies. Hence, the etymological definition of ‘legacy’ does not fit the context in which the phenomenon ‘legacy’ is used in event literature.

Examining event literature reveals a huge variety of legacies. Examples range from commonly recognized aspects to less recognised intangible legacies.

Participants of an IOC congress on legacy in 2002 “found that there are several meanings of the concept, and some of the contributions have highlighted the convenience of using other expressions and concepts that can mean different things in different languages and cultures” (Moragas et al., 2003, p. 491). Cashman (2005) adds to this hesitancy by stating that the

“word legacy, however, is elusive, problematic and even a dangerous word for a number of reasons. When the term is used by organising committees, it is assumed to be entirely positive, there being no such thing as negative legacy when used in this context. Secondly, it is usually believed that legacy benefits flow to a community at the end of the Games as a matter of course. [...]. Thirdly, legacy is often assumed to be self-evident, so that there is no need to define precisely what it is” (p. 15).

Table 1. Positive and negative legacy mentioned in literature

Positive	Negative
new event facilities	high construction costs
general infrastructure	investments in non needed structure
urban revival	indebtedness of public sector
international reputation	temporary crowding problems
increased tourism	loss of permanent visitors
improved public welfare	property rental increases
additional employment	only temporary increases in employment and business activities
local business opportunities	socially unjust displacement
corporate relocation	
city marketing	
renewed community spirit	
inter-regional cooperation	
production of ideas	
production of cultural values	
popular memory	
education	
experience and know-how	

Sources: Ritchie & Aitken 1984; Haxton 2000; Lenskyj 2000, 2002; Moragas, Kennet, Puig 2003; Kasimati 2003; Preuss 2004; Cashman 2005; Vigor, Mean, Tims 2005; Kensenne 2005

Cashman (2005) collected a variety of evidence about legacies. He identified six fields of legacies:

1. economics
2. infrastructure
3. information and education
4. public life, politics and culture
5. sports
6. symbols, memory and history

Chappelett (2006) created another classification for legacy. He distinguishes between

1. sporting legacy
2. urban legacy
3. infrastructural legacy
4. economic legacy
5. social legacy

However, these qualitatively classifying definitions do not describe the nature of 'legacy'. A general definition of legacy should be independent from qualitative examples.

Three legacy dimensions can be identified: First, the degree of planned structure; second, the degree of positive structure; third, the degree of quantifiable structure. Furthermore, the time dimension has to be considered. Some structures and effects of an event will have already occurred years before the event takes place. This pregnancy effects, for example, can be a change of image, certain infrastructure constructed early on, increased congress tourism etc. In other words, legacy can be produced independently of the staging of the event.

A definition for legacy: “Irrespective of the time of production, legacy is all planned and unplanned, positive and negative, intangible und tangible structures created for and by a sport event that remains for a longer time than the event itself.”

In the following sections, the word “structure” is used in this context and means everything that is changed through an event and not only the physical infrastructure.

3 Measuring the FIFA World Cup legacies

This section introduces three plausible ways for measuring the legacy of major sporting events such as the FIFA World Cup.

First, a benchmark approach. The idea is to look at former hosts and learn from their experiences (3.1). Second, econometric measurements. With this approach, the economic legacy can be observed by comparing the economic development in the host cities or nation with other cities/nations that did not stage such event (3.2). Third, a bottom-up approach. The idea is to analyse all changes related to the World Cup and their influence on location factors on the long term (3.3).

3.1 Benchmark approach to identify FIFA World Cup legacies

Measuring a legacy should start with the changes events create. A literature review including not only football World Cups but also other major sporting events shows that the legacies of events are multidisciplinary, dynamic and defined by local and global factors. Most papers only describe single event legacies. However, the legacy varies for different cities, events and times. Therefore, even if a particular legacy is scientifically proven, reproducing that legacy is prone to error (Solberg, Preuss 2006).

Same event in same country

For example, the FIFA World Cup was in Germany twice in 1974 and 2006: The same event (World Cup) creates different legacies if staged twice in one city/nation. Since the FIFA World Cup finds itself in continual development, new and/or different structures are needed as time goes by.

- increasing gigantism = more stadiums, more matches, more accredited people,
- other structural needs = higher security, more organizer and volunteer know how,
- growing global interest = more media capacities in stadiums, bigger satellite parks, more media accommodation, more foreign visitors.

Although many of the structures needed at the 2006 World Cup had already been set up for the 1974 World Cup, other structures were required in 2006 for the second round and old structures such as stadiums had to be renovated. Therefore, the legacy of the 2006 World Cup will be different than 1974.

Different events in the same country

An example is several World Cups in Germany: Different events create different legacies if staged in the same country. In Germany, the World Equestrian Games and the Hockey World Cup were staged right after the FIFA World Cup in 2006. By nature, each major sporting event creates a different legacy. They have different structural requirements, different social interests, different media exposure, different space requirement etc. However, some legacies are the same and can be used for other events.

Same event in different countries

Take the FIFA World Cup as an example. It takes place in a different country every four years and creates different legacies in different countries. Due to the structure a country offers and the goals pursued (especially those of politicians), different legacies are created (for Olympic Games see Preuss 2006). The high degree of freedom, which is granted for deciding on activities (“optional measures” in Fig. 2) used to leverage a legacy effect (Chalip 2000), allows the same event to take place but creates a different legacy. For example, the Atlanta 1996 Olympics could not reach the same tourism attractiveness as Barcelona 1992. Furthermore, cities have different structural strengths and weaknesses when winning a bid competition. Therefore, some cities have to build more structures while others can stage an event without resorting to major investments.

Both the uniqueness and complexity of events in a fast changing environment make it difficult to seriously trust in benchmarks.

3.2 Econometric measurements to identify World Cup legacies

Econometric measurement is basically only useful for calculating the economic legacy of a football World Cup. The Deutsche Bundesbank (2006, p. 43) reported that foreign tourists visiting Germany for the World Cup spent approximately an additional €1.5 billion. Furthermore, billions were invested in infrastructure which

is an economic pregnancy effect due to the expenditures made up to six years before the World Cup. Ahlert (2007) calculated an increase in the GDP of approximately €6.8 billion between 2002 and 2010. This figure includes €3.5 billion for upgrading the general infrastructure in the host cities (Ahlert, 2007) and €1.5 billion of private and public money that was spent on stadiums (Süßmilch, Elter 2004, p. 148). In fact, the economic impact of the FIFA football World Cup had a transitory impact and therefore cannot generate a sustainable legacy. However, aside from creating billions in expenditures, FIFA World Cups also induce changes on the supply side. These changes can lead to long-term economic benefits if the structures which were changed increase the productivity of a destination. The question remains whether these World Cup-related changes affect any economic variables that lead to economic growth.

Mills (1992) summarizes models that explain metropolitan economic growth. These models are based on theories such as export base, neoclassical growth, cumulative causation or disequilibrium dynamic adjustment. Furthermore, these theories use key economic variables to explain growth. Unfortunately, two reasons stand out as to why this method might not be suitable for measuring the economic legacy of a football World Cup. First, the FIFA World Cup is a relatively small enterprise compared to the overall economy of a country. The key economic variables available for a region or nation (such as GDP or employment rates) are therefore too general to show a change (Szymanski 2002, p. 8). Second, the economic impact extends over many years. Construction and preparatory consumption in the years preceding the World Cup, exports and tourist consumption during the World Cup, additional tourist expenditures etc. occur for years following a World Cup. For this period it is difficult – if not impossible – to isolate World Cup-related changes from the general development (Baade, Matheson 2002, p. 133). Nevertheless, Sterken (2006) tried to measure potential economic growth by using a sophisticated econometric model to evaluate all FIFA World Cups from 1982–1998, taking the year of the World Cup as well as the three preceding years into consideration.

In theory one only needs to compare the economic variables of a country, which staged the football World Cup with the same variables of the country which did not stage the World Cup (the so called “without case”) (Hanusch, 1992). The economic legacy is the difference between the “event case” and “without case”. However, this comparison is based on a static model. Therefore, a better method would be to consider the alternative development “control case” the country would have without the World Cup taking place (Hotchkiss et al. 2001, p. 1; Baade, Matheson 2002, p. 132; Oldenboom 2006, p. 49). Thus, the economic legacy is the difference between the “event case” and the “control case”. In practice the use of this approach is not a trivial task. The data for the “control case” is not available, because the future of the national economy in the absence of the World Cup is unknown. However, there are two common methods to predict the “control case”.

Differences-in-differences

The first method is to collect data from countries with similar structure and size in the same macroeconomy for a certain period. The average development of the other countries builds the “reference case” (Preuss 2000, p.261–264; Baade, Matheson 2002, p. 132). The statistical tool is called “differences-in-differences” (DD). The idea behind the DD approach is to determine whether some statistic of interest (e.g. GDP, price level or employment rate) change more for the host country after the World Cup than for the other countries observed. The World Cup legacy is the difference between the “reference cases” and the “event case”. The shortcoming of this method is that selecting “reference cases” without systematic differences is rather problematic. A naive comparison of the host country with other countries cannot prove an economic legacy.

Trend calculation

The second method to predict the “control case” is to look at the long-term economic development of a country. The “control case” can be predicted using trend calculation. The event legacy would be the difference between the “control case (trend)” and the “event case”. The disadvantage of this method is that certain circumstances can also influence the trend. For example, additional tourists attracted by a positive image of the World Cup could create an upswing of the local economy whereas a crisis such as September 11 or SARS can decrease it.

Identifying a legacy with “reference cases” (DD) or “growth path” (trend calculation) is always better than guessing but it is still highly prone to error. However, Baade and Matheson (2002, p. 136) used a complex regression model when trying to determine the employment attributed to the Olympics in 1984 and 1996. They considered external and internal factors to isolate the major event’s impact and carefully reviewed the history of cities to incorporate each potentially significant change into their model. In the end, their investigation revealed that the 1996 Olympic Games in Atlanta only had a small transitory economic impact on employment (p. 142). Sterken (2006) identified similar results for Olympic Games. For mega events Baade and Matheson (2002) comment:

“The host economy has to make changes to accommodate the event. This hurricane of economy activity can have a permanent impact only to the extent that its infrastructure demands translate into permanent uses that build on resident capital and labor rather than substituting for them” (p. 145).

This statement is critical. Classifying event-related changes in a city as an event legacy is a very difficult and delicate process. The next paragraphs deal with this topic.

3.3 Analysis of the event related changes and their influence on location factors

The benchmark and the top-down approaches are not satisfactory for determining the World Cup legacies. Another way to evaluate the FIFA World Cup legacy involves a “bottom-up” approach. It compares a country’s development without the World Cup (“without case”) and its development with the World Cup. However, the alternative development a country would take in the absence of the World Cup (“control case”) is not considered.

This approach consists of three steps (Fig. 1): First, an analysis on whether the potential legacy is related to the World Cup or not has to be performed. Second, all World Cup-related changes – the six ‘event structures’ have to be identified. Third, all of the event structures, which are to be maintained in the host country for the long-term, have to be analyzed. They do in fact change location factors. However, it depends on which location factors and if those particular factors change the quality of a destination. Finally, six destinations are introduced for which tourism builds the central focus.

Take the FIFA World Cup for example: this mega event attracts many national and international spectators. First of all, the organizing committee launched a service campaign (activity of organization). That activity was only performed as a result of

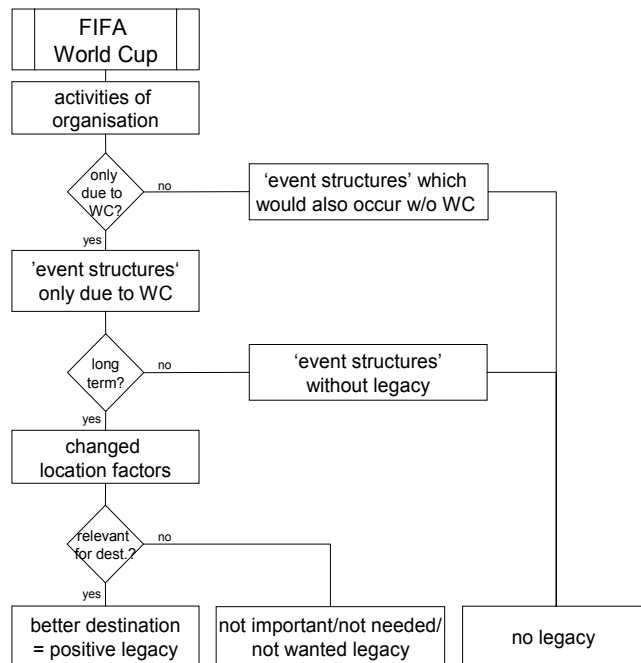


Fig. 1. Flow chart for the bottom-up approach, used to identify legacy

the FIFA World Cup. Germans were perceived as good hosts (Tödter 2006) and many service personnel acquired additional knowledge. Therefore, the campaign served the two 'event structures' image and knowledge. Image and knowledge persist much longer than the one month of the World Cup. It therefore changed the location factor "friendliness". This location factor is relevant to improving Germany as a tourist destination. The legacy of the 2006 World Cup is the sustainable increase in economic activity in the tourism sector.

Analysis of "event-related" changes

The idea of the bottom-up approach is based on the long-term development path of a host city or country. The planned future development of a city/country will happen irrespective of the World Cup and therefore represents the "without case". Despite having existing infrastructure, a country still experiences an economic impulse when staging a FIFA World Cup because the FIFA demands many 'hard' and 'soft' structures such as modern football stadiums, sufficient transport to and from the stadiums, special know-how, high event security etc. which are not usually in place.

The football World Cup fits more or less in the development plans of the host cities. The structure required for the World Cup (event structures) affect the development of the host cities in four ways:

1. The non-event related development of the football World Cup host cities should not slow down through the effort to build 'event structures'. Athens 2004 is a case where Olympic investments cast a dampening effect on general city development as a result of high public debts. In general, there is a risk that scarce resources get re-distributed to serve event structure. Such practices potentially create a negative event legacy.
2. Some structures in the host cities change because they are needed for both the World Cup and the development of the city in the "without case". Applicable actions include renovating a football stadium or generally reorganizing the traffic system around a stadium. Nevertheless, whether these structures can be considered legacy or not is debatable. Quite often the World Cup only gives the impulse to start infrastructural projects, which would have been necessary even without the event. However, independent of the controversy, three other legacies often occur: The city develops faster (acceleration effect), politicians reach a consensus which helps to budget money from the public sector for projects (Preuss, Solberg 2006) (political effect) and autonomous resources, government or international bodies, finance some of the necessary structures (financial effect).
3. To avoid negative legacies, certain structures which the host cities only needed for the World Cup, but not in the long-term, should be of a temporary nature. This does not mean that these temporary structures should be constructed with cheap or of low quality material. Externalities and spill-

over effects may serve other positive legacies in the target system. For example, oversized roads avoid transportation problems and therefore negative press on transportation. Avoiding negative press serves the aim to better the hosts' image as a tourist destination.

4. Analyzing the environment, trends and all structures required for the World Cup sheds a light on the actual opportunities and risks on the long-term development of the cities. This is positive: grievances, shortcomings and problems in the city emerge and can be integrated in the development strategy.

What makes this bottom-up approach complex is that one structure can serve different conflicting goals in a target system. For example, to improve the attractiveness of a host city to increase post-World Cup tourism requires great media coverage, perfect World Cup organization and impressive football arenas. Although arenas of such grandeur might not be needed in the long-term, improving the destination image is a long-term goal. In this case, a strategy has to be developed, which determines how to construct an arena in such a way that a positive image can be attained.

The six 'event structures'

The football World Cup requires specific structures. All 'event structures' that kept up after the World Cup change the quality of 'location factors' in a positive or negative manner. A set of specific 'location factors' shapes a destination. This paragraph focuses on changes regarding ways to become a more attractive tourist destination. However, each host city has a different quality and set of 'location factors' and therefore is either more or less attractive as a site for living, tourism, industry, fairs, congresses or sport events.

Currently, mega-cities are competing globally to attract economic activity to their city (Sassen 1996). A popular way to attract autonomous money to the cities is to increase tourism. The football World Cup in Germany increased revenues from foreign visitors by € 1.5 billion between May and July, of which 2/3 stem from EU-countries (Deutsche Bundesbank 2006 p. 43). The question arises on how the World Cup can develop 'location factors' that improve the position of a city or even the whole country in this global competition on the long-term. This result could be made more successful by strategically embedding an event in broader processes of development (Ritchie 2000).

The strategy for creating an event legacy already begins with the decision for a specific event (1), in this case the FIFA football World Cup. Mega sport events differ in the structures they require and cities differ in structures they can provide. The strategy focuses on the additional structures an event creates and the long-term need for these structures. During the candidature process (2) some required structures ('compulsory measures') as well as some 'optional measures' are defined. A city/country endeavors to strategically achieve the best positioning in the bid competition by exalting its 'optional measures' (Preuss 2000, McIntosh 2003). Therefore, although these measures may not be sustainable, they are indeed necessary

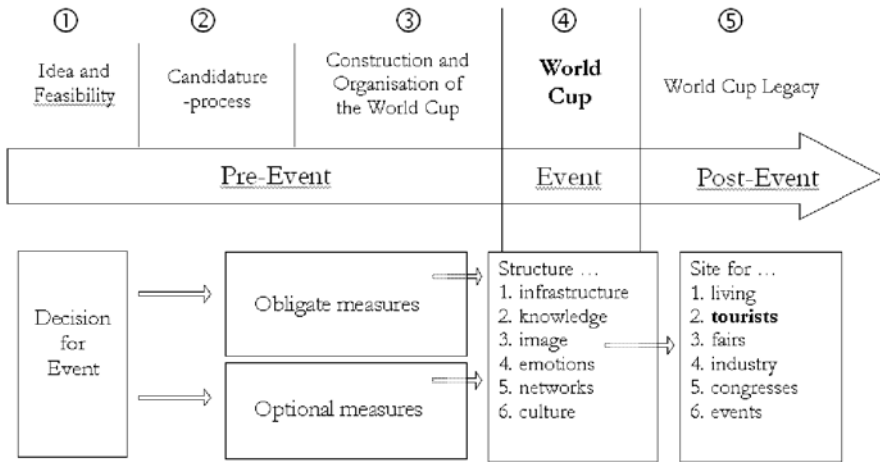


Fig. 2. Process for creating planned World Cup legacy. Source: Preuss (2006)

to win the bid. During the preparation period for the World Cup (3), the compulsory structure (FIFA regulations) has to be set up. At this stage, ‘optional measures’ can be integrated to improve particular ‘location factors’. During the World Cup (4) all ‘event structure’ is present. (5) Some ‘event structures’ disappear or lose intensity, but others exist for a long time after the World Cup. In general six ‘event structures’ are usually preserved after an event.

Infrastructure. Infrastructure obviously refers to training facilities and the sport infrastructure for the World Cup, but also the general infrastructure of the host cities such as airports, roads, telecommunication, hotels etc. All permanent infrastructure left after the World Cup should comply with city development. Nowadays temporary constructions can avoid negative legacies. Hence, many supporting facilities around the stadiums and other public viewing areas were set up only for the duration of the World Cup 2006.

The FIFA football World Cup 2006 generated world class football stadiums for Germany. However, many old arenas – often dating back to the last World Cup in 1974 – did not meet the modern requirements for marketing and entertainment. Therefore, some of them would have been upgraded regardless of Germany’s role in the FIFA World Cup.

Obviously, the FIFA World Cup required accelerated investments in stadiums as well as in major transport and other local infrastructure. Tables 2 and 3 illustrate the infrastructural investments made in Germany during the World Cup.

Knowledge, skill-development and education. Many Germans gained knowledge and skills from staging the World Cup 2006. Employees and volunteers acquire skills and knowledge in event organization, human resource management, security, hospitality, service, etc. The World Cup organizing committee 2006 employed 279 staff and 15,000 volunteers. Spectators, staff and volunteers received

training in public transportation and became acquainted with environmental projects such as “Green Goal”. They also gained additional knowledge about the history and culture of Germany.

From the tourism perspective, nearly 100,000 individuals in tourism were able to up-skill their intercultural competence in at least one of the various World Cup related activities (Tödter 2006). As an example, Accor Germany and the Dorint AG trained 12,000 persons with booklets and 2,500 using an e-learning module (Cisco 2006). The Deutsche Bundesbahn up-skilled 6,000 employees in its XENOS-project and thus provided them with valuable training to become “service-ambassadors” (Bundesministerium für Arbeit und Soziales 2005).

Table 2. Financing the World Cup stadiums in Germany

City	costs in million €	Public resources	share of public financing
Berlin	242	196 million € state and government	81 %
Munich	285.8	–	0 %
Dortmund	36	–	0 %
Stuttgart	51.5	15.3 million € state; 36.3 million € city	100 %
Gelsenkirchen ^a	192	–	0 %
Hamburg ^a	97	11 million € city	11 %
Frankfurt	190	20.5 million € state; 64 million € city	44 %
Kaiserslautern	64.2	32.5 million € state; 7.7 million € city	64 %
Nürnberg	56	28 million € state, 28 million € city	100 %
Cologne	110	–	0 %
Hanover	63	26 million € state and region	41 %
Leipzig	90.6	63.2 million € state and government	70 %

^aconstructed before World Cup location was announced

Table 3. World Cup related investments in transport infrastructure

Traffic infrastructure	Cost in million €
Government (Germany)	
roads	3,900
traffic guidance system	500
Government (states/cities)	
roads	400
Park & Ride	400
public transportation	300
traffic guidance systems	100
Total	5,600

Source: Ahlert (2007, Table 38)

Image. The FIFA football World Cup has tremendous symbolic significance. This World Cup probably repositioned the image of Germans and Germany. It created a positive image and the host cities and national politicians could “bask in [its] reflected glory” (Snyder, Lassegard, Ford 1986). However, the worldwide exposure of the World Cup, the host cities as well as Germany and its culture depend on media representatives and cannot be entirely controlled by the organizers (Preuß, Messing 2002). Media also report negative incidences such as a bomb attack, hooligans, organizational shortcomings or just bad weather which also influence the image of the host. World Cup media exposure does not just convey negative incidents but also general bad attitudes to millions of potential visitors, customers or business partners. Exaggerated nationalism or unfair spectator behavior would have spoiled the perception of hospitality and could have even created uncertainties regarding Germany as a potential tourism destination.

One of the aims of hosting the 2006 FIFA World Cup was to reposition the stereotype of Germans being “conformist, time-dominated, serious” (Lewis 2006, p. 223). The organizers, government and the Deutsche Zentrale für Tourismus e.V. launched a hospitality concept on behalf of the German government which included: servicing government resorts, location-marketing for Germany, a cultural program as well as a service and friendliness campaign (BMI 2005, p. 15). The campaigns certainly contributed to improving Germany’s image. In fact, Germany’s image as a world-open and hospitable country changed as a result of the World Cup. Figure 3 illustrates how certain nations perceived this trait before and after the FIFA World Cup.

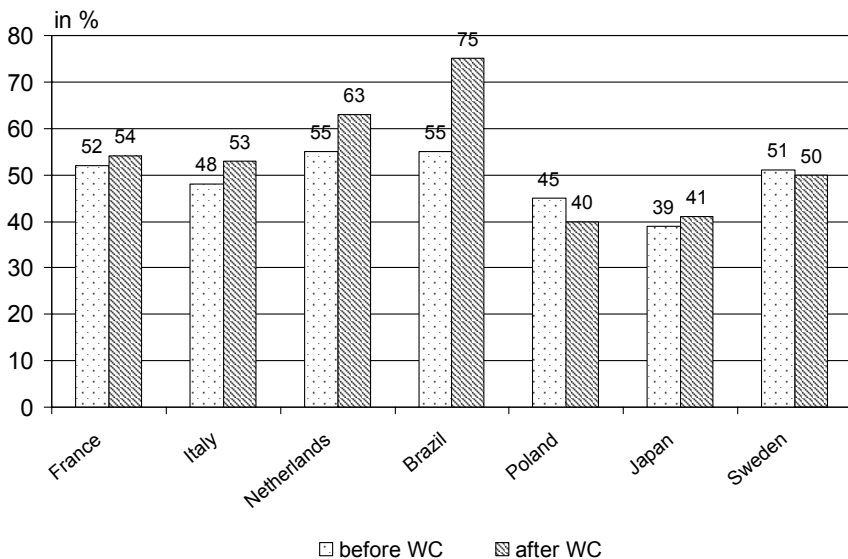


Fig. 3. Image of Germany as a world-open and hospitable country as viewed by foreigners
Source: Deutsche Zentrale für Tourismus e.V. (2006) & TNS Infratest 2006

Emotions. The football World Cup is such an emotional event that it can give politicians a common vision to gain international prestige. The German population is emotionally involved and Germany's private industry is inspired to welcome an extraordinary international event. The pride of hosting such a prestigious event creates national identification, vision and motivation. For example, the 2006 World Cup changed – at least during the World Cup – the German national identification in a positive way.

Investigating indexes of OECD consumer confidence for Italy 1990, Barcelona 1992, France 1998, and Athens 2004 reveals that consumer confidence actually only increased in France (Sterken, 2006). In regards to this Falter, Pérignon and Vercruyse (2005) demonstrated that this boost had i.e. an impact on the demand for football tickets for the French national league in the years following 1998. In the other cases however, there is no clear behavioral change in consumer behavior.

As a pregnancy effect, the private industry gets stimulated by the expected influx of money and a potential positive post-event legacy. There is substantial evidence from Olympic Games that these anticipatory investments have taken place. Critically seen, some have created oversupply (Preuss 2004; Teigland 1996). However, such results cannot be verified as a World Cup effect for Germany in 2006 owing to other overlapping stimulations. However, a FIFA World Cup can change the readiness to invest instead of save:

“The announcement of the event leads to a program of anticipatory investment. Directly, or indirectly it is the catalyst for a number of ‘piggy-back’ events (which in turn promote further investment). And during the event itself, there is a boost to local demand. While all of these boost the local economy in the short-term, the key to any longer-term effects lies in whether and how these leave a permanent legacy in the infrastructure, or in industry competencies” (Swann 2001, pp. 2–3).

Networks. The FIFA, media, politicians, tourism industry etc. need to cooperate in order to stage a successful World Cup. The interaction of different systems creates networks. First of all, the FIFA World Cup most probably improves political networks, such as closer partnerships among local and national politicians.

In particular, the large sympathy for football, the networks between politicians and local football federations as well as the image of being a World Cup host city/country increase the affiliation to sport. Grassroots coaching programs, facilities for schools, sports for all, and additional football-related sport events may be the result. In Germany, the demand for football club memberships increased tremendously after the World Cup; however, the question is how long this lasts.

In the tourism sector, the Deutsche Zentrale für Tourismus e. V. used the World Cup to promote Germany as a tourist destination throughout the world. Various campaigns strengthened the networks in the tourism industry (Tödter 2006).

Culture. The football World Cup generated cultural ideas, cultural identity and cultural products. Despite the absence of an opening ceremony – which could have included a cultural-artistic display of German culture, the World Cup transmitted German culture to the world. A positive cultural image, increased awareness, new cultural infrastructure and additional tourist products, combined with the soft factor of better service quality, have a great potential to increase tourism in the long-term (Solberg, Preuss 2006). Barcelona for instance used the 1992 Olympics to transform its infrastructure and become a “cultural city” (Garcia 1993).

Changes of destinations through ‘event structures’. ‘Event structures’ lasting longer than the World Cup transform the ‘location factors’ and thus can alter a destination positively. A better destination can lead to economic growth in the long-term (Fig. 4).

There are six destinations for a city/country that are affected by sustainable ‘event structures’.

1. A tourism destination is affected by ‘event structures’ such as infrastructure (tourist attractions, hotels, transport, etc.), image, knowledge in service industry and culture (more in Solberg, Preuss 2006).
2. A congress destination is affected by ‘event structures’ such as infrastructure (congress center, upper class hotels), image, knowledge (event organization, bidding) and culture (more in Chalip 2002; Solberg, Andersson, Shibli 2002; Jones Lang LaSalle 2001).

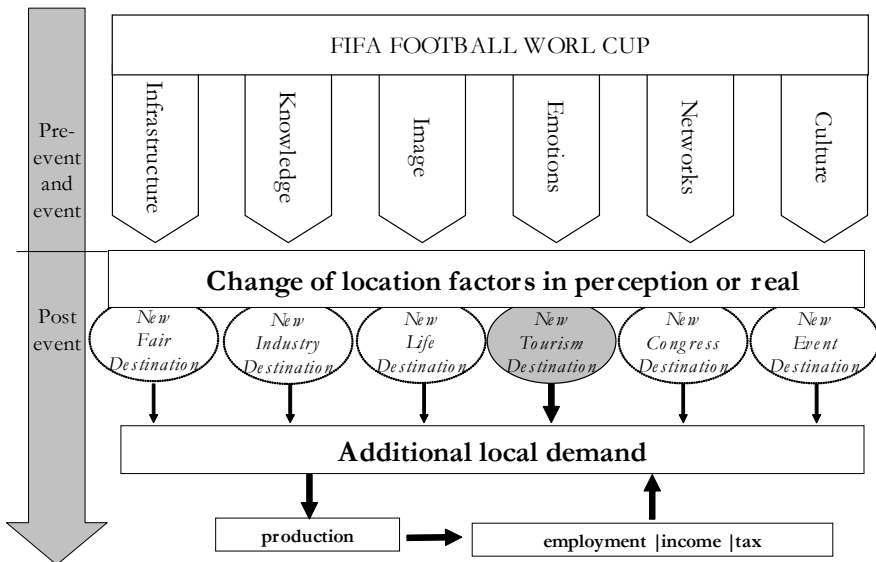


Fig. 4. Impact of event structure on location factors and its economic relevance

Source: Preuss (2006)

3. A trade fair destination is affected by ‘event structures’ such as infrastructure (fair grounds, hotels, transport, etc.), image, knowledge (event organization, bidding) and networks to lobby for the site.
4. A site for better living is affected by ‘event structures’ such as infrastructure (transportation, pedestrian zones, entertainment facilities, parks, etc.), emotions and culture.
5. A business destination is affected by ‘event structures’ such as general infrastructure, knowledge (organization, service, security, etc.) skilled labor, image, networks (more in Chang 2001; Sananhuja 2002; Kim et al. 1989; PricewaterhouseCoopers 2002; Spilling 2000).
6. A sport event destination is affected by ‘event structures’ such as general infrastructure, sport infrastructure, knowledge (organization, bidding), event skilled work force, image of being a sport city, emotions and networks.

Most of the destinations are directly or indirectly related to tourists. In general, an improved “tourism destination” and “event destination” attract additional tourists in the years following a World Cup. A stronger destination for business, conventions and trade fairs may attract more business travelers who in general spend considerably more than leisure travelers, both per day and per stay (Chalip 2002; Solberg, Andersson and Shibli 2002).

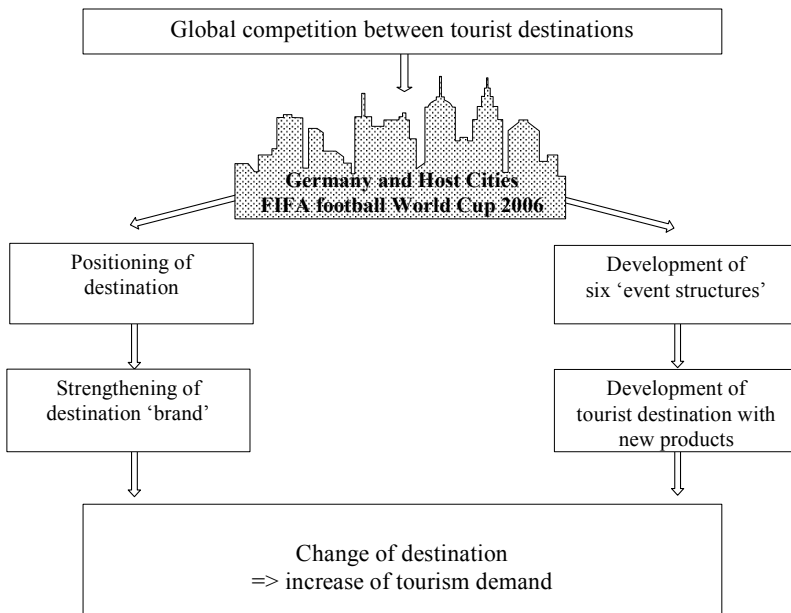


Fig. 5. Potential ‘tourism legacy’ for Germany after the World Cup

Source: Modified from Keller, 2001, p.30

Figure 5 shows how a destination can be positioned as a result of hosting the FIFA World Cup. The left side shows the formation of a strong destination brand, while the right side describes the production of tourism goods based on the event structures which were originally created for the World Cup itself. If a strong tourism strategy is intended, organizers should invest in 'optional measures' when preparing for the World Cup in order to leverage the post-event effects on the destination.

Economic growth based on improved 'location factors' does not directly appear to be event-related and is therefore difficult to measure. As such, the bottom-up approach cannot provide further help either.

4 Conclusion

Academic discussions on both the legacy and the economic impact of major sporting events such as the FIFA football World Cup demonstrate that it is not clear whether staging an event is an efficient and therefore justifiable way of investing scarce public resources. One academic group claims that i.e. the World Cup attracts autonomous resources and at least causes a huge short-term consumptive shock. This shock motivates politicians and enables them to restructure and modernize the host cities in a shorter time period than normal. The event-based accelerated development of a city is called 'event-strategy'. The other academic group warns that events do not increase long-term economic growth in an efficient way. They argue that 'event-strategy' implies inefficiency with hasty planning, construction of unnecessary structures and the risk poorly planned 'event structures'. Therefore, public resources would be better invested in alternative projects.

Clearly, economic impact does not just take demand driven output from the World Cup into consider. The productivity in the host cities changes as a result of changes in locations factors for important destinations. Thus, tourist destinations in particular have to be considered in this discussion. However, if and how a "better" tourist destination really contributes to higher productivity in the long term only becomes visible years after the World Cup (if at all). It is difficult to measure these effects, because they are not isolated from other (regular) development in tourism or special shocks in the environment. The second issue which stood out is that major sporting events such as the World Cup always require structural investments that are not needed for a particular group in the long-term, i.e. for tourism development. The question arises as to what extent these other investments are needed and how important the other groups are. In addition, structural investments that would have also been performed without the 2006 World Cup but were nonetheless necessary for the event cannot be calculated as costs of the World Cup nor be seen as a legacy of this event.

The better the 'event structures' of the FIFA World Cup are at aiding destinations which are intended to be strengthened (such as tourism) in the long term development of a host city, the better it is for the city/country to stage such an event.

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Traveling to a shopping adventure

Werner Friedrich

1 Essential aspects

This article is based on the study ‘Shopping tourism in Germany’ which was published by the ISG – Institut für Sozialforschung und Gesellschaftspolitik – in Cologne on behalf of the Federal Ministry of Economics and Labor.¹

1. Currently, very few (traditional) retailers regard the shopping tourism as an opportunity. In contrast, operators and investors in “innovative retail” such as factory outlet centers and shopping centers target shopping tourist.
2. Shopping tourists coming from foreign countries currently only generate (2004) € 2.5 billion or 0.7 % of the actual retail turnover. However, this target group significantly increased last year and this trend will most likely continue in the future. By the year 2010, the sales volume generated by foreign tourists who come to shop is expected to increase by at least one billion, a 40 % growth.
3. Shopping tourism however is not only related to foreign tourist. German shopping tourists spent € 10 billion in retail stores in 2004, representing an additional 2.7 % share of retail turnover.² Overall, 3.4 % of the actual retail turnover can be traced back to shopping tourism (excluding vehicles, gasoline, pharmacies).
4. The near indifference expressed by the traditional retail industry in regard to German shopping tourism is closely related to the fact that many believe that domestic shopping tourism does not influence the total retail turnover. They believe that such purchases only shift turnover from one location to another. However, at least part of the € 10 billion can be traced back to additional purchases. Providing that 30 % of these purchases are additional expenditures, retail turnover would increase by 1.3 % as a result of *German* shopping tourism, and an additional 50 % would result in a 1.6 % increase.

¹ The entire dissertation is available for download at www.isg-institut.de.

² For more information, see section 3.2 in the complete study (German language only) <http://www.isg-institut.de/download/Shoppingtourismus.pdf>.

5. By the end of the decade, shopping tourism in Germany will most likely be increasing much stronger than 'normal' retail turnover. In fact the total retail turnover generated by shopping tourism could actually increase approximately 20 % from € 12.5 billion in 2004 to € 14.4 or 15.6 billion. Furthermore, the turnover generated by foreigners – as previously stated – increases twice as fast.
6. For the most part, retail has not yet recognized the importance of domestic and foreign shopping tourism. The cooperation between trade and tourism associations and local organization needs to be improved on a local, regional and national level. Locations, both at home and abroad, where such cooperation is operating, are proving to be beneficial and are actually paying off. To reap benefits from such relationships, the shopping offer has to correspond to the measures used to market cities and regions as cultural, vacation, trade fair locations etc. Germany is marketing an image as a "country of culture"; however, the fact that Germany also produces and distributes attractive products is barely being communicated.
7. The opening hours in Germany are actually quite competitive from *Monday to Saturday*. Although foreign legal regulations are much more liberal in other important shopping destinations, retailers do not take full advantage of them. In certain cases, German retailers for example – despite their constant complaints – do not actually make full use of the current opening hours. In contrast, the regulations for *Sunday opening hours* present a real handicap. Visitors on day trips or short vacations are usually on the move on weekends. These regulations are more lenient in many of the neighboring countries, making German retailers miss out on possible turnover opportunities with shopping tourists and – weighing perhaps even more heavily – also driving the purchasing power across the border.
8. German retail is simply insufficiently prepared for tourists looking to shop – especially for those traveling from abroad. Sales personnel lack sufficient foreign language skills; packaging and shipment services are not always provided and retailers often refuse credit cards (in particular those which overseas customers tend to have): These are just some examples of how Germany has created an inhospitable environment for shopping tourists.
9. The German price level on the other hand contributes to a definite location advantage – at least within the Euro countries. With the exception of clothing and shoes, Germany has a predominantly clear price advantage, in particular for home appliances and electronics. In addition, the moderate hotel and restaurant prices have a positive effect on tourism.
10. Improving Germany as a shopping location for tourism is almost inevitable if retailers start getting involved. As long as the aforementioned attitude reigns, dramatic changes are not to be expected. Shopping tourism requires integrative approaches to take advantage of the medium term growth op-

portunities in the respective markets (primarily in retail). The central concern for integrative co-operations, especially those involving retail, is to incorporate shopping as a fundamental part of tourism in Germany.

2 Determining factors and actual commercial relevance

For many individuals, shopping has become a leisure activity, which is by no means contained to immediate surrounding of their place of residence. Shopping is currently an influential motive for day trips, vacations and business trips. In fact, in every seventh case, shopping is the determining factor for embarking on a trip; almost 70 % of retail turnover generated by tourist corresponds to these 'hard-core' shopping tourists. In spite of the large economic relevance of city tours in general and shopping tourism in particular, neither the retail industry nor the hotel and restaurant industry have paid much notice to shopping tourism in the past.

Experts from the retail and tourism industries currently view shopping tourism as a growth segment, from which Germany could greatly benefit. Examples for successful strategic marketing policies and clever cooperation structures can be identified around the world, not just in individual companies or local authorities but also on a regional or national level. The initial situation in the area of shopping tourism and especially in international tourism – i.e. Germany as an attractive destination for foreign tourists to go on shopping tours – reveals shortfalls and indicates unused potential.

According to survey results from approximately 2,000 individuals in 10 different tourist shopping destination, performed as part of the ISG study, a shopping tourist spends approximately € 152 for the trip. On average, shopping tourists spend around € 67 a day on various purchases. Other tourist expenses (journey, hotel, food etc.) usually amount to € 85. Several categories of shopping tourists were identified during the study.

- Shopping tourists in the *strictest sense*: The trip is made because the tourists have the desire to go shopping. This group is subdivided into: overnight guests domestic and foreign and day trips domestic and foreign.
- Shopping tourists in the *broadest sense*: Shopping is not the primary objective for the trip. This group is split into: overnight guest domestic and foreign and day trips domestic and foreign.

In general, shopping tourists make the majority of their expenses for purchases in three specific merchandise groups. To be precise, just under three fourths of their expenses go towards these purchases.

- Clothing: 44 % of all purchases (daily average per person € 29).
- Shoes and leather products: 16 % (daily average per person € 11).
- Food and luxury articles: 14 % (daily average per person € 9).

Table 1. Retail turnover generated by shopping tourism

1. Overnight guests 2004		Purchasing expenditures in retail in €		Share in %	Share of retail turnover
		per person	overall		
Number of overnight guests	116,411,000				
Shopping tourist	15 % 17,461,650	124.00	2,165,244,600	65.30 %	0.60 %
Other tourist	85 % 98,949,350	11.65	1,152,759,928	34.70 %	0.30 %
Sum of overnight guests			3,318,004,528	26.50 %	0.90 %
2. Tourists on day trips					
Number of day guests	550,000,000				
shopping tourists	15 % 82,500,000	79.00	6,517,500,000	70.80 %	1.80 %
other tourists	85 % 467,500,000	5.75	2,688,125,000	29.20 %	0.70 %
Sum of day trip tourists			9,205,625,000	73.50 %	2.50 %
3. Overall sum for shopping tourism					
Overall Sum	666,411,000		12,523,629,528	100.00 %	3.40 %
Shopping tourist	99,961,650		8,682,744,600	69.30 %	2.40 %
Other tourists	566,449,350		3,840,884,928	30.70 %	1.00 %

Source: Calculations performed in the ISG study

Table 2. Retail turnover with foreign shopping tourists

	Annual gross sales in retail in billions of €	Percentage of the annual gross sales in retail (%)
Foreign overnight guests	0.830	0.23
only shopping tourists ^a	0.115	0.03
Foreign day trip travelers	1.669	0.45
only shopping tourists ^a	0.861	0.23
Total retail turnover – foreigners	2.499	0.68
only shopping tourist ^a	0.976	0.27

^a in the strictest sense of the term

Source: Calculations performed during the ISG study

In 2004, shopping tourism generated approximately 3.4% of the overall German retail turnover, corresponding to € 12.5 billion (excluding gas stations, pharmacies and repair services).

The central issue is whether additional purchases arise in retail as a result of German shopping tourists and if so to what extent – hopefully it generates more than just a turnover transfer between shopping locations. Hence, to begin with, the impact has to be identified: distinction should be made between the purchasing effects generated by German tourists and those generated by foreign tourists. A sensitivity analysis was performed under alternative assumptions; shopping tourist from Germany could spend an additional 10, 15, 40 or 50 percent more when on trips.

- Additional expenditures of 10%: German shopping tourist would trigger an additional purchasing effect of € 0.9 billion per year. In this case, foreigner shopping tourism would have an effect 2.8 times as powerful (€ 2.5 billion).
- Additional expenditures of 15%: The turnover generated by German tourists would reach € 1.3 billion and would be half as large as the turnover generated by foreigners.
- Additional expenditures of 30%: In such a case, the German and foreigner effects would be nearly equal.
- Additional expenditures of 50%: Domestic shopping tourism would generate a € 6.7 billion regional shift in purchasing locations and a € 3.3 billion additional purchasing effect. The effective additional sales volume generated by domestic tourist would be approximately one third higher than the foreign tourist sales volume.

The calculations indicate that even in a very optimistic or positive outcome for domestic shopping tourism activities, foreigners are definitely a large target group. In 2004, foreign tourists generated gross annual sales in the German retail industry on the scale of *€ 2.5 billion, approximately 0.7%*.

Shopping tourism also affects the demand side in other branches, such as the hotel and restaurant industry, the transport industry and also the service industry. Transport for day trips is playing an ever increasing role in Germany's overall tourism tax revenue and is also more important for shopping tourism than transport for overnight trips.

In 2004, shopping expenditures for overnight guests and day trip visitors came to € 12.5 billion and another € 30 billion went toward food and restaurants, the hotel industry, transport etc. In other words, the overall economic effect of shopping tourism is almost three times as high as the expenditures in the retail industry.

3 Types of tourism shopping destinations

At this point, the position of tourism shopping destinations in Germany as well as their strengths and weaknesses in comparison to other destinations outside of Germany were analyzed. International cases and good practices were discussed, analyzed and compared with the survey findings. Hence, general conditions and success factors for shopping tourism could finally be determined by simultaneously observing the supply and demand structures in tourism shopping destinations.

In general, Germany hosts the following shopping destinations models or types:

3.1 City center

German cities or towns with historical downtowns are classic shopping destinations. In most cases, tourists do not visit German cities with the primary intention of going shopping. The attraction of these cities result from other – but not less important – factors, such as i.e. cultural significance, international profile, large events, attractive back-country.

The metropolitan area of Leipzig and Dresden is an outstanding example that shopping tourism can actually be quite successful even without implementing strategies and marketing measures. All that is required are dazzling offers or structures. Dresden benefits primarily from its cultural heritage. Thus, marketing the city as a pure shopping destination makes absolutely no sense. In fact, shopping is a positive and successful spin-off product. Nevertheless, tourism expenditures in retail could be noticeably increased if the shopping potential was to be marketed with more intensity. Remarkably, this is the only region in East Germany which generates considerable turnover in the field of tourism shopping.

In general, large German cities do not market themselves with the term shopping. Positive exceptions include Berlin, Munich and Oberhausen. However, the cities are not taking advantage of the positive synergy potential. Although city marketing brochures the issue of tourism highlights, it does not refer to the extensive shopping potential. Cooperation between the retail, hotels and restaurants, tourism organizations etc. is simply lacking; what is more, retailers are not even trying to form the necessary cooperation.

3.2 Rural areas with potential for tourism shopping

Regions with decades of experience in tourism tradition value regional products as part of the endogenous tourism potential. In contrast, cities and regions which have only been in the tourism market since the German reunification have a long way to go to catch up. Rural areas have many opportunities to cash in on the tourism shopping potential.

These areas have a shopping potential which has developed endogenously and is usually supported with attractive infrastructure (i.e. charming landscape, hotel

infrastructure and restaurants, relaxation and leisure activities, culture etc.). In such cases, shopping tourism is a spin-off product of the travel destination. Nevertheless, rural areas can make their shopping potential more attractive and thus greatly increase the retail turnover generated.

Moreover, shopping potential can only be achieved by setting up adequate infrastructure. In such cases, campaigns focus on attracting shoppers from remote regions. Thus, infrastructural conditions form the necessary backdrop for success as a shopping destination.

Designer or *factory outlet centers (FOC)* are usually located in rural areas. However, they are also often built in locations so that customers from large metropolitan area can arrive quickly and comfortably. FOC are quite seldom in Germany owing to strict licensing policy. In fact, there are currently only a hand-full located in Germany.

3.3 Shopping centers

Germany has been the host to various shopping centers since the end of the 1950s; modern plans – even in Eastern Germany – often embracing the leisure features of shopping.

Shopping malls

No German shopping center can match the grandeur of North American malls. However, CentrO, a shopping mall in Oberhausen, can be considered a shopping mall owing to its functional organization.

Urban entertainment centers and urban entertainment destinations

Large urban projects in Germany, which fulfill the purpose of urban entertainment destinations, include the Postdamer Platz in Berlin or the New Mitte in Oberhausen.

In general, professional marketing actions promote these distribution channels as a tourism shopping destination. The operating company ensures collective presence and calculates the costs for events and other marketing measures used to approach potential clients. In addition, cooperating in city marketing and tourism actions is much easier, since the operating company can incorporate all interests. In contrast, reaching a consensus with individual retailers, restaurants and service providers in downtown locations is quite tedious.

Shopping centers

Shopping centers are prevalent throughout Germany. In general, they do not constitute any special tourism shopping destination; however, they can supplement the existing tourism shopping supply. They are of particular interest for Germany in the area of cross-border shopping.

3.4 Brand lands and flagship stores

Various brand lands, such as the Stollwerck Chocolate Museum in Cologne, the Volkswagen glass manufacture in Dresden and numerous other companies practice the brand land approach with their office profile and are in themselves a tourism attraction. Flagship stores are affiliated with these brand lands or improve the tourism attractiveness of a location; such is the case for the Sony Center in Potsdamer Platz or the flagship store for the watch manufacturer Glashütte Original in Frankfurt am Main.

3.5 Factory outlet centers

The factory outlet centers (FOC) in Zweibrücken, Wertheim and Ingolstadt are the only three FOC in Germany, which are managed according to the American model. However, factory outlet distribution model is present in a few other locations and generate high tourism turnover, such as in Metzingen, where the factory outlet for the Boss clothing has been set up. In Germany, licensing policy for FOC is very restrictive. Hence, the licensees and investors – for the most part foreigners – settled in countries across the German borders, which resulted in a partial shift in the purchasing power. A prominent example is the FOC in Roermond, Netherlands, where approximately half of the customers come from Germany. The fact that most of the shops outside Germany are open on Sundays also intensifies this trend.

3.6 Cross-border shopping

Cross-border shopping to Germany occurs as a leisure activity (i.e. Polish people sometimes come to Germany to purchase clothing and leather goods) or even outside the leisure realm (i.e. Danes often purchase foodstuff in Germany). From a macroeconomic perspective, *cross-border shopping* is of great interest owing to the impact on purchasing power. Cross-border shopping always implies a competitive situation, which can also result in an undesirable loss of purchasing power. In view of the fact that Germany is a comparatively “cheap” travel and shopping destination, it is quite surprising that cross-border shopping currently resembles a one-way street to countries across the border. This statement applies to the shopping regions near the German border as well as to low cost carriers, whose potential is estimated at 80% outbound.

4 General conditions and success factors for shopping tourism

There are six main success factor groups for shopping tourism.

1st success factor: general conditions

The requirements for *stability and internal security* are generally fulfilled in Germany; German cities are considered to be predominantly safer than similar cities in other (European) countries. Essentially, legal regulations are indispensable for the development of retail locations and have to be taken into account when requesting permits for large area retail developments. In short, legal regulations at the national, state and regional level do indeed contribute to safeguarding existing structures and thus to maintaining the attraction of traditional downtown shopping areas. In contrast, polycentric densely populated areas in particular are experiencing an increasing discrepancy between target planning on the one hand and the market potential which is not being utilized or is not permitted on the other.

From the perspective of potential shopping tourism, a disadvantage for Germany's location results from the *Sunday shopping ban*. During the week (including Saturday), Germany is most definitely competitive compared to other countries. However, since short trips are becoming a more frequent travel trend, concentrated on weekend getaway trips, Germany simply cannot "flow" with shopping tourism to its fullest capabilities.

2nd success factor 2: type and extent of the offer

The basic requirement for marketing a city or town as a shopping destination above the local level is a commercial area with a transparent assortment profile. Naturally, retailers with internationally renowned brands also have to be set up in this area.

Aside from tourism shopping destinations in the strictest sense, locations which primarily implement marketing actions based on the shopping offer, such as small or medium-sized towns in picturesque regions with cultural highlights should not be overlooked. Purchases made in local retail stores by travelers represent a spin-off product. However, in many cases, local retail – i.e. in health resorts – do not even take advantage of the full range of applicable opening hours. Likewise, signs for tourists on shopping outings are usually absent.

As for the supply range and attractiveness, German destinations are definitely competitive at the international level – with the exception of certain commercial organizations i.e. FOC.

3rd success factor: price

The price level is one of the key strengths attracting international shopping tourism to Germany, except of course for the price of clothing and shoes, which rank among the most important material groups for shopping tourism. If the customers' country of origin and destination country do not have the same currency (or fixed exchange rates), then the price level fluctuates, which shopping tourists gauge as a risk and can therefore lead to adverse effects. Currently, Germany benefits from the unique advantage of its location in regard to the price level – at least in terms of the €-region and the former east block (premium merchandise and valuable goods, i.e. electronics).

4th success factor: accessibility

A basic requirement for sales potential in shopping tourism is the geographic proximity to key transportation hubs or tourist destinations. Purchasing behavior depends greatly on a traveler's itinerary through Europe, especially for foreign travel groups (in particular, Americans, Chinese and Japanese).

For the most part, the accessibility of German tourism shopping destinations is estimated to be above the international average, even in the downtown areas. The (toll-free) highways (Autobahn), airports, high-speed trains and even the fuel prices offer advantages for Germany's location.

5th success factor: infrastructure

A critical success factor for shopping tourism resides in the "historical or cultural energy" of a city, thus to be more precise the attractiveness of a city image and building structure. Cities with concise building structures and – ideally – intact old neighborhoods or in particular cases even architecturally sophisticated new developments in entire districts provide an adequate stage for retail outlets. Tourists visiting these regions find such infrastructural attractions fascinating. Whether or not other countries use their infrastructural strength better than Germany is unclear. The key factor remains the local and/or regional marketing strategies. The analysis indicated that Germany is home to destinations, which could easily be marketed, as well as others, which use their strengths to generate shopping tourism on a very small scale if at all.

6th success factor: profile and marketing

In almost all cases, the required marketing standard can be systematically ensured if retail, gastronomy and services companies cooperate in a *suitable organizational structure*. Thus, in most cases, local and city marketing organizations could replace the traditional joint advertising and common interest groups, on a broader membership basis with a higher budget. However, the retail market (still) participates far too little in such cooperation models.

Successful examples are characterized by long-term strategies, which epitomize tourism mission statements, recognizing and emphasizing shopping as a principal motive along with culture, business-related or personal motives. Successful positioning – in particular in smaller towns and rural regions – requires unique selling propositions (USP), which can be realized with familiar well-known products or unique tourist attractions.

To that end, a consistently high *service standard* appears to be even more crucial for success in a tourism shopping destination than for shopping centers aimed at local or regional customers. Hence, the retail market should take advantage of the opening hours to the fullest extent permitted by law, in particular on Sundays and holidays, as long as these practices are permitted by local agreements or are exceptions for tourist centers.

In addition, *integrated measures* on the part of retail centers, gastronomy and cultural and leisure installations, reinforced with professional corporate management and marketing, are necessary. A successful destination policy requires cities and towns to implement trendsetting centers focused on developing leisure and retail locations and to coordinate these activities with neighboring communities. All in all though, retail occupies a key position. In fact, retail has to be integrated in the decision-making process and needs a sufficient amount of organizational independence to stimulate the downtown area with shopping events and to increase the tourism magnetism of such events.

5 Development potential for shopping tourism

The general conditions for *retail* in Germany are rather unfavorable in spite of the stimulation previously observed. Assumedly, in the short and medium term, shopping tourists from abroad will positively affect the potential. The indications from foreign overnight guests are especially positive. A boom is indeed on the move, which should generate more retail turnover in the future.

The USA and Asia are quite interesting source markets for shopping tourism, since tour operators in these countries often provide packaged tours to European cities.

The cities with membership in the joint advertising group “Magic Cities” benefit the most from *foreign vacation traffic*. However, other cities, i.e. near borders (Freiburg) or which pose a particular tourist attraction combined with partnerships between countries (Heidelberg/US Army), also have an above-average proportion of foreign visitors and overnight guests.

The large market share of inbound tourism to Germany from Western European countries represents a stability factor since the expected visitor revenue from these countries does not depend so much on stable exchange rates or security risks from diseases, terror attacks or acts of war. Due to the relative proximity to other countries and to the integration in the European Union, visitor numbers are expected to increase in the future.

Opportunities to increase shopping tourism lie in the dynamic economic development in *Poland and the Czech Republic*. The gross domestic product (GDP) per capita is growing strongly in Poland and the Czech Republic, pointing at an increasing purchasing power. Thus, Germany should make the most of shopping tourism and leap at the opportunities to have a share in the cash disbursements. Similar to German vehicles, German fashion brands have built up a positive image in Eastern Europe, thus granting Germany a location advantage over other Western European countries.

The *Asian market* is also of great interest for shopping tourism. Following decades of strictly controlled travel, the Chinese in particular have a large distance to cover to catch up with other countries. Since an ever increasing number of coun-

tries are now interested in Asia's purchasing power, Germany like all other countries has to position itself at an early stage. The number of overnight stays in this group is most likely to grow from around 3.7 million to around 5 million.

Growth in all traditional source markets in Germany is forecast for the *55-plus population group* (the so-called 'Best Age'). The 'Best Age' group, a target group of individuals over the age of 55, represents an essential growth segment in international travel in particular for city and event tourism and thus shopping tourism. To be successful in this endeavor, Germany needs to persuade older visitors from foreign countries to embark on a (shopping) trip to Germany and at the same time demonstrate to German tourists that Germany is an interesting travel destination.

This target group poses great growth potential in the source markets of Great Britain, France and Italy. Large cities as well as tourist and cultural cities in Germany, in particular the 'Historic Highlights of Germany, could benefit from the increase in low cost carrier transport connections. Hence, there are many opportunities for shopping tourism.

For the urban tourism sector in Germany, the large growth rate in *low cost carriers* (LCC) represents an additional market segment with a high growth potential, especially in times of economic weakness. To this end, more effort is needed to continue boosting inbound tourism with LCC. Current estimations, averaging 80% outbound and 20% inbound tourism, reveal that the purchasing power in the retail industry is decreasing in certain cities and regions and actually shifting to the competitors in LCC destinations.

In the next few years, LCC are anticipated to focus on the Eastern European markets, generating interesting opportunities for shopping tourism in Germany. Well directed marketing actions in European source countries or in regions which currently display a prevailing outbound tendency in the purchasing power balance are required for success. Large cities and important tourist cities in Germany will reap the most benefits from growth in the LCC segment.

On no account is Germany's potential being exploited with the current volume. As a result of the increasing number of arrivals and overnight stays, particularly in Asia and Eastern Europe, the turnover stimulated by shopping tourism is expected to rise. In addition, emphasizing shopping as a travel motive or travel context will most likely generate positive effects on the average amount spent in retail shops. Thus, the following paragraphs discuss long-term forecasts concerning the magnitude that the shopping tourism growth segment can attain in the retail industry. The forecasts or estimations on the expected developments are each made with an upper and lower variant. The lower variant is pessimistic and the upper optimistic.

The average result of the entire shopping tourism target group should lie somewhere between the two variants. Thus, from 2004 to 2010, the annual retail turnover generated with shopping tourism should increase from € 12.5 billion to approximately € 15 billion, approximately 20%. The lower variant indicates approximately a 15% rise of € 1.9 billion, whereas the upper variant shows a 25% increase of € 3 billion.

Table 3. Estimated potential for German retail turnover with shopping tourism in 2010

Segment	Tourist retail turnover 2004 (billion €)	Tourist retail turnover 2010 (billions €)
Total tourists on day trips total (Customers well outside the catchment area)	9.2	10.3–11.0
German tourists	7.5	8.1–8.6
Foreign tourists	1.7	2.2–2.4
Total overnight guests	3.3	4.1–4.6
German tourists	2.5	3.0–3.4
Foreign tourists	0.8	1.1–1.2
Total	12.5	14.4–15.6

Source: ISG, Calculations and surveys performed by the author

Thus, the retail sales generated by foreign shoppers – specifically the visitor revenue – produce a crucial fraction of the sales rate increase. Thus, the additional retail sales generated by this group (located in the middle of the two variants) will increase by nearly 40 % by the end of the decade, i.e. from approx. € 2.5 billion to around € 3.5 billion.

6 Recommendations

Shopping tourism calls for comprehensive and integrated approaches if growth opportunities on the corresponding markets (i.e. retail industry) are to be capitalized. In regard to *co-operations, in particular with retail involvement*, the main concern is to retain shopping as an integral part of tourism in Germany. As such, ‘Shopping tourism’ should be considered a separate tourism marketing subject.

The field of action for marketing shopping tourism operates in the areas of internal and external marketing, both of which are interdependent and exert mutual influence. The German National Tourist Board (DZT) presents structures and experience in external marketing (abroad and at home) for shopping tourism. Fundamentally, internal marketing actions, i.e. marketing the idea to established or potential organizations, should be given attention.

Recommendation 1: companies in retail commerce

Interesting tourism packages integrating shopping provide opportunities to generate added value for simple city tours. Shopping has become a part of the traveling adventure. Package tours require creativity on the part of retail shops: i.e. what interesting incentives – aside from merchandise displays – can retailers offer to their potential customers?

A promising promotion action is to provide *customer loyalty cards* for department stores and retail outlets. In addition, German department stores and retail outlets, which are increasingly opening up in other European countries, could address customers in Poland and the Czech Republic using mailings and even directly advertise German companies. If retail outlets are willing to reward tour operators with sales-based provisions or provide a special contact person for foreign travel groups, they could directly influence shopping activities of foreign tourists.

Many German retail outlets do not accept credit cards due to high service fees. However, many foreign guests, in particular those coming from the USA, are used to paying with credit cards. Thus, they regard the low acceptance rate as being incomprehensible and curb their spending behavior. In addition, many foreigners use credit card companies that are not prevalent in Germany (i.e. American Express).

Retail outlets also need to incorporate *service standards* that international guests have experienced in other countries and provide improved convenience, a decisive factor for the shopping experience. First and foremost though, the widespread lack of foreign language skills necessary for dealing with foreign shopping tourists as well as the lack of detailed knowledge i.e. relating to trouser sizes, issues concerning customs regulations, compatibility or technical details have to be improved.

Recommendation 2: town or city council

The duty of the city council is to provide *general conditions*, which facilitate cooperation between the parties involved in shopping tourism. However, they are often faced with the difficult job of coordinating partners with extremely different perspectives.

In this respect, coordinating cooperative business activities for shopping tourism has to be left in the hands of a superior authority, such as the mayor. For urban marketing initiatives, cooperation between the tourism officers facilitates organizing and coordinating aspects of the marketing strategy.

By *integrating their organizational structures*, Cities should be able to transform into destinations capable of sustaining comprehensive product proposals based on high quality and clear target group orientation. The cooperation between tourist information centers, city management, urban marketing, cultural bureaus etc. is a crucial requirement for efficiently marketing shopping tourism.

Many view the increasing number of chain stores in the Germany's city centers too critically: the *consistent and outstanding overall impression* that the shopping destination leaves is what counts in the end. The objective of the local business development should be to enhance the local retail structure with a series of proposals specific to the region or city, which do not depend so much on quantitative factors (sales area and volume) but rather on uniqueness and charisma.

Great importance is attributed to *thematic co-operations* in regard the diversifying motives for travel. As a result of restricted funds, thematic co-operations are crucial for curbing fiscal losses, exploiting synergy potential and performing as an international brand in tourism.

Currently, legal regulations concerning *licensing for large area retail outlets* are quite restrictive when dealing with developing retail locations. In all actuality, locally established retail outlets often encouraged these restrictions. New locations for entertainment shopping such as urban entertainment centers or factory outlets offer remarkable potentials for shopping tourism, yet only receive the necessary authorization every once in a while. Thus, these regulations need to be relaxed.

Recommendation 3: the regional level

Aside from the tourist highlights in a region, an attractive complementary offer with culture, leisure, gastronomy, retail outlets etc. are essential for the quality and length of the stay. A study group for '*tourism-oriented retail*' should to be set up on a regional and national level, focusing on cultural-economic and regional products. Such a strategy is particularly useful in the eastern states, such as Saxony with its Ore Mountains, where traditional handicrafts or arts are still quite important in Germany and abroad. However, since the region only began implementing marketing action recently, it could still earn a more prominent position.

Recommendation 4: chambers of commerce and associations

Taking into account the demographic development in the German population, the trend to take short trips and the growth potential for city tours, retail associations should inform their members about the possible increase in turnover as well as the extent to which revenues can be generated by tourists. At this juncture, attention should not just be paid to foreign guest but also to domestic guests.

Retail associations together with tourism umbrella organizations should communicate measures and cooperation opportunities to their members on a decentralized level. Aside from the retail outlets, other *cross-marketing partners* should be identified and contacted. These partners could be manufacturers or industrial enterprises.

Many non-EU markets have access to 'Global Refund, Tax free shopping' guides written in their national language and compiled in conjunction with the DZT. However, a sensible move would be to develop a *brochure for Germany as a shopping destination*, which is not devoted entirely to the tax-free products, but also deals with the price and quality comparison in a European context, the specific retail structure in Germany, unique shopping features in each city etc. Certain hand crafted articles and regional food and delicatessens should also be incorporated such as new shopping models in factory or designer outlets, brand land or urban entertainment destinations.

Recommendation 5: the state and national level

For Germans, shopping as a leisure activity is more important than ‘going to the movies’ or ‘going swimming’. Whereas movie theaters, swimming pools, amusement parks or museums are naturally open on Sundays and are host to considerable amount of tourism consumption, the joy of shopping is restricted to weekdays and Saturdays. *Sunday shopping* would encourage additional consumption especially in tourist centers and large cities since approximately 2/3 of the short get-away trips are conducted in large cities and since the motives for urban tourism are often intertwined with shopping.

In order to avoid any possible power shifts in the region by only allowing some destinations to open on Sundays, several solutions are available i.e. setting a general regulation throughout the country that retail outlets can only open for a set number of Sundays. In *regions located near a border*, extensive deregulation would be called for to avoid purchasing power shifting across the border. It is only a question of time until FOC start invading Poland and the Czech Republic, setting up camp near German borders.

On another note the current *tax-free system* should be made easier to use. The system is just too complicated, requiring shoppers to fill out forms before any concessions are made.

In general, the tasks of the federal government lie in promoting shopping tourism as a *process of moderation*. In fact, the federal government can contribute by bringing retail and tourism organizations to the same discussion table and by initiating the necessary coordinated approach.

The role played by the *federal states* is crucial because it is much easier for them to access and control the regional players and even assist them with coordination measures than it is for the federal government. States can also implement targeted projects using the framework of their economic support programs – just like the federal government. Funding opportunities for such projects can be attained with GA and EFRD sponsorships.

Recommendation 6: EU eastern enlargement

The common task for the economy, politics and administration is to maintain Germany’s position, uphold Germany’s purchasing power and eventually attract purchasing power from neighboring countries to the east.

The EU eastern enlargement is related to the effects of curiosity and offers local authorities in eastern Germany the opportunity to attract potential customers and tourists from Poland and the Czech Republic. Special signs aimed at the foreign target group, i.e. international signs identifying shopping opportunities, special shopping guides etc. should be available at transport hubs relevant to shopping activities, such as airports or train stations.

In order to attract purchasing power, retail has to market its strengths and its performance. According to *product policy*, emphasis has to be put on product qua-

quality. The *product mix policy* requires retail outlets to carry not just a wide range of goods but also a complete assortment so that customers can actually find the article he or she is looking for.

As for the *price policy*, it is all about offering a favorable price-performance rate, in particular if the purchasing power in the region is below average. Therefore, discount stores in close proximity to the border are especially in great demand. The issue of *communication and advertising policy* is also quite important. In fact, one of the main tasks for the Chamber of Commerce and Industry as well as other associations is to provide know-how seminars.

References

The study can be downloaded at the ISG – Institut für Sozialforschung und Gesellschaftspolitik website: <http://www.isg-institut.de>. German and English copies are available at: http://www.isg-institut.de/index.php?b=single&id_B=5&id_UB=18&id_Nummer=53

Alpine destination life cycles: Challenges and implications

Markus Schuckert, Claudia Möller, Klaus Weiermair

1 Introduction

The growth of Alpine tourism and the development of many mountain destinations have a long history. The beginning of the alpine summer tourism dates back to the 1830ies and 1840ies (Brusatti 1984) and was at first predominantly shaped by scientific interest in nature (Weiermair 2004). A further reason for travelling the Alps emerged in the pursuit of alpinism to fulfil sporty ambitions: at the beginning of the 19th century most first ascents of the alpine summits had already taken place. With the improvement of the alpine infrastructure and the ongoing development of the alpine sports equipment, mountaineering expanded from a niche sport to a common tourist occupation (Spode 1987). Consequently, clubs and associations were founded (like for example 1862 the Austrian Alpine Association and 1869 the German Alpine Association), which continued to pursue their objective to open up and develop the Alps by establishing trekking ways, mountain paths and basic accommodation for mountain climbers and hikers (Forcher 1984). Already in 1869, statistics documented the first hut hosting 60 visitors, developing rapidly to 39 huts with 5.376 visitors in 1880, 110 huts with 29.775 visitors in 1890, 172 huts with 104.799 visitors in 1900 and 232 huts with 232.176 visitors in 1907 (Brusatti 1984).

The development of the transportation infrastructure in the second half of the 19th century (roads and railways like e. g. the opening of the railway line Innsbruck – Kufstein – Munich 1858; Brusatti 1984) set the basis for further development of tourism. In the years from the turn of the century to World War I, a modern form of tourism developed in the Alps (Lässer 1989). In order to make natural attractions and vantage points comfortably accessible for tourists, the first mountain railways were built at the end of the 19th century (Krippendorf 1986). Around 1890, the funicular railways at Achensee (Tyrol) or Lake St. Wolfgang (Upper Austria) as well as the first mountain aerial cable cars at Bozen (Bolzano, South Tyrol/Italy) and Bad Reichenhall (Upper Bavaria) were opened. At the time, the technical innovations of funicular railways and aerial cable cars were considered

as special attractions themselves and provided an appropriate pull factor into these destinations (Lässer 1989). Even if few, selected alpine destinations already had their first heyday mostly during summer season, the major development of the alpine tourism began after World War II (Krippendorf 1986).

Since the turn of the century and as a result of the emerging Alpine (and sometimes Nordic) Ski Sports, the Alps also became an interesting place for winter tourism. The ski club Arlberg for example was established in 1901 followed by the winter sports association Kitzbühel in 1902 and the Austrian Ski Federation 1904. Mainly after World War II, winter tourism developed constantly and with substantial rates of growth. In Austria for example, the annual overnight stays rose from 4.3 million in 1949 to 130.4 million in 1992 (Statistics Austria 2006).

After reaching a peak in the early 1990ies, tourism had to face major changes in general and in particular in the Alps. The transition from the industrial age to the knowledge economics (Horx 2002) and from the industrial to the information society (Nefiodow 2001) affects tourism, too. Advanced by a reduction of working time with a simultaneous rise of available leisure time, tourists show increasingly changed consumption behaviour (Freyer 1995). A constant evolution of the requirements, attitudes and desires of the guests can be observed in particular, based on changing values on the demand side (Mazanec 2001, Opaschowski 1996, Freyer 1995). The guests are in search of ever more individuality and choice between different options (Horx 2002, Pine/Gilmore 1999). This multi-optional demand affects the entire tourism value chain in a spatial and temporal meaning and value structures or cultural barriers during the composition and making of holidays no longer seem to matter as they used to (Pompl 2002, Althoff 2000). For example, a stay in a five star ski resort or on a luxury cruise ship no longer excludes the use of a no frills low cost airline to get there. Such hybrid behaviour makes it ever more difficult to identify general behaviour patterns of consumers and their decision processes, to divide them into certain market segments and target groups or to predict their desires and preferences (Bieger/Laesser 2003, Weiermair 2003, Pikkemaat 2001). In combination with increasing travel experience and the desire for an authentic and multi-cultural experience, the needs of the so-called 'new tourist' pressurise traditional entrepreneurs and tourism destinations (Weiermair et al. 2001, Poon 1993).

In addition to the changes on the demand side, political and economic changes like increasing internationalisation and globalisation further affect the tourism development (Freyer 2002). The driving key factors are deregulated markets, political and economical aggregation on a supranational level as well as safe, reliable and favourable information-, communication-, and/or transportation facilities. Globalization tendencies in tourism become apparent in international travel flows as well as in the integration of resources, capital and management networks (Pompl 2002, Lieb 2002). In the meantime, the current situation in tourism can be described as a more or less uncoordinated and uncontrolled competition between destinations and – ever more global – tourism enterprises (Freyer 1998).

Until the 1980ies, the tourism market was a ‚growth market par excellence‘ characterised by a constant rise of demand in combination with an altogether slower expansion on the supply side and therefore a typical sellers’ market (Weiermair 2004). Since then, the tourism industry had to face the transition to a buyers’ market. Tourism offers have multiplied worldwide and became ever more easily accessible (Pompl 2002), resulting in decreases in the demand especially in the traditional tourism regions such as the European Alps (Weiermair 2001a and 2001b, Keller 2001, Smeral 2001, Hartl 2001).

Therefore, tourism enterprises and destinations now have to face the double challenge of a generally decreasing demand in combination with an increasing competition with other destinations around the globe (Weiermair et. al 2006). Tourism enterprises of different sizes (e. g. small privately owned hotels versus large international hotel chains) and in different factor markets (e. g. labour costs) compete for the favour of the customer and alpine winter holidays find themselves in direct seasonal competition with for example a golf vacation in the Caribbean.

Fig. 1 shows the development of overnight stays in the Alps from 1900 to 2005 at the example of Tyrol. The graph shows typical life cycle patterns with a beginning stage (respectively interrupted by the two World Wars), high growth rates in a development stage, stagnation and finally decline not only in growth rates but also in overnight stays. Notably, this development pattern can be observed for the overall overnight stays as well as for the summer or winter season, respectively, while the stagnation or decline in the summer season – being the ‘older’ product – set in earlier as in the winter season.

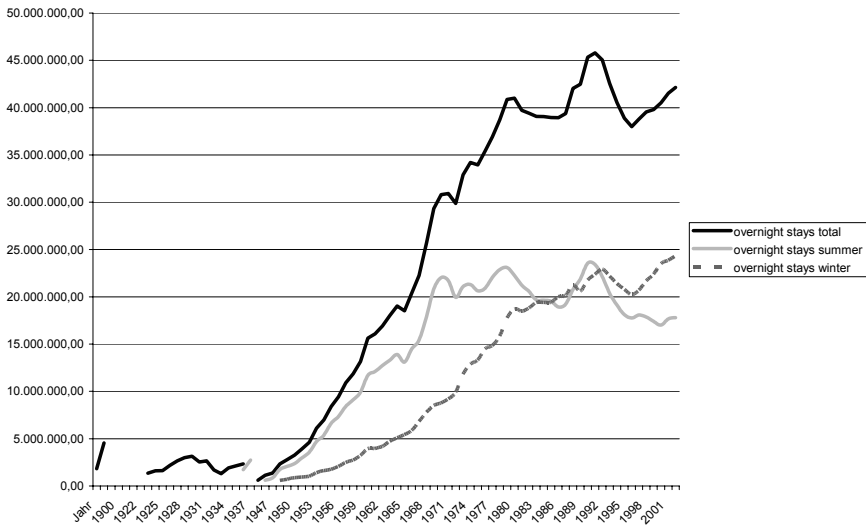


Fig. 1. Overnight Stays in Tyrolean Tourism 1900 to 2005

Source: Statistics Austria

2 Theoretical framework

The concept of the destination life cycle is related to the product life cycle model, which is based on the principle of the adoption and diffusion of innovations (Rink/Swan 1979). Rogers (1995, p. 11) defines innovations as “an idea, practice, or object that is perceived as new by an individual or other unit of adoption.” The diffusion of innovations is then “the process by which an innovation is communicated through certain channels over time among the members of a social system” (Rogers 1995, p. 11). Based on this idea, products as well as markets are created by innovations and these products or markets develop, grow, mature, stagnate and finally shrink over a specific time period (Meffert 1998).

The application of the life cycle concept on destinations was introduced by Butler (1980), who described six stages of the development of a tourist area life cycle. During the exploration stage, the destination is visited only by few individual travellers, mostly backpackers, who are attracted by singular and/or special natural or cultural factors.

The involvement stage is characterized by an increasing number of employees in the local tourism industry. Initial marketing and advertising activities can be observed, as well as the development of specific travel periods or seasonality. Organized travel arrangements as well as transportation and other tourist infrastructure develop

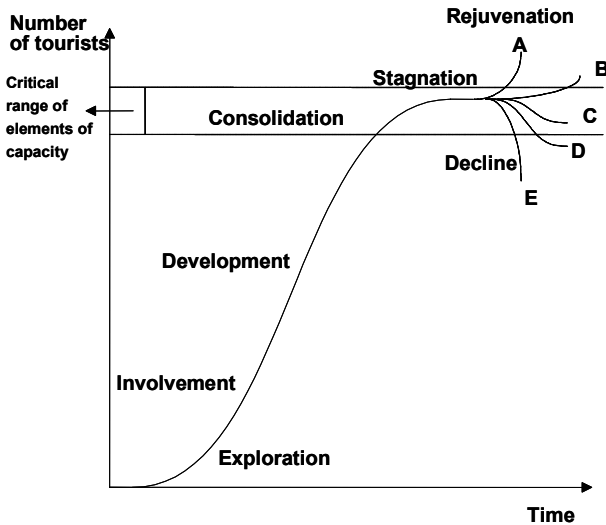


Fig. 2. The Tourism Area Life Cycle
Source: Butler (1980)

The succeeding development stage is characterized by clearly defined and strongly addressed markets in the sending countries. The participation in and the control of the further tourist development shifts increasingly from domestic to foreign and international shareholders. The initial natural and cultural attractions of the destination are supplemented by artificial attractions and events. The first effects of tourism are visible in the destination and regional and/or national involvement becomes increasingly necessary for its further development. During seasonal peaks, the number of tourists exceeds the domestic population and additional workforce is hired from outside to cover the demand.

With sinking growth rates, the development stage turns into the consolidation stage where the number of tourists merely rises on a marginal level. A majority of the local and regional economy now depends on tourism and the number of guests exceeds the number of the inhabitants. This strong tourism orientation leads to a slipping attitude towards tourists by the domestics and to the formation of tourism enclaves at the destination level. Marketing and advertising activities of the destination are now extensive and aim at extending the tourism season as well as the catchment areas. On the supply side, products and services are industrialized and commoditized to a large extent while large companies, hotel chains and franchise concepts take over to serve the tourism demand.

After finally reaching its peak, the destination life cycle pattern enters the stagnation stage where guest numbers maintain a constant level and start to decline. The capacity limits for many factors and resources are reached and/or were already exceeded while over-capacities arise. To keep the guest numbers constant, substantial efforts are necessary, and the natural and cultural points of interest are superimposed by artificial and 'imported' attractions. The local tourism industry depends increasingly on regular and repeating customers as well as on events, MICE and business travellers. Furthermore, the destination has to fight increasing social, economic and environmental problems. Although the destination has an established image, this image does no longer correspond to actual trends and fashion streams. In the then essential processes of strategic reorientation, restructuring or turn-around efforts, the entrepreneur gains again strong importance (Weiermair 2004).

In the decline stage, the destination is no longer able to compete with younger and more successful destinations and becomes increasingly unattractive to vacation guests. While the share of overnight stays decreases strongly, the share of weekend or day trips increases. Frequent shifts of ownership are to be observed on the supply side and tourism facilities are more and more used for non-tourism related activities (e.g. hotel capacities are transferred into long-term rented apartments or particularly converted into 2nd homes). Worst case scenarios include tourism suburbs or ghost towns completely losing their functionality for tourism.

Alternatively to a decline, rejuvenation is possible if an almost complete change of the attracting factors of the destination can be achieved. This could either happen by generating artificial attractions (e.g. Casinos) or by using so far unused natural resources (e.g. the establishment of winter sports and thus of a second season). Often though, only partial markets and special groups of interests or

activities can be addressed. This does not correspond to a complete new beginning of the cycle.

As mentioned earlier, the product life cycle model has been mainly discussed in combination with issues concerning strategic management in the investment and consumer goods industry (Höft 1992) and has only fairly recently been applied to tourism products and destinations. Although the development and evolution of tourism destinations has been an isolated subject of research at an earlier stage (for example Gilbert 1939), the existing literature shows the work of Butler (1980) as the central and first clear contribution to the destination life cycle discussion. Butler established a clear relationship between product life cycle and tourism area life cycle (TALC) and discussed possible implications on tourism resource management. There, he relied on preliminary concepts of Christaller (1963), Plog (1973), Stansfield (1978) and Cohen (1978 and 1972). Since then, the TALC model has been applied and discussed particularly in international research on tourism. Ioannides (1992) segmented the research done by then into the following functional dimensions:

- Description of the natural, special and temporal evolution of selected destinations (e. g. Butler 1980, Miossec 1977 or Plog 1973);
- Demonstration and description of local and external influences on the destination (e. g. Gormsen 1981);
- Demonstration and description of the social evolution of destinations with respect to different social (e. g. Pearce 1989) or psychological characteristics of tourists (e. g. Plog 1973).

Ioannides' segmentation should be widened though, since up to today many contributions point out different trends within the discussion and argumentation of the topic. They belong approximately to the following groups:

- Application and test of Butlers TALC concept on tourism destinations and update of the discussion around the TALC in general (e. g. Agarwal 1998, Da Conceicao Goncalves/Aguas 1997, Digance 1997, Tooman 1997, Cooper 1993 and 1994, Haywood 1992);
- Implications for destinations or related subsystems due to the existence of a life cycle (e. g. Van de Weg 1982, Cooper 1990, Getz 1992, Lundtorp/Wanhill 2001, Tse/Elwood 1990);
- Examination of selected life cycle stages and discussion of implications for the destination management (e. g. Gordon/Goodall 1992, Priestley/Mundet 1998, Knowles/Curtis 1999, Di Benedetto/Bojanic 1993);
- Examination of the applicability and usability of the destination life cycle for destination management issues (e. g. Haywood 1986, Cooper 1990, Agarwal 1997, Beritelli 1997); as well as the

- Examination of selected participants and structures along the destination life cycle pattern (e. g. Ioannides 1992, Strapp 1988, Martin/Uysal 1990, Deb- bage 1990, Weiermair 2004, Russell/Faulkner 2004, Foster/Murphy 1991, Wall 1982, Weiermair et al. 2007).

Remarkably, the majority of the investigations were carried out with clearly distinguishable destinations like islands or resorts: Weaver (1988, 1990) with Antigua and/or Grand Cayman (Bahamas), Cooper/Jackson (1989) with the Isle of Man (Great Britain), France (1991) with Barbados and the Caribbean Sea, Choy (1992) with selected Pacific islands (Hawaii, among others) and Williams (1993) with Minorca (Spain). Other research refers to points of attraction (e. g. Getz 1992, Niagara Falls) or cities (Grabler 1997, European metropolises). Research with countries, larger regions or integrated areas is so far still missing in the discussion, apart from the exception of Hovinen (1981, Lancaster County/Great Britain), Beritelli (1997, Grisons/Switzerland) or O'Hare/Barrett (1997, Peru). It has so far also not been done with overnights stays for the large and traditional tourism region of the European Alps, which is still attracting a large and very significant number of visitors.

3 Set of data and method

The number of destinations included in the destination life cycle research is strongly influencing its outcome and general usability. While the analysis of a single destination and its life cycle allows insights into its individual development and the determinants of this development, transferring the findings to other destinations is at best difficult. Therefore, it would clearly be desirable to be able to take a much larger sample of destinations into account and to examine if there are distinguishable types of destination development patterns. They would then allow a typology of destination life cycles and thus a more effective transferring of and learning from previous research. An increased insight into the reasons and determinants of destination development would be possible.

As previously demonstrated, alpine destinations barely have been subject of empirical research so far, particularly in the field of destination life cycle. In addition, the long history and experience with tourism in alpine countries open notable possibilities for appropriate data material over a long time period. While arrivals and overnight stays have been recorded since the early 1890ies, data for real non-deficient time series are available since the early 1950ies due to the World Wars. The whole set of data covers parts of Austria, Switzerland and Italy whereas the analysis presented was performed with the 278 Austrian communities located within the borders of the federal state of Tyrol. Because of national and federal state laws, relevant data for tourism like arrivals and overnight stays have to be recorded by every single community and are to be reported to the state and federal

statistics offices on a monthly basis. Additionally, the number of communities was kept on a constant level over the years. Out of the statistical material available, a time series of 45 years from 1960 to 2005 was generated. Due to obviously different tourism products in the alpine winter and the alpine summer, they were separated into two seasons.

While Butler (1980) originally mapped the tourist arrivals over time, the use of arrivals versus overnight stays was subject of an enduring discussion (see i. e. Cooper 1990, Grabler 1997 or Beritelli 1997). Within this research, both figures (tourist arrivals and overnight stays) were collected. Since overnight stays represent the amount of 'destination product' being purchased and the arrivals only represent the number of customers of a certain destination, the overnight stays were used to map the destination development patterns.

In order to find homogeneous destination evolution patterns of a similar development over time, the hierarchical agglomeration cluster analysis is used. Cluster analysis is an exploratory data analysis tool which in this case aims at sorting different time series into clusters in a way that the degree of association between the time development of two communities is maximal if they belong to the same cluster and minimal otherwise. Given the above, cluster analysis can be used to discover structures in the present data. As distance measure the Pearson correlation matrix is employed with the Ward Method as algorithm of composition. The dendrogram was employed to identify the appropriate number of clusters. In each cluster the mean of the overnight stays for each year was computed and the averaged time series are plotted for a comparison of the various time developments of the identified destination development patterns.

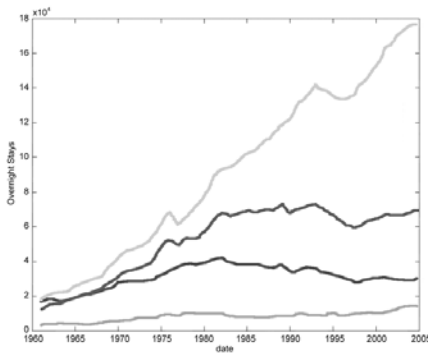
4 Results

As illustrated in Fig. 3, four clear types of destination life cycles for the 278 analyzed Tyrolean communities could be identified and distinguished for the winter season. They clearly display the various development paths of the different tourism communities, who all (re-)commenced their tourism involvement after World War II and can be seen in image 1 of Fig. 3.

The first cluster or pattern shows a constant rise in overnight stays from 1960 to today, affected only by short-term cutbacks around 1975 and 1995 (image 2 of Fig. 3). These so-called still developing 'winterstars' include 81 of the overall 278 communities and for example Sölden (Ötztal), Ischgl (Paznauntal), Tux and Mayrhofen (Zillertal) as well as Hochfilzen and may be linked to some individual set of unique resources (e. g. glaciers).

The second and third groups of communities shared the initial rise of overnight stays after World War II, but since then have entered some sort of stagnation stage with a tendency to decline. Cluster 2 grew comparably to cluster 1 until about 1980, but has since remained more or less constantly on the 1980ies level. A de-

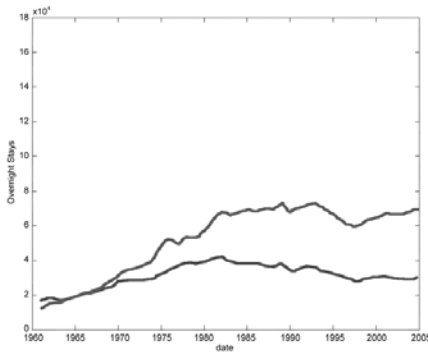
crease occurred around 1995, followed by a slight rise until today compensating for these past losses. As this cluster with 128 communities contains several famous destinations with a long history and reputation like the city of Innsbruck and the Seefeld region (site of two Winter Olympics) as well as Ötz in the Ötztal or Fulpmes in the Stubaital, it can be hypothesized that these destinations were somehow delayed in adapting to the changing demands of the customers due to their long term success but are now on their way to further growth. Cluster 3 also displayed in the third image of Fig. 3 shows similar development to cluster 2, only dropping out of the overall growth of the other communities already around 1970 and entering a slight but clearly visible decline in overnight stays since 1980. The revival since around 1995 is remarkably smaller than in cluster 2 and does not compensate the earlier losses. Any forecast for these 14 remote or transit communities seems to be difficult, as neither a clear decline stage nor a rejuvenation stage is recognisable.



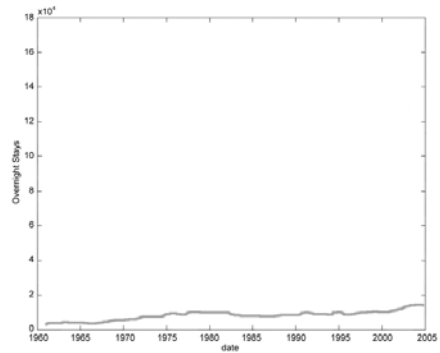
3.1



3.2



3.3



3.4

Fig. 3. Life cycles of alpine destinations 1960 to 2005 (winter)

Cluster 4 (Fig. 3 image 4) finally illustrates a rather large number of 55 communities who never really got involved with alpine winter tourism. They did not manage to share the overall boom of tourism which occurred after World War II but could only generate a comparably small but constant number of overnight stays over the whole period. It could be guessed that the overnight stays generated in these communities are due to their geographical adjacency to tourism destinations and are some sort of spillover or due to stopovers of tourists from further away on their way to their final destinations.

For the summer season, five different development patterns or cluster could be identified (Fig. 4, image 1). Cluster 1 as shown in image 2 of Fig. 4 displays a development close to the hypothetical s-shaped development pattern described by Butler (1980). After World War II, the overnight stays rose sharply from around 1965 to 1980, decreasing until the late 1980ies only to rise again and to finally peak around 1992, possibly as a result of the opening of the iron curtain at the end of the 1980ies. Since then, the number of overnight stays declined sharply until 1995, having reduced the speed of the decline for the last decade. This group consists of 65 of the Tyrolean communities, e. g. the Achensee region, Alpbach or Kirchdorf. The next cluster displayed in image 3 of Fig. 4 includes 20 communities of 'summerstars', who shared the initial boom after World War II, but could not generate as many tourists as cluster 1. Already in 1970, the difference was clearly visible as cluster 2 entered a phase of stagnation while cluster 1 still grew remarkably. After this stagnation, the communities in cluster 2 underwent a turnaround and started to grow again around 1980, rising sharply ever since around 1985. In the meantime, these 'summerstars' like Fiss, Aschau/Zillertal or Kössen have nearly attained the same number of overnight stays as cluster 1 and still show tendencies of growth.

The cluster 3, 4 and 5 displayed in image 4 of Fig. 4 all show similar patterns of development. They all started their development after World War II with a growth resembling to cluster 1 and 2, especially cluster 3 recorded the most overnight stays until around 1970. By then, the overnight stays of all three clusters had already reached their peak. While the other two clusters could continue their growth at least until the 1980ies, the clusters 3, 4 and 5 did not manage to do so. The 55 communities in cluster 3 experienced another rise around 1980 and again in 1990 and could record the most overnight stays of the three, but declined sharply since then with no tendencies of stabilisation or even turnaround. The development of cluster 4 and 5 are comparable to cluster 3, but on a significantly lower level. Cluster 4's 57 communities peaked in 1970 and then started a continuous decline, only interrupted by a small rise at the time when the German reunification significantly enlarged their major source market at the beginning of the 1990ies. The 81 communities in cluster 5 could not participate significantly in the boom years after World War II, peaked around 1970 and declined constantly ever since. They did not even profit from the presumed 'German reunification boom', whereas all other clusters show the same characteristic rise at the beginning of the 1990ies.

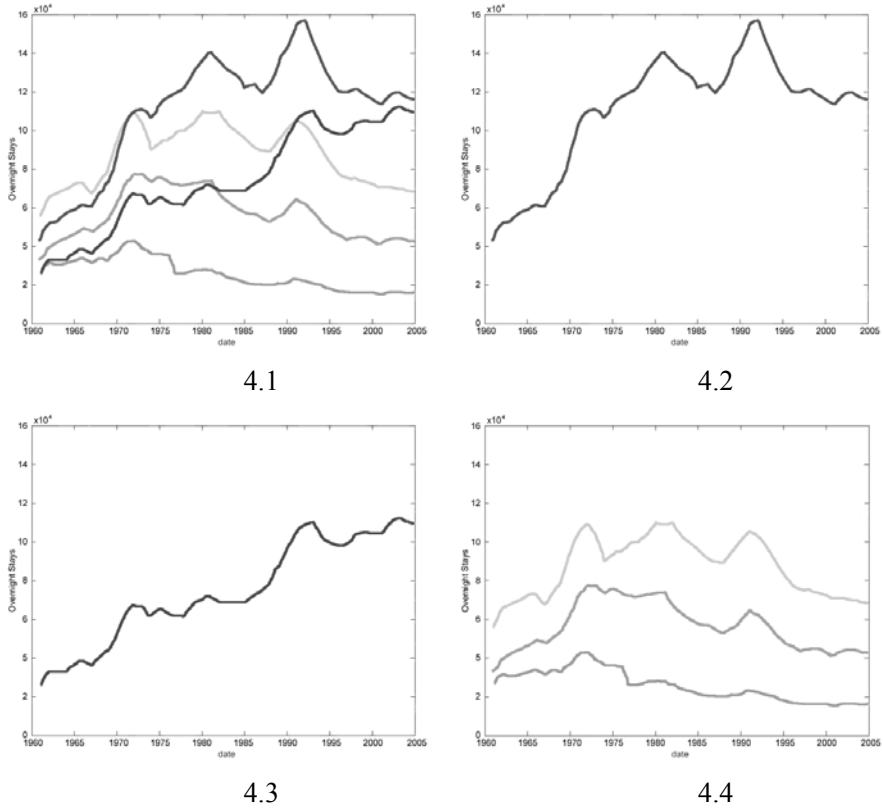


Fig. 4. Life cycle of alpine destinations 1960 to 2005 (summer)

5 Conclusion

The previous results show that destination life cycle patterns can be found not only in selected alpine destinations, but in every community involved in tourism business. Taking a closer and more differentiated look on the development patterns, only some destinations can be assigned to a cluster performing similar to the generic s-shaped pattern of Butler's TALC model (1980). Comparable to Haywood (1986) or Beritelli (1997), several different development patterns can be observed as well as destinations within different life cycle stages. Destinations do not only show different development patterns in the particular season analysed, their summer and winter development and performance may also vary considerably from winter to summer. Destinations that are very successful in the winter season do not necessarily have to do so in summer and vice versa. The development of destinations can therefore be separated between summer season and winter season, which also underlines the necessity of different destination products at different times of the year.

For alpine summer destinations in particular, it is interesting to see that there are destinations which perform in a particular life cycle pattern (cluster 2), which is not yet matured or has undergone a successful rejuvenation strategy.

The TALC concept and its application are an essential factor for establishing a long term destination development strategy, even if the life cycle model for tourism destinations is not yet able to deliver appropriate management tools or advice for everyday use. Especially for the so-called mature alpine summer destinations, the development patterns of other destinations show clearly that there actually are successful concepts in the market. As they do work well over longer periods, they prove that there are possibilities of a rejuvenation of alpine summer destinations.

This also underlines the importance of the TALC model for the development of a sustainable tourism, especially in destinations like the Alps depending on natural resources. A sustainable and long term planning of carrying capacity is therefore essential for tourism policy makers on regional and national level.

The presented results arise some important questions as well, opening more space for further research. At first it might be important to investigate and empirically identify the special development and the spatial range of destinations. This would not only be a valued contribution to the theoretical description and definition of a tourism destination but could also comprise new aspects for the management of tourism destinations. Except for destinations with physical borders like islands, information about where destination space ends and where the limits of a destination are exactly located is mostly not clearly available, making the precise application of any measures obviously difficult.

Secondly, there is still a lack of understanding of the dominating factors which have influence on the destination development pattern. Can the TALC be influenced and how can this influence be exercised? Especially trends, consumer behaviour and the destination portfolio of sending markets on the demand side as well as the local entrepreneurs or the destination management on the supply side have to be considered as influencing factors.

Thirdly, it might be interesting to see if there are seasonal spill-over effects from one season (like summer) to another season (like winter) in a destination with more than one tourism season. This could lead to valuable implications for destinations which are actually operating only one season but are planning to expand and build up another. And last but not least, the question of how a destination brand and image can be modified during rejuvenation or restructuring of the destination has to be discussed.

Acknowledgments

The authors would like to acknowledge the invaluable overall and methodical support of Prof. Dr. Janette Walde and Prof. Dr. Gottfried Tappeiner from the Faculty of Economics and Statistics at the University of Innsbruck.

Financial support is very welcome and furthermore highly necessary for independent research work. The present contribution is based on results from an interdisciplinary research project granted by the "Jubiläumfonds der Oesterreichischen Nationalbank" (OeNB), the Central Bank of the Republic of Austria (Project Ref.-No. 11428) and by the "Tiroler Wissenschaftsfonds" (TWF), the Scientific Fonds of the Federal State of Tyrol, Austria (Project Ref.-No. UNI-0404/182). The authors would like to thank the OeNB and the TWF for their financial support and for making this research project possible.

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Marketing and sales management

Commission systems in tourism

Georg Tacke, Claudia Fichtner

1 The basics

Commissions are constantly under attack from tour operators and service providers on the one hand and travel agents on the other. Thus, they are an inevitable subject in press. This situation expresses the pressure under which the tourism industry lies. The struggle for resources between the parties in the tourism value chain also affects the commission systems. As a result, commissions are being cut back. Leading in this regard are the English tour operators who have cut their commissions on an average of 2–3 percent in response to increased Internet booking. In the UK, 20% of the tour operator bookings are already made online.

In Germany, tour operators still depend heavily on the classical sales channel – the travel agent (over 54% of all bookings are done via travel agent)¹ and therefore, commission cutting measures are less drastic. Nevertheless, tour operators try to reduce commissions as much as possible and to spin-off their own travel agency channels into bounded agency chains.

The number of bounded agencies is expected to grow in the near future, securing the market position of the tour operators in stationary sales, without incurring too many risks involved with the ownership of travel agency chains. However, the major challenge is to successfully control and manage bounded travel agency chains, a procedure which is much more difficult than with owned agencies. Consequently, tour operators will have to improve their efforts for awarding agent behavior. Such reward programs are usually based on a monetary incentive system, preferred treatment or different forms of cooperation.

Monetary incentive systems depend on the jurisdictional form of the sales units. Currently, with the travel agencies in Germany being agents, the incentive system is a commission system. Dealers on the other hand are rewarded through discount systems.

In this article we will discuss how to design an optimal commission system, where the pitfalls are, whom to address, etc.

¹ Focus Medialine, Der Markt für Urlaubs- und Geschäftsreisen 2006, p. 32.

The *tour operator commission strategy* fluctuates greatly: each year tour operators incorporate new strategies into their systems, practically flooding the market with different systems. This barrage of information puts pressure on the tourism but also reveals the uncertainty on the part of tour operators to create a suitable award system. The travel agents are also unsure of how to deal with the challenges.

2 Definition – commission systems

Let us step back and consider the function of a commission system: *a performer in the value chain rewards a successor in this value chain with a commission for taking over certain tasks in the chain.*

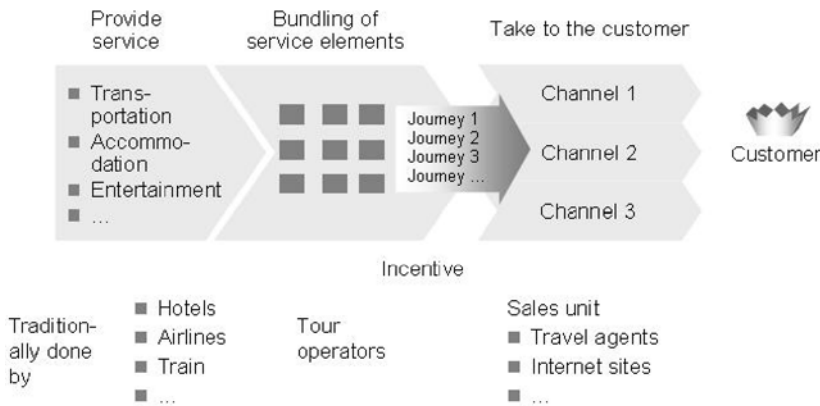


Fig. 1. Tourism value chain

Agents, the traditional sales unit for tour operators, receive commissions. Principally, a commission is a monetary value that allows the travel agents to cover their operating costs, but can also be in the form of payment in kind (window decoration, trainings, etc.). While it is clear that compensation should be positively linked with performance (the weaker the performance the lower the compensation), we would like to discuss the influence of power on compensation (the lower the power the lower the compensation) in detail.

The *balance of power* should not be underestimated in its effect on the margin share for each of the performing parties. Important and well-known brands have clear advantages in this case, no matter where they are positioned in the value chain. A strong producing brand naturally does not have to give so much compensation to the sales unit as a weak brand because it has got significant pull power. Pull power means that customers buy the brand anyway; they literally come to the

sales unit and ask for it without the sales unit having to push it. Whereas weak brands depend much more on the push effect of the sales force since customers are unfamiliar with the brand and have to be convinced to buy it. Intense competition at one step in the value chain significantly reduces the power and thus reduces the compensation.

Transferring this more general approach to the tourism sector, we recognize immediately that there are only a few key players that dominate the market. The top 3 in the sector (TUI, Thomas Cook, REWE) account for more than 70 % of the total German market. The remaining 30 % is covered by smaller players, often niche operators. On the sales channel side, the travel agencies sector is extremely fragmented: bounded chains, independent chains, single agencies, agency network, etc. Tour operators are clearly the more powerful party. The increasing importance of bookings via Internet boosts their power even more. This is reflected by the fact that the big players are able to enforce and implement their commission systems on the small sales units. Of course, amendments sometimes have to be made if the complaints from the sales units become too strong. A recent example demonstrates how the travel agencies successfully abolished the “malus”² in the German commission systems. In general, system modifications are only made in order to improve the tour operators’ situation.

In this market, tour operators and producers have *the power to determine the end price* towards the customers. Agents simply receive the commission, normally a percentage of the revenue or a fixed amount. Other industries that use such systems include petrol distribution and freelance B2B sales people.

Tour operators and service providers such as hotels, airlines, etc. assume the *marketing risk* (risk that the product is not sold). Travel agents only bare the risk of covering their own operating costs.

A completely different role and compensation model can be seen in food retail. The production side is highly fragmented. Many producers compete for market share and brand awareness. In contrast, the market is rather concentrated on the retail side. We count just less than 10 large companies operating in the food retail sector. In Germany, Aldi, Lidl, Spar and REWE alone take a big piece of the cake. In accordance to the constraints previously stated, producers lack the necessary power to force their terms and conditions onto the dealers. Instead, the retailers are able to dictate policy to the producers. It’s a question of power: there are very few products a retailer could not do without in his shelves. Even very strong brands are replaceable. Procter & Gamble learned their lesson when they tried to play hard-core when negotiating retail conditions for Pampers: retailers just took them off the shelves.

Consequently, *dealers have the power to determine the end price* towards the customer. The producer sells the product at a certain price to the dealer. The dealer adds a margin to the products and thus determines the end price to the customer. And they also assume the marketing risk of the products they put into their shelves.

² The ‘malus’ is a retribution mechanism in the commission system implemented if a travel agency does not succeed in matching the sales volume from previous year.

Trying to escape from the declining commissions, travel agents in Germany discuss and some even try to transfer the market from an agent to a dealer distribution. Taking into account the fragmentation of sales side and the risk that would have to be born as a dealer, it will most likely remain an uncommon system.

Ongoing discussion and the example of the airlines with the “Zero Commission” suggest that there might be a *third way for remunerating the travel agents for their services: the broker system*. To this effect, the customer has to pay twice, once for the product and once for the service rendered. This is a common model for purchasing real estates for example. Obviously, this model is very different from the others since pricing is basically independent and the customers have full transparency regarding the prices (product and service). Naturally, both parties will still depend on each other and thus quarrels between the two parties, reproaching each other for overpricing their product or service continue on as before. As for the price, the most interesting issue to resolve for travel agents would be the algorithm for calculating the service fee: percentage of the tour price, flat price per booking, price depending on consultancy length, etc.

Although this issue is a very interesting discussion topic, we will not go into detail for it takes us too far away from the core subject.

The main issue involves defining an ideal commission system and will be addressed in the following chapters. But note that the rules that we will develop are also applicable for other incentive systems, such as discount systems which reward dealers.

3 Designing a commission system

There are many options available to design a commission system. The basis can be volume, revenue, size, growth, etc. It can differ on the reference time: per month or per year. The focus can be a product, a unit (several products or product family) or all products. Commissions can be given ex-post or ex-ante. They can be designed incrementally or retroactively, i.e. back to unit one. Commissions are not necessarily limited to financial incentives. They can focus on non-monetary dimensions like training and instruction, marketing assistance or preferred access to call-centers.

3.1 The ideal design for a commission system

As a first important and general rule, the best commission system is not the one that pays the lowest commissions but pays as much commission as needed (and not more!) to make the sales unit perform in the desired way.

This directly leads to a hot topic in tourism: *how much compensation does the tour operator have to pay to the travel agents in order to make them sell their prod-*

ucts? It is an emotional debate with two extremes: One side says that the push effect of the sales units is zero; therefore, they can maintain their compensation mechanism at a minimum. The other side claims that the pull power of the tour operators is zero; customers only buy what the travel agents recommend. The truth is naturally somewhere in the middle, but neither of the parties has done any serious research on the pull and push effects in this market. However this knowledge would bring a clear competitive advantage because it sheds light on the question concerning where tour operators should invest the margin to improve sales: should they reduce the end price or increase the commission?

Another answer to the question regarding an ideal design for a commission system is that it all depends. First and foremost, it depends on the goals a company would like to put through. Therefore, understanding a company's goals is of great importance. Once the goals are set out, they can be converted into commission system elements. Simply copying a competitor's system or one which is common in the market is quite dangerous. Such exploits make comparing systems much easier and furthermore these pilfered systems do not necessarily reflect the goals the company wants to achieve. Consistency of goals is the main driver for designing and building the most suitable commission system for specific purposes. However, the issue has to be discussed whether or not every single one of the company's goals should be transferred into an element of the commission system. This topic will be dealt with later on in the article.

3.2 Goals and purposes of a commission system

Potential goals and purposes of a commission system can be multi-faceted. And there is no single commission system that encompasses every single company goal. In the following paragraphs, we would like to describe the most common systems used. On top of "hard" incentives (based on measurable figures like volume, revenue, sales, units, etc.), we address some typical "soft" incentives (based on a certain behavioral aspects in the sales unit). Afterwards, we identify important features for combining incentives, the number of goals to be pursued and elements in the discount system to be used.

Secure revenue

Secure revenue is the most common element in an incentive system and is also implemented in the tourism industry. Tour operators reward its agents for the revenue they generated for the tour operator. Normally higher volumes/revenues receive higher percentages.

Living systems often proceed in the same manner: Based on volume/revenue generated in the previous year, an agent gets a certain commission that is applied from day one of the new commercial year. At the end of that year the balance is drawn, the correct commission percentage is determined and applied ex-post. Sometimes a balance is made after a six month period.

Status based modes frequently accompany such commission systems. Platinum, Gold and Silver accounts reap a variety of benefits and support schemes. The cooperation (e.g. via call center access, marketing and sales equipment) is closely linked with the current status of the agent.

There are two different ways to design commission systems that secure revenue: The “retroactive system” (when achieving a revenue/volume step, the commission is awarded for all revenue “from dollar/unit one”) and the “incremental system” (with the achievement of a revenue/volume step, the commission is only given for that specific revenue percentage).

The *retroactive commission* gives strong incentives for growth from the threshold of one revenue class to another. Having reached the next revenue class, it grants a higher percentage for the entire revenue made thus far. But from this moment on, growth incentives are low. It is easy to communicate. This type of commission system is suited for penetration strategies, quick win and growth goals. The disadvantage is the number of steps required in order to keep a constant growth incentive and thus escape from the low-incentive trap. The second inconvenience is the degree of individualization needed, often in the form of different tables for different customer segments. A quick look at the TUI commission system folder clearly demonstrates this claim. There are many different commission tables for all kind of travel agent segments.

The *incremental commission scheme* has a strong tying effect and is considered to be the ideal defense method for a market leader. Its communicative advantage is the high commission percentages that can be found in the commission table, as the numbers stated are only applicable for the revenue within its class. Retroactively seen, each amount of revenue has a different average commission. This is often very complex and difficult to explain.

This year, Thomas Cook has shifted its commission system for travel agents from a retroactive to an incremental system. This move generates many advantages for the tour operator. It is a very competitive system allowing high percentages in the high volume areas and low percentages in the low volume classes.

1 000 € Revenue / month	Retroactive Commission	Incremental Commission	Actual Commission*
0 - 20	10%	10%	10%
20 - 40	10.5%	11%	10.3%
40 - 70	11%	12%	10.9%
70 - 100	11.5%	13%	11.5%
> 100	12%	14%	12%

* Calculation based on revenue of middle of class

Fig. 2. Comparison of retroactive and incremental commission

Logically, a certain amount of customers book the Thomas Cook brand regardless of any other factor. For these customers, agents do not have to make much effort and can not make the customers change their mind. However, when it comes to high volumes, travel agents have to push the product and the tour operator revenue depends on the travel agents' power to shift customers from one tour operator to the other. As an incentive, Thomas Cook offers travel agents comparatively high commissions.

Growth

If a goal of a tour operator is growth, it should reward travel agencies who generate growth with over proportional commissions and not just rely on the travel agents to reach the next volume step on their own initiative – as previously mentioned. An effective strategy is to give incentives for mutually agreed target growth rates or just by giving an extra commission on volume superior to performance in the previous year. The latter is common practice in tourism. Overall, the share of this commission should not exceed 40% of the total commission paid (Fig. 3).

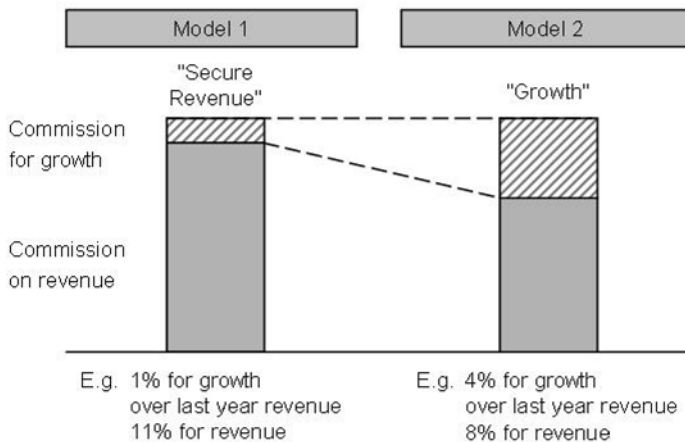


Fig. 3. Comparison between two commission schemes: 'secure revenue' and 'growth'

Contrary to a growth incentive, the *malus system* punishes volume inferior to the previous year. Unsatisfactory performance results in ex-post paybacks on commissions already distributed. German tour operators implemented this measure as a protection mechanism against "swinging" agents. Before the introduction of the malus system, agents ran alternating campaigns for large tour operators every two years in order to cash in on the high growth incentives.

Other systems try to respect the relative position and chance a sales partner has to exploit a market. This system may appear quite fair at first sight but it is not transparent in the least and does not honor absolute performance. A bank once

introduced such a system; however in the end, it led to a brain-drain in the sales team. The competent team members joined competitor bank, which offered much higher incentives.

Gaining ground in the market

When a new player wants to enter a market, he generally has to design a commission system different from that of the established (large) competitors. In contrast to the established players, the new players rely more heavily on the sales units since they do not usually have a strong brand offering an important pull effect.

As a rule, invader systems have to be much simpler than the ones of the defenders. The systems need to generate an immediate effect in form of cash for the agent, implying higher commission percentages. In addition, new players have to support market entry by intensely marketing the commission system.

Fig. 4 compares the TUI system with the system from the newcomer Air Berlin and highlights the differences between the defender and invader systems.

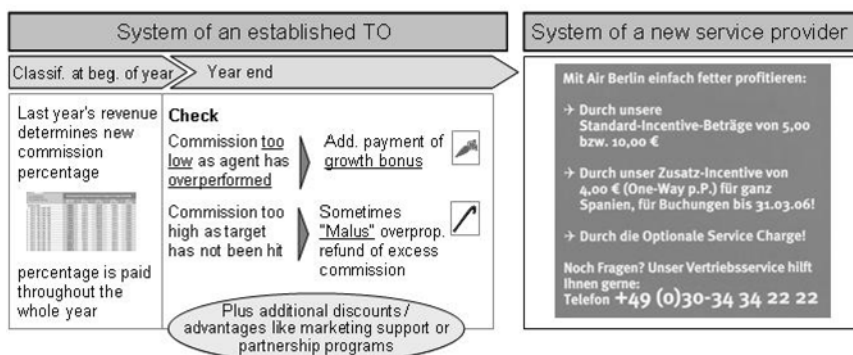


Fig. 4. Comparison of incentive schemes with established and new player

Improving profit margin

Improving profit should be a natural goal for all companies as they live on profit not on revenue. Two tour products with the same revenue can have very different costs (high vs. low) and cost structures (fix vs. variable). These differences result in different profit margins (Fig. 4). A tour operator should normally try to convince agents to sell the journey that generates higher profit for the tour operator. However, implement such a component into a commission system is very difficult. At the moment, the higher the absolute revenue of a trip, the higher the absolute commission paid to the agent, supposing that the higher the revenue the higher the absolute profit. There are some exceptions to this rule, i.e. TUI puts higher commissions on brand-owned hotels.

Other industries also lack such profit based incentive schemes and at best have just started to take steps in that direction.

1. Food retail: different basic discounts for different products groups
2. Spare parts manufacturer: 20 different discounts classes for the various products

Four operators should take up the challenge to improve their commission systems in this respect even though travel agents may be reluctant to accept the new model. Key requirements are: comprehensible and easy to follow, compatible with the booking systems and competitive.

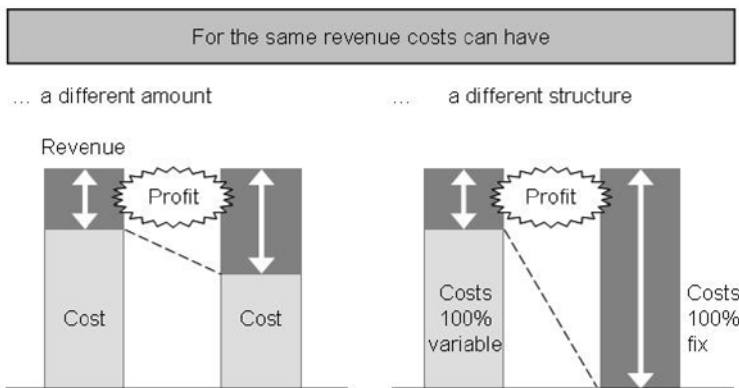


Fig. 5. Differences in costs for a tour with the same revenue

Growing internal market share

The goal of a growing internal market share is a very aggressive target. In this respect, a tour operator has to improve its market share with specific travel agencies or group of travel agents, irrespective of the absolute volume/revenue. Its only concern should be its position relative to that of its competitors. Example: 25 % of a travel agent's volume stem from TO1, 75 % are covered by the rest of the market. TO1 could come to an agreement with the travel agent regarding the target to increase the TO1 share to 30 % and attach commission for successful implementation. The prerequisite for such a pact is that the travel agent holds an open book policy towards the tour operator. The closer the relationship between the two parties, the easier it is to implement this commission system. Another challenge consists of adhering to legal regulations. Although such commission systems are not forbidden, its design may conflict with competition regulations.

Increase consulting and marketing capabilities within sales

The increase in consulting and marketing capabilities is part of the ‘soft’ incentives, so called functional discounts or commissions. By improving the consultation quality and marketing efforts, travel agents receive the incentive to further strengthen their capabilities in this sector. The core question is: What exactly needs to be improved in order to achieve this goal? These aspects include customer satisfaction, general sales power, consultation quality, etc. The key challenge is to design a target system that can objectively measure and define whether and to what extent targets have been achieved and whether these achievements qualify for commission payment.

A commodities supplier introduced a so called ‘*business development fund*’ for each sales agent, in which he deposits money according to the quality of service, co-branding, etc. of each agent. He and the respective agent spend this money to co-finance advertisements, flyers, mailings etc. This method kills two birds with one stone: He rewards marketing quality and at the same time invests it into marketing actions, creating a positive cycle. It is important never to fully finance actions but only to co-finance them in order to prevent the money being invested in useless actions without a massive controlling effort.

Another example comes from a car manufacturer. He understood that a key criterion for repurchasing his brand was customer satisfaction with sales service and after sales services. Therefore, he introduced a bonus system which included customer satisfaction as one commission component amounting to 14% of the total bonus paid. Customer satisfaction was measured using a standardized customer satisfaction index that the car manufacturer regularly collected via market research with customers that had bought cars from the specific dealers.

4 Optimal number of discount elements

One key question for designing commission systems is the number of commission elements. Whereas some companies only use a base and a volume/growth commission, other companies include up to twenty different commission elements (Fig. 6). How many commission elements should a commission system optimally have? It depends; many factors influence the optimal number of elements.

4.1 Number of goals

First of all, a company has to define the number of goals it has and the fraction of which they should implement in the commission system. Companies often try to support as many goals as possible with a high number of commission elements. Although a commission system can systematically support every goal, the significance for each commission element decreases as the number of goals increases. A single commission element would probably only have a very low or even no

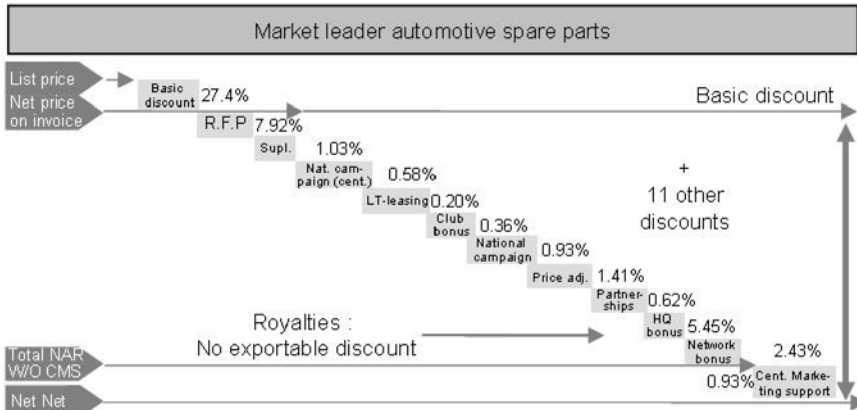


Fig. 6. Example of a discount system with too many discounts

impact on customer behavior, indicating a trade off between the number of goals supported by the system and the degree of impact of each single goal. Furthermore, a company has to consider whether a commission system can realistically support every goal, keeping in mind that each commission element has to be linked to a measurable performance. Many goals such as brand reputation or end customer service are problematic and can only be measured with difficulty. Therefore, such goals should not be implemented in a commission system; however, they could find support in other actions such as partnership programs.

4.2 Sub-goals

Even if a company only wants use a commission system to support a limited number of goals, the question still arises as to whether one commission element per goal is enough. For example a company wants to increase revenue in general but especially in the luxury segment where it earns the highest relative margin. In this case two commissions might be needed: a general revenue commission and a specific revenue commission that awards the revenue in the luxury segment. As for the total number of commissions there is a trade-off between complexity on one hand (caused by a high number of commission elements) and accuracy on the other (how well the commission system reflects the various sub-goals).

4.3 Optimal level of transparency

Increasing the complexity of a commission system and the number of commission elements can be advantageous for market leaders who want to avoid being surprised by competitor offensives. In contrast, market invaders who want to go on the offensive with other companies should use very transparent commission systems. In such cases, the invaders should limit the number of commission elements.

We previously compared the system in established tour operators with that of a new service provider. Similar phenomena can be observed in the telecommunications industry: established companies provide extremely complicated tariffs with different prices for different time zones, minute packages, etc. whereas the lean offenders penetrate the market with simple offers, such as flat rates.

4.4 Market position

Market leaders should implement a relatively high number of commissions so as to confound the competition. But there is another reason, why companies with higher market shares can have more commission elements. Normally, a travel agency sells trips offered by a large number of tour operators. This means that it is confronted with the commission systems of all these tour operators. Travel agents pay most attention to the commission systems of the important tour operators but can not remember all details of the other commission systems. Therefore, whereas small tour operators have to limit the number of elements in order to have an impact on the travel agency behavior, large tour operators can use more elements.

In summary, a company should not use more than 4 to 5 elements; however, the maximum number depends on the number of goals and sub-goals as well as on the company's market position.

5 Commission differentiation

5.1 Difference between lowest (basic) and highest commission

What should the commission difference between a high and a low performing customer be? Each company approaches this issue differently. On one hand, travel agencies should get a minimum commission that covers their cost of operation. On the other hand, differentiation has to be strongly linked to performance. Higher commissions may only be granted for higher performance. By increasing the difference between maximum and minimum commission, a company increases the incentive for customers to change their behavior. However, if a company increases the difference between the maximum and minimum commission and keeps the average commission constant, it also has to decrease the minimum commission. This course of action might put the minimum cost coverage to test.

In face of this trade-off, a tour operator should recall that *socialism does not provoke top performance*. Therefore, the tour operator should ensure that the relation between performance and commission level is transparent for the agents and encourage agents to increase their performance by providing sufficient differentiation between the commission levels.

5.2 Number of commission levels

Another issue that has to be discussed is the optimal number of commission levels. The advantage of few commission levels is transparency and simplicity. The disadvantage is that the difference between two commission levels is rather large (both in terms of commission and in terms of revenue required to reach the next level, Fig. 7). Consequently, it can be very difficult if not impossible for many customers to reach the next commission level. If a customer cannot reach the next commission level, he is less inclined to make an effort. A second disadvantage of large steps between commission levels is that small revenue variations can have a large impact on a customer's commission as he passes to the next commission threshold. As a result, estimating the commission volume to be paid to the agent is less precise. Therefore, a system of small commission steps is better than one with just a few large steps. Every customer is able to impact his commission with adapted sales behavior and the commission risk is limited through the small revenue variations.

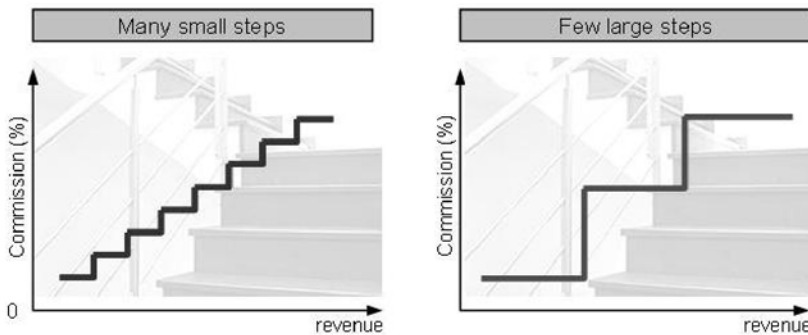


Fig. 7. Structure of commission schemes with many small steps or just a few large steps

6 Target groups

In travel agencies, which individuals should be optimally incited with a commission system? There are different potential groups in a travel agency: the owner / manager and the sales force. Whereas the first group has to be addressed because their income depends on the commissions they earn, the question arises whether the second group should also be offered incentives. Examples from other industries show that incentive programs for the customer sales force can be highly effective. For example, a tire manufacturer implemented an incentive system for the sales force in tire dealerships. The sales force could collect personal points by selling the manufacturer's tires. After accumulating a certain number of points, they received cash awards or premiums (Ipods, restaurant vouchers, etc.). The tire dea-

dealerships readily accepted the program proposal, thinking they could thus make certain wage reductions. However, the program was so powerful, that some of the dealerships left the program claiming that their sales force were not acting in accordance with their sales strategy.

A precious perfume manufacturer implements a similar approach. He gives non-monetary incentives to the retail sales persons depending on the volume that the employees generate for this manufacturer. The non-monetary incentives comprise free flacons, trainings and status (flowers, letter, rewards, etc.)

Whether such a system can be successful for tour operators depends on three criteria:

- First, do travel agencies allow commissions or premiums to be directly paid to their employees?
- Secondly, how well can a travel agency steer his employees? If steering is optimal this would mean that the commission system towards the travel agency is optimally translated into goals and incentives for the travel agency's employees. In this case, an additional premium program for employees would not produce any effects.
- Thirdly, do commissions or premiums granted to employees have an impact on their selling behavior? In order to determine the effect, a regular monitoring system has to be installed. Naturally, a tour operator should only continue to reward travel agents with certain commission elements or premiums if a significant positive impact is realized.

As demonstrated in the examples, incentive programs for employees can be very successful. A company should implement incentive programs when a travel agency does not have optimal manage their employee behavior, provided of course that the travel agency accepts the proposed program. Whatever the case may be, a tour operator must consult the travel agent before implementing a employee incentive program.

7 Non-monetary elements

On top of monetary commissions a tour operator can also incorporate non-monetary elements in the commission system. Examples include elements that have a direct monetary value to the customer such as trainings, marketing materials, window decoration or call-center support or elements that have mainly an emotional value such as invitations to parties, status or free trips. Emotional elements in particular create significant differentiation between different agents. Partnership programs are common practice for these elements, outlined in Fig.8.

Dealers have to fulfill different criteria in order to obtain a silver, gold or platinum status. The respective status is only presented if the dealer fulfills all criteria.

Criteria can be quantitative such as revenue or wallet share or qualitative such as joint business planning, end customer services, etc. Each level contains specific discounts or non-monetary elements such as trainings, support and services. Analyses confirm that partnership programs are very successful. Discounts, non-monetary elements and status impact selling behavior.

In tourism we also find a great variety of instruments chosen by the tour operators and service providers to accompany their commission systems. But the danger of these non monetary elements are similar to the danger of customer retention programs, that give goodies for a certain amount of money spent with a company or length of business relationship: no body really is aware of the value the goodies provide for the customers and the resulting retention of effect. Rationally, the companies should only use elements that are balanced in terms of retention effect and cost. But very often the program designers are not aware of the effects and just assemble a set of gifts and goods they hope the customers like.

For the non monetary elements of commission systems the tour operators also need to find out whether the best elements are applied. Best elements in their sense are elements that are balanced in providing a good incentive for performance and cost. Therefore, the performance-cost effect has to be closely controlled. Optimally, the effect is monitored by comparing the development of targeted groups with the development of agent groups who do not profit from non monetary elements.

Crucial for the success of the usage of non monetary elements is the regular communication of the non monetary benefits in order to make sure that agents perceive the value of these elements and feel the incentive to make an effort.

Criteria	Platinum	Gold	Silver
Exclusivity*	100%	90%	50%
Minimum sales volume	€ 500,000	€ 200,000	€ 75,000
Exchanges customer information	yes	yes	not required
Minimum delivery quantity	whole truckload	whole truckload	pallets
Business planning (forecasting, marketing)	quarterly	quarterly	not required
New product distribution commitment	high; targets met	high; targets met	not required
EDI	as soon as possible	as soon as possible	not required
Training programs	provided free	costs shared	costs shared
Trade fair support	yes	yes	no
Marketing support	full	limited	no
Segment discount	5%	3%	1%

Fig. 8. Example of a partnership program

8 Summary

- Pay as much commission as you have to pay to make the sales units do what you want them to do, knowing and taking into account the push and pull effect in the market.
- Clearly identify your strategic goals.
- Develop instruments accordingly and in compliance to your competitive position. Invaders note: a simple system that guarantees immediate pay-off to the agent.
- When trying to secure revenue or to follow growth opportunities, be aware that these goals must be well-balanced.
- Try to implement a profit element into your commission system.
- And if you are following functional strategies, improving soft criteria like quality and satisfaction, operate on highly selected elements that can be tracked and measured.
- Ensure significant spread between the lowest and highest commission to provide an incentives.
- Question the target persons: are you addressing the right target persons in your incentive system?
- Take non-monetary elements into account.
- Integrate systematic partnership programs.
- Last but not least, the major key to the success of any commission systems lies in communication. Talk to your sales network, to the agents in the market and clarify your perspectives. Don't override minority opinions; limit preoccupations and create common understanding and appreciation for the commission system instead.

Reference

Focus Medialine, Der Markt für Urlaubs- und Geschäftsreisen 2006.

New stationary distribution channels for tourism

Martin Buck

1 Introduction

For more than four decades, selling leisure travel products was nothing much to talk about. Travel demand, at least in Germany, the country of the “travel world champions”, was steadily growing and flourishing. This situation has dramatically changed over the past few years. The growing saturation in the leisure travel market, combined with persistent overcapacities on the supply side, has made travel retail an object of entrepreneurial activity and analytical interest

A wide variety of different distribution channels and points of sale have emerged. Locally based “stationary” or offline travel agents and offices have been complemented (and also substituted) by

- Internet based online travel agencies (OTA’s)
- combinations of TV or radio-based sales with call-centers
- direct sales using distribution channels for products such as credit cards, insurance or customer loyalty programs and
- offering travel products via various types of retail chain stores.

Selling heavily discounted railway tickets at Lidl, one of Germany’s biggest aka “mega” retail chains, was a huge success for Die Bahn, Germany’s national railway operator. Trying the same with airline tickets at Penny, one of Lidl’s competitors, was also very successful for Air Berlin, Germany’s second biggest airline. Several other examples also prove that such a campaign – i.e. over an extremely limited period with dramatically lower prizes than regularly expected – oriented to sales effort via mega retail chain stores can be a very effective tool.

Based on these successes this type of sales activity deserves further scrutiny. What are the real life experiences of the initiators? What are the typical features of such a campaign? What are the critical success factors?

During the ITB convention “Market Trends and Innovation” 2006, a panel discussion tackled these topics. High ranking experts, among them Dieter Brandes, former member of the board of Aldi, Jürgen Büchy, CEO of The German Rail-

ways Sales Corporation, Hubertus Pellengahr, CEO of the German Retailing Association and Professor Claudius Schmitz, Head of the Sales and Marketing Department at Gelsenkirchen University, summarized the current state in the tourism industry as panelists.

2 Selling travel products via mega retail chain stores – the current situation

For Professor Schmitz the crucial question is whether sales campaigns like the one German Railways handled via Lidl or the one Air Berlin implemented in Penny – both of which captured the attention of the professional German travel community, will either emulate serious sales channels or have to be considered as “one hit wonders” – as a rather transitory phenomenon.

The most striking feature is that these campaigns operate with extremely low prices, all the while generating comparatively large volumes even though their life cycle is restricted to a few days only. German Railways for example sold more than one million first class return tickets for € 49.99 in 2,600 Lidl outlets in just one hour.

This can obviously be seen as another vital threat for stationary travel offices which are simply incapable of matching these prices. In addition, their marketing power and outlet numbers are dwarfed in the face of the retailing mega chains.

On the other hand, as Mr. Büchy stressed, German Railways boast their innovative first mover advantage and claim that other travel providers are just imitators. The magnitude of the success came as a complete surprise to German Railways. In all fact, the original objective was to reach new customers for the railway product at a point of sale where these potential customers would not expect such a product. The target group did not typically consider rail transport as a normal travel mode.

The campaign is a proof for German Railways that it is absolutely worthwhile to experiment with new and extraordinary selling positions. Customers reacted very positively, as reflected in the significantly improved image scores. The activity which was originally projected as a mere sales tool transformed into a marketing campaign with sustainable and significantly positive effects.

Analyses have also shown that possible negative customer perceptions resulting from the restricted availability of tickets were clearly outweighed by the positive change of several image relevant criteria like the perceived innovativeness of German Railways and their price image. In contrast, the scarcity of goods may be perceived as a feature that increases the value. At a similar campaign that German Railways implements in a partnership with Mc Donald's, the number of tickets was nevertheless increased to avoid the scarcity effect that might have lead to negative customer perceptions during the Lidl campaign.

As stated by Dieter Brandes, a former Aldi top executive, the largest German retail chain is permanently driven by new ideas, be it for new products or for con-

tinued development in sales processes. It does not matter whether the original source of the idea is Aldi or a supplier. Many innovations are created by the Aldi staff since they are far more interested in their products than a retailer who is only selling brand products and therefore concentrates on the purchasing prize but not on the product features. Aldi mainly sells brands exclusively produced for Aldi.

When it comes to selling travel products at Aldi, the crucial question is if the latter match the typical Aldi product profile. One crucial criterion is that the product has to be simple to fit into the Aldi assortment. Applied to travel products that means that it must be possible to sell them “off the shelf” without the need for complicated explanations.

The ticket that German Railways sold during their Mc Donald’s campaign included restrictions like validity limitations for certain weekdays. Such a feature would have made the product too complicated for Aldi. Critical success factors for Aldi products include clarity, high quality, and low prize.

Aldi is currently in the process of testing travel products in their Austrian outlets. Should they comply with the aforementioned critical success factors, Aldi might consider implementing standardized travel packages for time-restricted sales campaigns but would not incorporate travel products as a permanent standard category like milk or eggs.

From the perspective of Hubertus Pellengahr who represents the German Retail Association, the phenomenon of selling non-typical products with dedicated campaigns in the big hypermarket chains has been a general trend in German retailing for several years. The pioneer in this field was Tchibo which originally only sold coffee and coffee-related products in their outlets. In the meantime, selling coffee has become a relatively minor business compared to the sales of products which have nothing to do with coffee at all. He however confirms Aldi’s point of view that as a paramount criteria the “campaign product” must fit in with the standard assortment.

The customer has a clear understanding about which products fit into the brand image of the respective retail chain. If the brand builds on simplicity, only simple products are being accepted by the client. The sales success of German Railways at Lidl clearly confirms this notion.

Mr. Pellengahr believes that the retail sales channel has a significantly higher sales performance potential than e. g. trying to sell something non-typical in restaurant chains. Having said this, it does not come as a surprise that German Railways’ campaign at Mc Donald’s appears less successful than the one at Lidl.

Mc Donald’s does not have nearly as many outlets as the big retail chains and hence is not as suitable for this type of sales activity as the big retail chains. The issue concerning the dimension and geographical diversification of sales is essential. From a retailing perspective, Lidl’s ability to generate the turnover of a whole week in just one hour is on the whole simply remarkable. This combined campaign of German Railways and Lidl was very courageous and has set a new standard for the industry. German Railways has recognized the customer need for simple products. Precisely this simplicity is the prerequisite for sales success in

low cost retail chain such as Lidl. The question remains as to whether similar campaigns will continue in the future and whether and when such practice will become routine business.

Other new combinations of specific retail structures and non-typical product offers can also be observed in the German market. For example, coffee shops that sell travel products or hairdresser shops that try the same. Even banks have started to implement shop in shop concepts in their outlets. However, these concepts differ from the ones discussed for classical chain retailing because the critical success factor for the latter is the number of daily customer contacts. Not everyone eats at Mc Donald's on a daily basis, whereas the probability that they purchase groceries on a regularly day by day basis is comparatively high.

Travel products can be rather simple and straightforward, i.e. one sector has flights or car rentals. On the other side of the spectrum, some travel products are rather complex and require a large amount of consulting input, such as a complex package tour to an exotic destination. Bearing in mind that product simplicity is the crucial factor for sales success in large retail chains, one has to ask how complex a travel product can actually be to benefit from chain sales. German Railways is currently testing this complexity issue in various market trials. Mr. Büchy believes that travel products that need a lot of explanation (and therefore are "complex") can be successfully sold in supermarkets only via a shop-in-shop concept. In such cases, it has also to be taken into account that booking technology requirements are growing quite rapidly with the increasing product complexity.

From Aldi's point of view, individual retail shops with a strong location and excellent customer relations are also capable of selling more complex travel products. However, this type of store is threatened by extinction and therefore more and more an exception. Mr. Brandes forecasts that the mass business of selling travel products will – like many consumer goods before – develop in two directions. On one hand the prize advantageous high volume mass business that can be handled very simple. And on the other the specialized business of customized niche products that require a lot of expertise to be handled and intensive customer consultancy to actually be sold.

During this already ongoing transformation process many traditional travel retailers will get stuck in the middle. These are the ones that do not have a real clue about the reasons why they are still attending their clients. But the answer to this question is absolutely vital: You have to know why the customer wants to buy *your* product. From the perspective of a large chain retailer, the complexity issue surrounding travel products comes down to the question: Can all the different services that are comprised by the travel product be put in one package on the outside of which all these features are unequivocally described? If the answer is yes then the product can easily be sold via retail chains.

If Aldi sold travel packages, the tour operator would have to ensure on the other hand that only a certain percentage of the guests in the hotel obtained their booking at Aldi. So it would be the job of the tour operator to implement the necessary differentiations but be nevertheless capable of offering an adequately simple prod-

uct to the retailer. Suppliers have been successful in fulfilling these criteria in other industries – i.e. mobile phone sales at Aldi or Tchibo where all the complicated tariff regulations were simply scrapped. Success was not the result of low price rather the high simplicity of the product. People are always looking for simple solutions.

From the German Retail Association's point of view, the fact that the online sales channel is becoming more and more important in the travel industry has to be taken into account. Online travel sales cannot provide consumers with extensive consulting assistance. Quite to the contrary, the client must compile this individual package alone. Why shouldn't the same be feasible in a supermarket? Namely for people who lack Internet access? The tour operators need a clear understanding of their sales channels and have to avoid the cannibalization of their traditional sales channel – the travel agents. Travel products that are on sale in retail chain stores should be differentiated from those being sold via the classical travel agent.

Travel customers who prefer remote destinations and complex travel packages may find it difficult to detect the supplier or point of sale where the desired product is actually on sale. Professor Schmitz talks about his personal experience with difficulties in finding a travel agent with the right expertise when he wanted to travel to Alaska. Fortunately, he discovered Globetrotter by chance, a retailer specializing in trekking gear, which also offers trips to Alaska and other destinations. Based on this information, one may ask if the Globetrotter model could be applied to other specialized retailers. A store specializing in wine could i.e. offer trips to famous wine regions. The question is whether this is a viable option for specialized retail in general.

In Mr Pellengahr's view this model is only applicable to comparatively small niche product retailers which are typical for markets like hunting, books or – once again – wines. On the other hand, the trend in German retailing obviously is to specialize more and more on these niche markets which are getting increasingly relevant due to the ongoing individualization of personal needs. Should this development lead to an increasing number of specialized travel offers by specialized retailers, the market share of traditional stationary travel agents could become even more endangered than it already is. In order to tackle this challenge many travel agents still have to develop a strong unique selling proposition (USP) that builds on exclusivity and quality.

Contradictory to that, Mr. Büchy takes the position that a fair number of travel agents have already identified quite well where their niche is and how to market it professionally. Building up a USP is a serious challenge especially for small retailers and has to be solved on an individual case by case basis. Due to the structure of the German travel industry, outsiders may find it easier to develop an attractive niche-oriented profile than typical travel agents that are often tightly associated with the (mass) products of the big tour operators.

Having said all this – what does the future travel office look like in the eyes of the customer? For Mr. Brandes the key factor is trust. The more the markets dif-

ferentiate, the more difficult it gets for the customer to find adequate consulting solutions because product evaluation is becoming increasingly difficult. That's why the client will increasingly require qualified and reliable assistance on the retail side.

Is it acceptable for clients of travel products to buy for example a railway ticket at a certain price and to eventually find out during the ride that the passenger next to him has paid less? Mr. Büchy's answer is a clear yes. Customers in general have learned over the past years that special offers are a normal part of the trade. There is a high consciousness on the demand side that the same product has a different price depending on where or when it is purchased. In addition, many travel products often only *appear* to be identical when it is actually not the case. This situation is rather the rule than the exception, especially in the transportation business. German Railways tries to differentiate their rates via different degrees of dedication to certain trains or via booking deadlines. The objective is to supply each type of customer with an adequate product offer. A corporate traveler needs high flexibility and is prepared to pay for it. A price sensitive traveler strives to obtain a minimum price and is prepared to accept certain service restrictions to which he will adapt.

3 Conclusions

Taking up again the guiding questions from the introduction the following conclusions can be established.

Looking at the experiences made so far with sales campaigns for travel products in mega retail chains, the discussion confirmed that the chances for a positive outcome are fairly promising. At least, there was no talk such campaigns being dreadful failures. However, the actual number of similar campaigns is still very restricted. Important issues, i.e. the remuneration model for the retailer, the design of the contract and of the organizational interface between the supplier and the retailer or the profitability of such a campaign were not discussed at all and therefore need further clarification.

The defining features of a mega retail chain based sales campaign include that the product involved is offered in a comparatively high quantity at a relatively low price and for a very short period of time. The temporary selling of "non-typical" products by mega retail chain stores that do not offer this product permanently as a part of their standard assortment has been a trend in German retail for several years. However, compared to other consumer-oriented industries, the travel industry, which is just beginning to apply such sales instruments, has to be considered a follower than a pioneer.

The discussion also identified a number of critical success factors which are essential for the travel product.

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- *Product simplicity*: The campaigned travel product has to be “simple” and must be self-explanatory for the customer. Product differentiations should be reduced to a minimum or even better be eliminated completely.
 - *Product profile*: The travel product has to match the profile of the standard assortment in the mega retail chain.
 - *Sales performance*: The total number of outlets in the mega retail chain, their geographical spread and density within the sales area and the number of customers per day are vital for success and make big retailers a better platform for this sort of campaign than for example restaurant chains.
 - *Compatibility*: Capacities, size and cultures of the partnering organizations should be on the same level. The travel supplier has to be capable of feeding enough tickets, for example, into the retailers’ multiple outlet system. Both partners should be of comparable size and power to ensure fairly balanced agreements.
 - *Attitude*: Both partners should have the willingness and capabilities to try something new.

Travel technology

Travel technology in the era of Web 2.0

Roland Conrady

Abstract

This article is a compilation of analyses, publications, presentations and panel discussions on current trends in travel technology. The text is largely based on the convention documentation from the TRAVDEX@ITB congress, held on 9–10 March 2006 in conjunction with the leading international consulting firm for travel technology, PhoCusWright Inc., during the International Tourism Exchange ITB Berlin¹. In addition, studies and publications from PhoCusWright Inc. have been integrated².

1 Introduction

In Travel 2.0 – the industry’s collective application of Web 2.0 as defined by PhoCusWright, Inc. – the consumers blog, tag, text messages, map and mash in real time³. Many people claim that the Internet hype is wearing off. However, this is not the case. For the online applications, a new wave of enthusiasts is taking up the reigns, giving signs that continued development is inevitable.

Looking back on the early days of Travel 1.0: At this point, booking basics moved online, enhancing the online travel experience. Soon, travelers began focusing on price. Many people then began to see travel as just another commodity. Searches reigned supreme and consumers began to view price as the paramount criteria for purchasing.

Soon after, the birth of Travel 2.0⁴ made technology for travel distribution faster and cheaper. The digital age and travel buying experience entered the scene.

¹ See www.itb-convention.com.

² See references.

³ See Alby (2007) for an introduction to Web 2.0.

⁴ According to PhoCusWright, Inc., Travel 2.0 is defined by (1) transparency, (2) collaboration, (3) better basics, (4) speed and (5) predictability (Wolf 2006, Bray 2006a).

Digital music took off fast. Consumers began downloading individual music songs and missing out on the unique compilation of music and continuity designed by record companies and artists. Soon Nikon is going to stop producing film photo cameras. This is mirrored by the increased popularity of photo sharing on or through the Internet. And now, with the emergence of digital mapping, our children will no longer experience what it means to be lost.

Online is still growing, however this growth is slowing down. Currently the European online leisure/unmanaged business travel is estimated at € 41.6 billion and is expected to grow into a € 57.2 billion branch by 2007. In addition, the European travel market is following in the footsteps of the USA in regard to the online penetration in the travel market. In 2007, the penetration of online leisure and unmanaged business travel in the total travel market is projected at 27 % in the European market (Table 1). Currently, 61 % of travelers consult online search engines before booking their trips, be it online or offline. Thus, the power is transferring into the hands of the buyers. With search engines, consumers can compare options for their trips and gain a general overview of the offers. In fact, the ability to compare destinations, hotels, locations and such is becoming even more important than the price of the trip itself.

Table 1. Market share of online travel in the U.S. and in Europe

Leisure/unmanaged business online travel as a percentage of the total U.S. travel market								
1999	2000	2001	2002	2003	2004	2005	2006	2007
4 %	7 %	7 %	14 %	21 %	25 %	29 %	34 %	38 %
Leisure/unmanaged business online travel as a percentage of the total European travel Market								
1999	2000	2001	2002	2003	2004	2005	2006	2007
NA	NA	NA	4 %	6 %	9 %	14 %	20 %	27 %

Source: PhoCusWright (2006a).

The social relevance of these technologies becomes apparent in the emergence of price transparency. More power is flowing into the hands of the users with the emergence of new search technologies; and, it is not the lowest price that wins at the end of the day. First of all, some people believe that metasearch can be harmful to both the industry and the consumers. In the USA, 87 % of search and metasearch users are positively influenced in their travel choice. Three out of ten use metasearch for travel research. Furthermore, many American companies provide portals for interested parties. Google actually provides user interfaces. A second point is the social networks that provide personal search results and help travelers narrow down their searches. These networks act like a travel agent and are not just hype. They even enable users to broaden their network to online and offline contacts. Such an example is meetup.com – a meeting and events organizer. Or site59.com – at this Web site, people living in or flying from different cities can plan trips for meetings, weekend getaways and vacations. The site looks for

flights that maximize the time together. And, travel posts gather user reviews and user-generated information. Certain companies do of course try to fabricate customer reviews; however, this is counterproductive for the industry as a whole. Simply put, users need to communicate candidly and if companies do not provide suitable and reliable methods, users will create their own.

Another important technology is mapping. Maps can be created online to visualize the location of hotels, airports, attractions, hotspots etc. Google, msn as well as many other companies are forging their way into this attractive new sector. With mashups, users can create unique maps with tagged image overlay. Users can locate parking lots, restaurants, walking tours etc. from the comfort of their home before arriving at their destination. Users can map out the route from the airport to the travel destination, view available hotels, catch a bird's eye view of the city and even locate and book a room. Blogs are hacker mashups – a trend that has 3 new blogs popping up every day. Even in wireless technology there are innovative ideas for the travel industry. And rich media seems to offer limitless possibilities for improving the user experience.

As such, travelers view travel planning as an experience in itself. Customers want to have power in their own hands and companies are jumping at the chance to provide this information. The Internet holds the secrets to the opportunities of a lifetime: Users can learn, explore, connect etc.

2 Search and metasearch

Price comparison (metasearch) is one of the most discussed topics in the online travel landscape. Consumers can compare prices from different Web sites themselves, use online agencies or even rely on metasearch. Technology is affording more choices for consumers and more directions for the industry. But, how will technology determine the winners and losers?

In a panel discussion with Jean-Marc Darrigol, Director of Engineering, Yahoo! Europe, Wayne Muesse, Vice President, Engineering and Operations, Side-Step Inc., Patrick Urso, Managing Director and Chief Product Officer, Taz-zoo.com, Ross Veitch, Chief Product Officer, Bezurk Pte Ltd. and Paul English, Co-Founder and CTO, Kayak.com⁵, John Bray, Convention Chair and Vice President Advisory Services at PhoCusWright Inc. analysed the most important developments in search and metasearch.

To begin with, the difference between “search” and “metasearch” must be defined. The panel guests stress that metasearch is characterized by value added content and information availability in real time. From the perspective of metasearch providers, users need clarity and real-time information about destinations, hotels,

⁵ More information is available at the individual websites: travel.yahoo.com, www.sidestem.com, www.tazzoo.com, www.bezurk.com, www.kayak.com and www.phocuswright.com.

flights, tickets etc. around the clock. Metasearch sites fulfill this niche and deliver the needed information.

One of the travel technology myths has metasearch sites defining the path to commoditization of travel distribution. Users are unjustly accused of simply looking for the cheapest prices and are informed that metasearch sites best fulfill such needs. Panel guests adamantly deny that users only worry about the price.

SideStep perceives metasearch as an instrument that lets suppliers tell the story by providing rich information. Effectively, companies are just looking for a way to best represent themselves. And, users provide valuable input for metasearch companies. Often the same hotel is posted on different channels. Users usually choose the channel providing the most information. SideStep helps hotels market their product and tries to steer the user to the where he can find relevant information. Users merely have to filter through the options. SideStep also provides high fidelity and currently has 600 hotels in Paris. In addition, SideStep has designed a rich interface based on AJAX, which does not impose search burdens on the users. More pictures, more information and content technologies are uploaded and high content is provided.

Tazzoo.com also emphasizes content not prices. This company focuses on added value content and provides users with what they want; the main issue is to build content. Tazzoo.com also tries to merge different blogs and provides professional information. It needs to bring the user to the Website. All products have to be classified and flagged. Synonymy is definitely a must for all sites dependant on metasearch. Tazzoo.com can also create dynamic packaging based on user-generated information. The user is pushed to make a decision on the Website and then go to the supplier.

Bezurk stresses that using metasearch to commoditize travel distribution is just a red herring; metasearch actually strives for the opposite. People do more than just look at prices; they are also interested in where the hotel is, what amenities are provided, what the property and rooms look like and whether it is a reputable establishment. As for airlines, users like to see the seating configuration of the various airplanes, compare prices and aggregate information from the suppliers. Bezurk provides consumers with the information they require or desire. By putting more information and content on the site, consumers have more information to make an active decision concerning bookings. Information does not only come from Bezurk. User-generated sources such as blogs are also used. Bezurk believes that content differentiates more than price, which can actually increase the booking rate with correct application.

Kayak allows users to create lists or themes, which appear online. The community then votes on the best lists/themes looking for the best deal anyone has ever found from A to B. When an agency is unable to answer a customer's question, Kayak can! Kayak is incredibly user focused. Users can communicate with each other using this Web service, check and see where friends and neighbors are flying and even create a track list of whatever themes they want (i.e. shipwreck diving destinations). Trips appear on Kayak.com. Users can then look for the best deal.

This is a very different service than what regular travel Web sites offer: it is activity specific. Kayak has a lot of user-generated services and collects a lot of content, which nonetheless could be better managed. Communities are high on the scale for many companies.

To achieve these aspirations, companies need to spend time developing their systems and technologies. John Bray asked the panel guests to discuss whether their company placed more emphasis on the front-end or back-end.

Yahoo! Europe focuses on front-end. They are trying to include and order as much content and information from as many suppliers as they can. Yahoo! wants customers to be able to navigate easily through the information; new ways for providing better service are being developed. Yahoo! is also currently categorizing in order to aggregate content. In the back-end, Yahoo! concentrates on partnerships.

SideStep is concentrating on both aspects. In the back-end, they want to let the suppliers tell their story. The suppliers give the content to SideStep and it is uploaded for virtual tours. For hotels, additional content is required. At the front-end, SideStep concentrates on user interaction and provides an area for user reviews.

Last year Tazzoo.com focused on the back-end. They built up a wanadoo frame and laid emphasis on the technology required to provide the service. Tazzoo.com is now concentrating on both the front-end and back-end. In the back-end, Tazzoo.com wants to increase performance, increase the number of Web sites and maintain the Web sites. In contrast, Tazzoo.com is working on loyalty programs and mapping content in the front-end. The interface is very important to gaining and retaining users.

Bezirk states a 60/40 ratio for back-end and front-end activities. In the back-end, Bezirk focuses on integrating partners and interfacing companies, owing to the fact that partners also use the Bezirk interface. In the front-end, Bezirk concentrates on altering price lists, integrating tools necessary for the user. If users find navigating difficult, Bezirk inserts new technologies and applications. Obviously, usability is a technical component.

Another issue deals with revenue models. Revenues are generally generated through the pay per click compensation method. But, what happens if the partner refuses to pay?

Bezirk has many pay per click revenue contracts, meaning that Bezirk receives a minimal fee from its partners for every time someone clicks on their company's information. And, three sponsored searches are located at the top of the Website.

SideStep supports whichever method the suppliers want, be it pay per click or cost per acquisition and has never been in a situation in which suppliers have not paid. SideStep simply takes on an advertising function for its partners. Admittedly though, some portals are getting abused.

Yahoo! receives revenue from pay per click contracts. Yahoo! pushes travel destination with all possible marketing tools and events. Of course, click abuse exists. However, Yahoo! tries to filter abuse when it is detected. It is a large issue that Yahoo! is working to prevent and solve.

A critical question arises as to whether metasearch companies are able to track consumers who make decisions on their sites, but might later decide to purchase directly. Yahoo! cannot track this information. SideStep uses a different technology for each supplier to track consumer behavior. Tazzoo.com and Bezurk also use tracking technology. In fact, Bezurk can track every person with online or off-line bookings that correspond one to one with the information from the site, the so-called bridging technology.

3 User-generated content

User-generated content: Everybody's doing it ... but who's sorting it? The meteoric rise of social networks and user-generated content has certainly caught the attention of the travel industry's technorati, and online travel agencies, suppliers, portals and metasearch companies alike reported that they have already started incorporating user-generated content into their Web sites or they plan to. With this new flood of content, though, travel companies will need to have a strategy for helping users identify the information that will be most useful to them. When asked how they intend to sort and rank user-generated content, several speakers indicated their strategies are still under development.

Initially, travel providers summarily dismissed user-generated content, seemingly more worried about the occasional 'bad review' than any potential upside.

Perhaps sensing that finger-in-the-dike approaches are no longer satisfactory, savvy marketers, thus several providers are beginning to leverage user-generated content to actually stimulate travel demand, as well as to tear down their "walled gardens" in order to simplify the laborious, painstaking task of content management.

User-generated content and community are certainly hot topics and cornerstones of Travel 2.0. So popular in fact, that Yahoo! Trip Planner is overhauling the search engine concept by asking users to answer each other's travel questions in addition to looking for answers online. TripAdvisor, the patriarch of the user-generated content movement, the second-most visited Web domain in the travel category and member of the Expedia family, boasts 23,000 featured destinations (each with several thousand reviews).

At the same time, with property descriptions such as "Recently renovated," "At the beach," "With its innovative enhancements and stylish new décor," "Minutes away from all of the city's major attractions," and "Located in the heart of the city," and picturesque thumbnail images of bed linens, jubilant lobby floral arrangements and glass-shiny pools, it's clear something is missing. Let's face it, hotel marketers have struggled to merchandise their products in order to escape commoditization and expand beyond the room.

On the heels of a major re-branding campaign that has also resulted in the search-engine inspired home page for FourPoints.com, and expert travel "blogger" site TheLobby.com (www.thelobby.com); with the moniker of "Belong," the recently

redesigned Sheraton.com (www.sheraton.com) breaks from the traditional mega-chain ranks by putting user travel stories, not tucked away, but at the center of the home page. And so far posted reviews seem biased to those that go way beyond just the room. For instance, one guest story, for a property well to the east of Chicago, tells of a nearly missed dinner cruise. By allowing guests to post their own travel stories, instead of merely reviews, Sheraton has truly embraced oft-ignored facets of the “Content is King” moniker to cover the complete travel experience within the context of a guest’s desire (whether to achieve their mission or escape the ordinary).

The Swiss premium hotel chain, Mövenpick Hotels & Resorts (www.movenpick-hotels.com), undaunted by potential negative feedback, has included a link to TripAdvisor for reviews about their property. A query to their Central Park Roma location yielded 16 English reviews, not all of them were positive, and a popularity index of 210 out of 988 hotels in Rome. Intercontinental hotels is also considering adding its own peer review section to the IHG Web site.

It’s not only suppliers that are getting in on the act. Expedia (www.expedia.com) asks customers to rate their purchased rooms in four categories including service, condition, cleanliness and comfort, along with their reviews. Perhaps the infamous black-clad review guys of sister company Hotels.com can finally get new jobs. We just wonder why Expedia chose their own review site, with TripAdvisor in the fold?

In the initial race to grow online travel distribution, most Web sites were looking to become self-contained publishers and providers. Unfortunately, for too many in the travel industry, maintaining this walled garden has turned into a never-ending task (perhaps that’s why the Travelocity Gnome crashes into stadium lights in the TV ad). Though it lacks a precise definition, Travel 2.0 generally refers to Web services that let people collaborate and share information online. A wave of dynamic travel sites have emerged that take full advantage of new models of collaboration for trip planning. Undaunted by the startups, these providers have embraced, without wielding control over user-generated content, a sense of belonging at the same time they attempt to diminish their own content-management challenge.

With 100 million downloads a day on YouTube.com (www.youtube.com) demonstrating the popularity of rich media, look for these sites to move beyond pictures and reviews to the user-generated video shortly.⁶

4 Social networks and tagging

The potential of leveraging the power of group forming networks in a business context is substantial. To do this, established travel companies may need to rethink current business models and practices.

⁶ Taken from Bray (2006b).

This area has inspired a huge number of travel startups focused specifically on building community and enabling group travel. TripAdvisor was among the first to capitalize on this opportunity, and a range of general and niche social-based startups have followed suit. Some are designed to help travelers benefit from the experience of others, while companies like Groopie and TripHub are enabling groups of travelers to actually plan and/or book their trips.

Social networks empower travelers and, in one respect, enable them to operate outside the establishment, sharing information and ideas that are unfiltered and (hopefully) free of marketing bias. This might appear to favor newcomers, but online travel agencies and portals have the benefit of a high volume of site visitors and a large customer base and should be looking for ways to exploit these assets. Yahoo! in particular has been busy integrating a range of Web 2.0 tools with its new Trip Planner tool, which enables travelers to view and rank trip plans produced by its large customer base.

Transparency, community, personalization, experience: the buzzwords associated with Travel 2.0 have been thrown around at industry events and have clearly already created a buzz at some travel companies. Others appear to be lagging behind. While the various Travel 2.0 technologies and trends stand to benefit startups and established travel players to varying degrees, the winners in both categories will be those nimble enough to adapt their business plans to the new dynamics of the online marketplace.

Social networking and consumer-generated content are cornerstones of Travel 2.0. Whether for purely time-starved, or simply voyeuristic reasons, consumers are increasingly turning to tagging, a mashup of both social networking and consumer-generated content, to sift, sort, and share information about travel planning and buying. Imagine if you could somehow use all of the collective travel planning knowledge of everyone that has gone before you, effectively eliminating all of the dog-eared journals and notebooks, all of the underlined notes in travel guides. Well, this is exactly what is beginning to occur with tagging.

Suppose you are considering going on a trip to Venice. Naturally you start your online travel planning journey by searching online for “travel to Venice Italy,” where no less than 19 million page links are returned. Perhaps you refine your search, and begin to visit some of the referenced pages. As you visit these pages, you mark or “tag” them in a process similar to identifying browser favorites. Here’s where tagging gets interesting. When you tag a page (e.g., with a service like Del.icio.us [www.delicious.com]), you can annotate the tag with a note or reference, helping you to remind yourself why you tagged the page when you return later. Perhaps you tag a museum with “must visit ... Monet painting,” or “hip sushi restaurant.” As you go along creating tags, a ‘tag cloud’ is created, highlighting the areas of interest that your tagging is generating, which can be used as the anchor point for future searches and tags.

Many of these same tools allow you to organize your tags into specific folders and categories (e.g., wine, food, museums and scooter rentals, for your Venice adventure), so that you can refer to them later (perhaps to decide on which restaurant

to actually visit). Del.icio.us calls this collection of tags “bundles,” and they form the basis for sharing with others.

The network effect kicks in when you post your tags. The next person who comes along planning a trip to Venice can search for other people’s tags of Venice instead of just entering search terms. They discover your tags, and reviews, and sift through information on an order of magnitude faster than starting from scratch. If you are planning a trip in conjunction with a friend or family member, you can invite that person to be a ‘buddy’ or ‘friend’ and see your tag collections and cloud so that they can discern if your tags are worth exploring and can help the buddy find that ideal place. In order to make linking more powerful, the number of times others include your tags are tallied as a sort of popularity index.

Another site, Rojo (www.rojo.com), takes a slightly different approach to tagging. Instead of merely tagging pages, Rojo provides a search feature across RSS-enabled news, syndicated articles (e.g., Tripso [www.tripso.com]), and individual blogging sites (including Flickr [www.flickr.com] images, and video or mobile blogs), to give you access to unfettered reviews and stories about local places at a given travel destination. Again, as you identify relevant travel planning info (e.g., restaurant reviews) you can tag it with descriptions, but you can also rank the content so that others can see not just the quantity of tags, but the perceived value of the tag as well (Rojo calls this feature adding “Mojo” to your tag). Along the way, as you accumulate tags, Rojo attempts to assist your travel planning by recommending additional feeds and tags to collect. Finally, once you have aggregated your tags, you can click one button to create an RSS feed that your friends can subscribe to (a great feature if you are anointed group travel arranger).

Speaking of group travel planning, Triporama (www.triporama.com), a service specifically designed to make group leisure travel planning easier for friends and family, has also joined the tagging fray. Included in the many useful travel planning features (e.g. calendar coordination) offered by Triporama, their ‘bookmarking button’ enables any member of the group to tag pages on the fly as they research travel about their upcoming trip, automatically saving them to the group’s trip page, thus eliminating the need to send the “check this out” or “maybe we can go here” email.

How do all these sites make money? The same pay-per-click ‘ad sense’ model as Google, but the difference here is that site visitors are more qualified, as they are already part of a folksonomy⁷. Folksonomy users often discover the tag sets of another user who tends to interpret and tag content in a way that makes sense to them. The result, often, is an immediate and rewarding gain in the user’s capacity to find related content. Travel marketers can leverage these sites to increase revenues by matching their services and offerings, via tags, to travel planners through promotional advertising, as well as insuring that their sites can be easily tagged.

Tagging is a relatively new Travel 2.0 phenomenon that is still finding its legs. Although burgeoning, the utility of this service is powerful and quite easy to take

⁷ A detailed description of Folksonomy is located in Alby (2007, p. 117 ff).

advantage of. While only a few sites are mentioned here, there are several others (e.g., general-purpose tools: Shadows [www.shadows.com] and Plum [www.plum.com]; and travel-specific sites: Gusto! [www.gusto.com] and TravBuddy [www.travbuddy.com]) that do not just support tagging, but also include collaborative filtering in order to help users sift through other people's tagging efforts for relevance. Some sites that have been previewed to PhoCusWright allow users to tag price searches in addition to content, to fill in even more of the travel planning and buying process (Offutt, Schetzina 2006; Bray (2006c)).

5 Mapping and mash-ups

Online mapping has garnered a great deal of attention in the past year due to innovations in map functionality, enhanced interactivity and the trend among mapping channel providers to release free application programming interfaces (APIs). Google, Yahoo!, Microsoft and MapQuest have all recently released mapping APIs; both novice and professional developers have used them, to varying degrees, to create mapping mashups: combining data, mapping and other services to create hybrid applications that are changing the way corporations and Internet users interact. Each of these mapping channel providers is tied to a large network of consumers and each is well positioned to provide its users with interactive applications, free development tools and community-based Travel 2.0 services.

For travel companies, the mapping channel providers serve as both partners and competitors, and their applications and success at integrating maps with other services will themselves likely serve as a road map for future development. This Scoreboard compares the mapping channel, free API and business offerings of Google, Yahoo!, Microsoft and MapQuest, describes their impact to date on mashup development and assesses their success at integrating maps with other products and Travel 2.0 efforts.

The history of mapping has been impacted in two separate waves by the Internet in recent years. First, in the early 1990s, when the mapping channel providers initially began to come into existence – and again, when innovative Web design from some of those same providers brought a new phase of attention and development to online mapping.

Online mapping technology trends are today being driven by these mapping channel providers. As more travel companies take advantage of the ease with which they can incorporate robust mapping services into their Web sites, the mapping channel providers grow in importance, setting the bar for measuring mapping prowess, and, in many cases, providing the technology behind the maps that are appearing on many travel-specific Web sites.

The mapping channel providers provide an array of services to consumers and developers. All provide mapping services on a consumer site, free public mapping application program interfaces (APIs), and Microsoft and MapQuest provide

branded mapping products and services for business. Notably, though, it is impressive consumer mapping applications that have brought about the mapping interest that exploded in the past year, with Google maps leading the way.

Google's release of Google Maps and Google Earth spawned a new phase of creative mapping development and has motivated competitors to respond with improved interfaces, an enhanced user experience and opportunities for user development and interaction. Travel companies seeking to integrate maps with other Travel 2.0 technologies should be watching closely as the leading channel providers integrate their mapping applications with other products and services – and as independent developers find new ways to mix and match various APIs, data and travel-related services online.

5.1 Case study: Google Maps

Google Maps was beta launched in February 2005 and immediately garnered attention, due to its impressive use of Asynchronous JavaScript and XML, commonly referred to as Ajax. Unlike earlier online mapping applications, which require users to wait for a page refresh each time a new map is displayed, Google Maps takes advantage of asynchronous communication with the mapping server to provide end users with the ability to click and drag maps to navigate and zoom without a page refresh. The end result is a Web application that performs much



Source: PhoCusWright Inc.

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Fig. 1. Google Maps

like a desktop application – providing users with a quick, seamless and highly interactive experience (Figure 1).

By April 2005, Google had integrated Keyhole, the digital mapping service it acquired the previous year, into Google Maps. This enabled users to select satellite mode to navigate a digital view, created using satellite and aerial photos. Several months later, a hybrid view was introduced, overlaying map data onto the satellite view (Figure 2). In June, the company released a robust version of the satellite-based mapping tool in a new product called Google Earth.



Source: PhoCusWright Inc.
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Fig. 2. Google Maps hybrid view

From the beginning, users of Google Maps could enter a search term (e.g., hotels near LGA) and see plotted results. In October 2005, in an effort to emphasize the integrated searching capabilities, Google officially merged its local search site with Google Maps, calling the integrated product Google Local. Google later reversed this move in response to user feedback and changed the name back to Google Maps.

Also in 2005, Google enhanced its mobile services to make Google Maps (then Google Local) available via mobile Web browsers and driving directions available via SMS.

Enthusiastic hackers started creating client-side scripts for customizing Google Maps soon after it was released, and in June 2005, Google released the free

Google Maps API to the public, enabling the creation of numerous mashups. In June 2006, Google launched the fee-based Google Maps for Enterprise.

Google uses San Jose, the Calif.-based deCarta's Drill Down Server geospatial software platform, and obtains geographic information system (GIS) data from NAVTEQ and TeleAtlas. Medium-resolution satellite coverage is via NaturalView Data from MSA Federal, and high-resolution satellite images (available for 20% of the globe as of June 2006) are provided by Digital Globe. Sanborn provides digital aerial photos, with some additional data obtained from government sources.

Google Maps was created in house using the open source AjaXSLT framework, an implementation of XSL-T in JavaScript that runs in the user's browser, providing for the transformation of XML documents locally – resulting in reduced bandwidth consumption and increased speed.

Google released the Google Maps API in June 2005 to enable developers to create programs designed to interact with Google Maps. In fact, developers had already begun incorporating Google Maps into their Web sites, and Google wisely embraced this trend, offering them support and documentation.

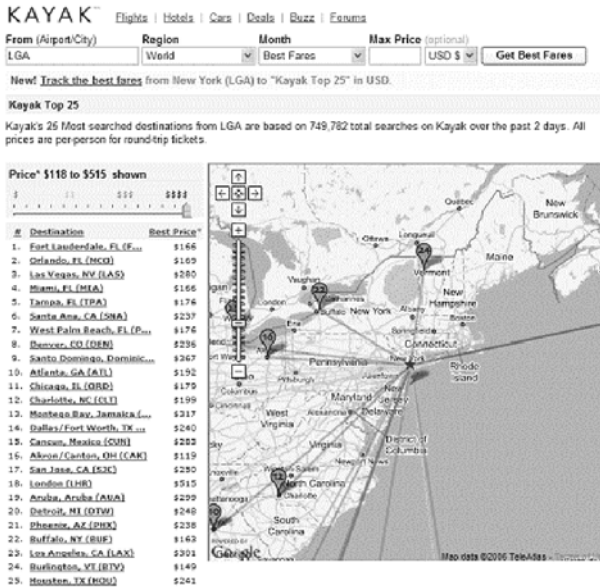
The Google Maps API enables users to embed Google Maps into their Web site using JavaScript and is available free-of-charge to both noncommercial sites and commercial sites, provided they are free to consumers. Developers can add overlays, display information windows and customize controls. In June 2006, geocoding capabilities were added to the Google Maps API, making street-level geocoding available for the U.S., Canada, France, Italy, Germany and Spain. Google Maps for Enterprise now offers mapping via a fee-based enterprise license and provides support for internal or fee-based Web sites and applications.

Several travel companies have integrated maps into their Web sites using the Google Maps API. Kayak, for example, has incorporated Google-powered mapping mashups into its Fare Buzz tool, which enables users to view low airfares originating from an airport of their choosing (Figure 3); and FareCompare has used Google Maps to integrate Destination Deal Maps into its Web site. Other travel-related mashups include TripMojo and ReserveMy.com, with more on the way, including an upcoming Google-based mashup from Home&Abroad (www.homeandabroad.com).

Beyond the Maps API, Earthbooker.com, part of GlobeAssistant BV, plots hotel locations into Google Earth and Google Maps. Powered by Hotels.com, Earthbooker combines hotel data with Google Earth's satellite imagery to map 80,000 hotel locations.

Google's flagship service is its Internet search engine, which provides access to billions of Web pages. In addition to Internet search, Google provides end-user tools for: Web based email (Gmail), comparison shopping services (Froogle), message boards, Web logging tools (Blogger), photo sharing (Picasa), instant messaging (Google Talk) and others.

Although Google has made an effort to integrate Google Maps with local business information, it has not focused on integrating maps with other products to the same extent as Yahoo!. With a simplicity similar to the clean interface on the company's home page, many of Google's products stand alone, rather than being



Source: PhoCusWright Inc.
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Fig. 3. Kayak Google Maps mashup

integrated into a more multifaceted, multipurpose application like Yahoo!'s Trip Planner. Google's stated goal of organizing the world's information and making it universally accessible and useful seems to hold true in its mapping strategy; its tools are designed with a clear goal and an obvious utility in mind.

To that end, Google has developed several new products based on Google Maps. Google Ride Finder, which is available for major U.S. cities, leverages GPS systems in participating taxi and limousine services to display their current locations. Google Transit, currently only available for Portland, Ore., helps users plan their route using public transportation. Both products are currently in Google Labs (<http://labs.google.com>).

Since releasing Google Maps, Google has focused on optimizing integration with local information and expanding the availability and quality of satellite images. Google has also been developing its mobile offering, and in July 2006 enhanced Google Maps for Mobile to provide real-time traffic information on mobile devices.

5.2 Product evaluations

Google's innovations and dominance as a channel provider have clearly driven the competition and their market offerings – but the story doesn't end there. Google, Yahoo!, MSN and MapQuest each have competitive advantages to build on, and

each has a loyal customer base linked to large social networks that are being buoyed by the release of Web 2.0 products and services.

The Google Maps API was clearly a huge win for the company, as it was the first free mapping API release to leverage the power of RIA programming. As a result, it garnered much attention among developer communities and became the gold standard against which the other APIs are measured. The Google Maps API continues to be the most popular among developers, evidenced by the impressive number of mashups it has spawned, as analyzed by ProgrammableWeb (www.programmableweb.com), a site that tracks Web 2.0 development. The Google Maps API, in fact, appears to be the most popular among APIs in all categories.

While mashups and API popularity are paramount in the developer community, these factors do not necessarily translate into general consumer use. MapQuest continues, by most measures, to dominate its competitors in terms of site visits. Recent data released by Hitwise put MapQuest at the top of the heap, with 56% of mapping traffic, versus 21% percent for its closest competitor, Yahoo!.

Market shares fluctuate somewhat, but Hitwise's rankings suggest that a sizeable number of consumers value factors other than a cutting-edge interface when choosing an online mapping service. MapQuest also dominates in the mobile realm, with MapQuest Mobile ranking as the top revenue-generating downloadable mobile application. According to mobile research firm Telephia (www.telephia.com), MapQuest captures 22% of all revenue from downloadable mobile applications (not including mobile TV or game applications).

As Web 2.0 comes to fruition, robust user interfaces and integration with other products and services will prove increasingly important. This means not only must the mapping channel providers integrate maps with their own internal offerings, but they must carefully plan their strategy for encouraging external use of their APIs and mapping development tools while still monetizing the services they are offering.

Each of the channel providers is working to strike a balance between encouraging social development and protecting their core, for profit mapping offerings. Google, known for its free products, and Yahoo! have provided the most open API terms and Microsoft has encouraged development with its free commercial API, while maintaining restrictions that benefit MSN search. MapQuest, a strong enterprise player, has chosen to forbid commercial use of its free API altogether.

On the Web 2.0 side, Yahoo! and Windows Live Local have been the early winners at integrating their mapping technology with other tools and services, including social networks, blogs, photo sharing and personalization initiatives. Google's Web 2.0 efforts have been primarily discrete offerings that, to date, have not focused on integrating into community sites like those Yahoo!, AOL and MSN have worked to create.

Meanwhile, Google and AOL continue to solidify their alliance, while Microsoft and Yahoo! cautiously solidify theirs. Recently, Microsoft and Yahoo! an-

nounced that they will enable instant messaging subscribers to communicate across their respective networks, although they will not share email.

By virtue of the technologies they have helped develop and the breadth of their advertising and other linkages between businesses and consumers, the large channel providers have sown the seeds for the emergence of thousands of smaller third party Web portals. Smaller Web portals are repackaging and leveraging mapping capabilities offered by the major channel providers to provide novel, value-added services in the travel and tourism industry. Tourism bureaus, car rental companies, hotels – in fact, all types of travel-related businesses – are augmenting their Web sites with mapping capabilities as a means to capture the public's attention and to convey information about their products and services.

As Travel 2.0 continues to develop, the innovation and experimental Web 2.0 efforts of the mapping channel providers and their corresponding portals will serve as a very visible indicator of the emerging Web environment, as a new kind of relationship between companies and consumers is forged. Mapping has emerged as a key organizational schema for the next phase of online development, and its relevance to the travel space is undisputed. Travel companies in all sectors should watch closely as Google, Yahoo!, Microsoft and MapQuest evolve to gauge consumer expectations and to identify and capitalize on location-based content and services⁸.

6 Rich media

Rich media has the potential to counter commoditization, sell location and dramatically enrich travel planning overall. With broadband penetration on the rise, rich media not only has the potential to differentiate hotel rooms, but enables companies to leverage sound, animation, real-time video and interactive maps to help consumers to visualize the travel experience.

The technical challenges of making it searchable, accurate and up-to-date remain. Steps are being taken to standardize rich media coding, but as with all standardization efforts, it takes time for standards to become pervasive. And despite a clear vision of the future potential of mobile rich media, there are still a number of infrastructure and content challenges to be addressed. Challenges that many argue will take years, not months, to overcome.

TRAVDEX@ITB also held a panel discussion on rich media's impact on hotel buying. Philip C. Wolf, President and CEO of PhoCusWright Inc. interviewed Remzi Zafer Aru, Managing Director, GIATA GmbH, Neil J. Hucksteppe, Executive Director, Technology and Managing Director, Asia Pacific, Leonardo Media BV and Victor C. Robison, CTO, VFM Interactive Inc..

⁸ Taken from Piliouras/Schetzina (2006).

A hot topic in the market today is rich media's impact on the shift in research and buying. The technology challenges are enormous and rich media is currently not searchable. What are GIATA, Leonardo Media BV and VFM Interactive Inc. doing to make rich media searchable?

GIATA has created hotel text in 8–9 languages to optimize and keep search results on the highest level. GIATA also uses text tags or meta-tags for rich media. A huge amount of information is in flow. GIATA also sees the need to deliver information to mobile phones. No one wants it yet, but in the future it could become a very attractive market.

Leonardo Media BV works on the simple side. They take information from the hotel and distribute hotel text content. Leonardo Media BV indexes the content, stores, manages and supplies it in an XML feed. They rely on content-agnostic information for all partners.

VFM Interactive Inc. states that metadata is searchable and thus annotates photos with searchable text. They add keywords and pass the data to distribution partners. In the future, there will be automated methods to determine content. Voice recognition technology is in the making. VFM's transcripts are compiled with a NSA. In a direct search with Microsoft, VFM can create and determine if a photo is indoors or outdoors for example.

7 New applications beyond the browser

Just when you thought your Web site, electronic channels and email marketing were optimized, a whole new collection of online communication options have surfaced. Many of these do not depend on the typical Web browser. Whether it's SMS, RSS, IM or other new applications, business success now demands that you develop "beyond the browser".

Online research has even penetrated the travel industry. And broadband use has grown at a very fast pace. Browsers enable travel booking. However, the look to book ratio remains low. Some sites have even been online for 4-5 years. This growth leads to an emergence of several metasearch sites such as fourpoints.com, who converted their page to front. Users now have great possibilities for searching online and finding matches to their queries. However, to make an analogy, this is just another metro stop along the way. Although consumers often consult search and metasearch applications online, may still shop at travel agencies. It is a continuous tug-a-war. In addition, there is little loyalty in online buying. Online travel purchasers normally do not have preferred sites. Currently, customers' access to search is like a Turkish bazaar: you never know what you will find around the next corner. As an industry, we need to bring loyalty into the system.

In earlier versions of the Web browser, it was like having a telescope. Users could easily navigate their way through the online information to find the rele-

vant information. Now, with more content, the browser acts as a telescope turned around – the customer gets lost in this lack of focus, leading to promiscuity in the travel industry. Suppliers and travel distributors cannot drive customer loyalty, yet nevertheless need to look for ways to further customer loyalty online and offline.

Southwest Airlines (www.southwest.com) has developed such a system, dinging potential customers with special online offers (ding being the sound of a doorbell ringing). The program can be downloaded from the Internet and placed on the user desktop. Currently, over 1 million users have taken advantage of this application. Southwest sends out information when best fares are available, thereby implementing a persuasive way to market and push online bookings. Users don't have to search for information on the Web; Southwest sends the information automatically. Essentially, this program works like Pavlov's dog: Users become accustomed to the dinging sound meaning an amazing online offer for cheaper flights has just arrived and they go scurrying off to check it out.

Portaga (www.portaga.com) provides travel distribution through the calendar application. A user simply has to schedule an appointment in his calendar and click on travel meeting. The program then applies the user's personal preferences to check for the best online fares. After searching the Internet, the program sends an email to the user, listing proposed itineraries and results. This is not an open browser program – it runs on a separate network and sends the results via email, so that when the user goes online to check his email, he can look through the generated itineraries.

Another innovative travel technology is travel from car. Using a screen located on the dashboard, users can establish a two-way communication. With this application, users can book rooms in local hotels, make dinner reservations etc. all from the comfort of a dashboard consol in the car.

Google Earth has also come up with innovative ideas. This application is great for booking hotels and making maps. Distributors and suppliers provide information. Users can then use Skins to locate preferred hotels and get travel information to that location. Earthbooker (www.earthbooker.net) applications allow users to choose the hotel they want and buy directly, promoting hotel bookings. The application uses satellite image maps.

Start.com (www.start.com) is a preview version from Microsoft using widgets and subscribing to RRS feeds. We can add feeds, news etc onto start.com. Contabulator is a Yahoo application with Web cams in travel destinations. Contabulator, octopustravel and AIM (AOL Instant Messenger) are direct onscreen programs and not browser-based.

As we can see, there are a lot of new application getting between the browser and the consumer. Companies are coming up with new ways to demonstrate products.

8 Case study: RFID and the future traveler

Despite tremendous increases in passenger volume, security related challenges and logistics around queues, seats, bags and the like, traveling can actually get easier. Technology applications focused on improving the individual traveler's experience are just around the corner.

There are two versions of this technology. First, the reader sends a signal to a non-powered device. This device then sends a response signal to the reader. And can actually send back information upwards of 1 K to the reader. A drawback is of course that the signal encounters problems and issues when used in proximity to metal. Furthermore, the reader has a signal distance of 5 to 10 cm, making it impossible to scan devices located 10 meters away for instance. The second one is a smart card to be used for contactless payment. To carry out purchases, all the user needs to do is hold his card in front of the reader and then enter in a PIN.

RFID provides several applications along the traveler service chain.

- 1 *Distribution.* What we see for the future is smart posters with RFID chips located for instance in airports. For example, a traveler sees a poster with a € 299 deal on a trip to London. By holding the mobile phone in front of the smart poster, this traveler can transfer details to his mobile phone, then actually book this package using a direct connect to the Web site, and even tender payments via mobile technology.
- 2 *Check-in process.* In the future, travelers will be able to transfer electronic ticketing data onto their mobile phones at home, then transfer the data from the mobile phone to the automated check-in terminal at the airport, thus accelerating the check-in procedure.
- 3 *Fast-tracking security.* Future trials for the RFID technology are to be included in the passport. RFID will be enabled for passports in the USA.
- 4 *Facilitating boarding.* Before boarding a flight, boarding information can be transferred to a mobile phone and to an on-board machine. The flight attendants will then receive detailed information for the traveler's preferences during the flight.
- 5 *Hotel check-in and payment.* Checking-in could occur via a mobile phone; data will be transferred to the hotel reception with no physical contact taking place. On departure, the hotel will simply transfer receipts to the guest's mobile phone.
- 6 *Smart Poster.* Perhaps the most impressive RFID application is the Smart Poster technology. By scanning a Smart Poster containing travel advertisements with a mobile phone, a Web browser will automatically open. From there, a user can search for more information regarding the particular deal or book this deal directly. Or, take a poster advertising a vacation package where travelers can swim with dolphins. Using the RFID technology, people

can transfer and initiate a MPEG file from the poster. This technology can also be implemented in virtual hotel advertisement displays, allowing the user to view the hotel and even book a room. So far however only prototypes have been produced. Datalex is using leading edge technology in pioneering partnerships with Philips and Sony. The technology cannot yet be used; however, trials have been held in 2006 at G.F., Atlanta, Georgia.

Currently, technology poses certain challenges; however, in time implementing this technology will become easier. Right now, RFID is a pioneer technology and still need work in the compatibility section. Additional near field technology devices (NFC) have to be developed. As for privacy and security, mobile phones will be equipped with a RFID disable function. The user will even be able to permit certain reader definitions.

The benefits of such a technology are practically limitless. In the future, the mobile phone will become the Swiss army knife of the next generation. The mobile might just become the one device you never leave home without.

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Website accessibility in the cruise market

Kerstin Markus, Rainer Hartmann

1 Introduction

Over the last few years, sales and distribution structures in the tourism industry have changed throughout the world. In the era of electronic commerce (e-commerce), tourism companies have also joined this growing trend and are marketing their products and services on an electronic level. In various fields of the tourism industry, Internet transactions are already considered a standard distribution channel in addition to the classical distribution methods and are also known as “e-tourism” and “online travel”. In Germany, the annual growth of e-commerce is estimated at approximately 50 percent. The main players in providing e-commerce in tourism are airlines, tour operators and the Deutsche Bahn.

In contrast, the online trend has not yet been able to prevail in the cruise industry. Cruises are still being booked primarily with tour operators, in travel agencies or directly with the shipping company or the cruise operator. But why has e-commerce not yet caught on in the German cruise market? Does the modest supply of cruise providers in the German market have to do with the advanced age of the main target group for the cruise industry?

The objective of this dissertation is to examine the potential for e-commerce and online communication in the cruise industry and to use the results to compile recommendations for accessible online communication from cruise operators focused on the 50-plus target group.

2 E-commerce and online communication in tourism

In 2004, 35.7 million German citizens over 14 years of age used the Internet at least occasionally. This figure amounts to 53.5 percent or over half of the total population over 14 years of age (see Fig. 1).

Two thirds of online users conducted e-commerce and made purchases over the Internet (Gruner+Jahr 2004a). The proportion of the total retail sales in Germany amounted to merely 3 % (HDE 2004). In response to which products were purchased online, the preferences lie in books, clothing, films and music. Travel, tickets

and

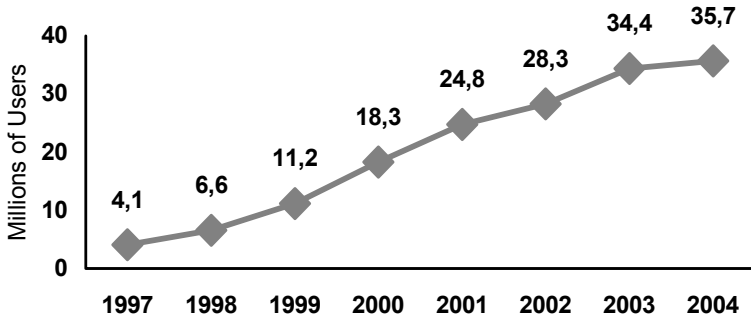


Fig. 1. Development of online use in Germany from 1997 to 2004 (personal illustration based on: ARD/ZDF (ed) 2004)

accommodations take sixth place with 14%. Nevertheless, travel services boast the highest forecasted growth potential.

In 2003, after commerce, communication and information were considered the most important activities in the Internet. Almost eight out of ten online users, approximately 30 million German citizens, look for information about products and services or communicate via email (Statistisches Bundesamt 2004). In response to the type of information viewed, users demonstrated with 56 percent a clear tendency to search for travel information. Books follow in second place with 37 percent. Just under a third of the buyers, who researched a product in the Internet, later bought this product in a stationary retail store (Schneller 2004). These “off-line shoppers” represent a number of unreported cases, which according to the definition used should also count towards e-commerce sales.

All tourism activities on the Internet as well as all the tourism businesses active on the Internet fall into the field of electronic tourism (*e-tourism*). This is an e-commerce field, which has become the exemplar for successful online conceptual design and communications. Together with software and bank services, travel belongs to the product groups, which are able to be used or sold most easily and successfully over the Internet. The travel sector is the segment with the highest sales in e-commerce in the world (SevenOne Interactive GmbH 2004a). From hotel or transportation bookings to individual and package tours, almost all business activities offered by tourism companies are available online (Fig. 2).

E-commerce is increasingly changing the classical value-added chain in tourism through a restructuring of the sales media. The success of e-tourism lies in the exceptional applicability of travel products for e-commerce. However, since not all tourist products have similar success in sales, it is essential to differentiate between travel products (see Fig. 2). From a marketing perspective, a sensible solution is to differentiate between high-involvement and low-involvement products

(Kotler/Bliemel 2001). Low-involvement products are associated with lower consultation intensity as well as, from the buyer's viewpoint, a lower risk of making a wrong decision. Typically, low-involvement products are found in the lower price

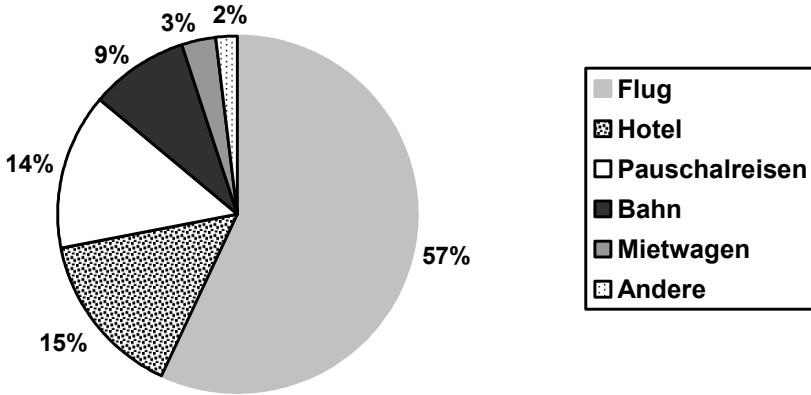


Fig. 2. The structure of e-tourism sales in Europe (personal illustration based on: Marcusen 2005)

ranges. The Internet sales of such products, such as flight and train tickets or hotel rooms, can be carried out without any serious problem.

In contrast, high-involvement products, such as a package tour or a cruise, require a lot of consultation input as well as large expenses. If businesses could generate not just trust in their Internet presence but also embrace the additional information needs of the customers through sound, short videos, 360° views or virtual tours, then selling high-involvement products would become more conceivable.

The e-tourism market is highly accepted by online users and is one of the fields in e-commerce with the largest growth. In 2003, e-commerce contributed to a global turnover of 63 billion Euros in travel bookings on the Internet. A 19 billion Euros turnover was accredited to Europe and 44 billion Euros to the USA (Seven One Interactive GmbH 2004a).

Many online users broaden the use of e-commerce: they search for all types of travel information on the Internet and later book the product or service per telephone or in a travel agency. A large percentage of German travelers use the Internet for advice and information but at least ever third is an "offline shopper" and still frequents travel agencies when booking their trips (Birkenmaier 2000). Over 60 percent of the people who use Internet have gathered information on traveling (Seven One Interactive GmbH 2004a).

Similar to e-commerce, experience with the Internet is an overall essential motive for or against an online booking. To book a trip on the Internet, the online user has to trust this medium. The longer a person has been using the Internet, the more likely they are to book a trip on the Internet. In Germany, the e-commerce

capacities in tourism have not yet been completely exploited. Almost half of the online tourism providers have a rather mediocre Internet presence and could stimulate more customer participation in e-commerce by improving their online product (Ulysses Web-Tourismus 2004).

3 E-commerce in cruise tourism

Cruise tourism has the worldwide largest tourism growth. And, the German market is considered the cruise market with the largest growth in the world (Gruner+Jahr 2004c). Furthermore, in the global ranking for passengers, Germany takes fourth place behind the USA, England and Asian (Ward 2004).

The German cruise market can be divided into river and open sea cruises. It attained a total turnover increase of 7.8 percent in comparison to the previous year. The open sea cruises attained a much larger portion of the overall market with a turnover of over 1.14 billion Euro and 583,043 transported passengers (2004). The smaller river cruise market earned 355.6 million Euro (306,516 passengers) (Schübler 2005).

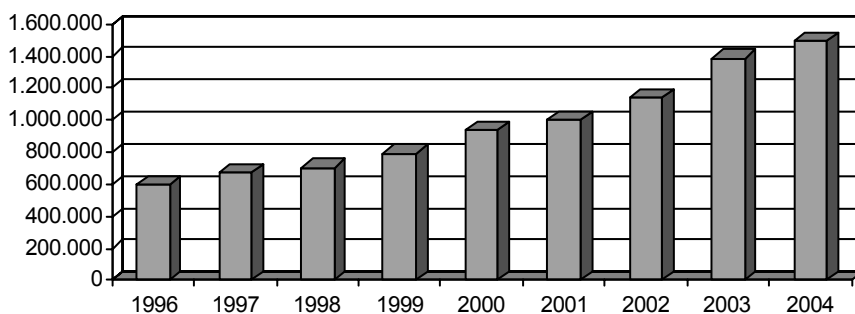


Fig. 3. The development of the cruise turnover from 1996 to 2004 (in thousands of Euro) (personal illustration based on Schübler 2005)

Since the average journey lasts almost ten days on the open sea and eight days on the rivers, the passenger nights increase parallel to the passenger numbers with 5.736 million on ocean-going ships and 2.475 million on river ships. On average, the price of the trips amounted to 1,995 Euro per person for open sea cruises and 1,160 Euro per person for a river cruise. Despite the enormous growth in the industry, cruise tourism maintains marginal significance in the total travel market in Germany. Although the market potential for cruises is small, they are displaying very positive development (Fig. 3).

Due to the considerable consultation needs as well as the relatively high price of a trip, *cruises are high-involvement products* and thus are less suitable for di-

rect marketing on the Internet. This is reflected in the overall distribution channels for open sea cruises in the German market. The “new media” are only being used as a distribution channel 4.3 percent of the time; whereas, travel agencies constitute two thirds of all the distribution channels. One of the many reasons for this divergence is a result of a large number of cruise agencies in Germany merely offering detailed information on the Internet. Ultimately, since the online presence does not have a booking machine, bookings have to take place over the telephone. In contrast, the USA is clearly ahead of the German market in concerns of Internet commerce as well as in the area of cruise tourism. In the USA, the Internet is also viewed as a very important instrument for acquiring information (for 93 % of cruise guests) and only completes a minor role as a booking instrument. However, in the USA, 17 percent of guests book their trip directly over the Internet (Otrowski 2004).

4 The 50-plus target group and e-commerce

The seniors of today and the seniors in the future will attain a large *market power*. Currently, the 50-plus generation is already a free-spending target group with high disposable incomes, whose importance will continue to grow along with the demographic changes. The trend is evident; however, in this regard, many businesses have yet to adjust their marketing activities to the new market situation. Only ten percent of the marketing expenses are spent on activities intended for the 50-plus target group (Gruner+Jahr 2004b). Current as well as future *demographic development* clearly indicates that the customer groups of the future will be considerably older and that the buying power will shift to the elderly age groups. As a result of this change, many businesses will be obliged to change their views regarding their target groups.

The 50-plus target group will become increasingly important for companies not only as a result of demographic change but also as a result of the *change in values*, which this target group has implemented. The society will become demographically older; however, in regards to the mindset and social behavior, it will simultaneously become younger in many respects. In their earlier lifestyles, the current 50-plus generation witnessed a shift in social values. These values grew from a culture of acceptance and duty to a culture of self-realization (Oesterdiekhoff/Jegelka 2001).

The 50-plus generation is not only numerous and active, it also has a large *financial potential* at its disposal. The 50–70-year-olds have a three fold larger buying power than the 19–40-year-olds (Axel Springer 2004).

Even the passion for traveling is highly developed. In 2003, 35.2 million Germans over the age of 14 embarked on a trip. Over a third of the vacation travelers were over 50 years old. A closer examination of the holiday behavior of the 50-plus target group clearly reveals that almost two thirds of people aged 50 to 69 and

approximately 40 percent over 70 embarked on a trip, which lasted over six days. In addition, almost one third of the 50-plus generation traveled several times per year on trips lasting at least six days (Gruner+Jahr 2004b).

4.1 E-commerce for the 50-plus target group

In 2004, 21.8% of Internet users were over 50 years old. Of these 7.8 million people, 64.1 percent were between the ages of 50 and 59 and 35.9 percent were over 60 years old. An examination of the percentage of Internet users in each of these population sections clearly reveals that over half of the people aged 50 to 59 (52.7 percent) are represented on the Internet. As for those over 60, the percentage of Silver Surfers within the population section amounts to 14.5 percent (ARD/ZDF 2004).

The quantitative growth of the 50-plus Internet group over the last few years is quite interesting, primarily in comparison to other age groups. The 50-plus generation exhibits the highest growth within the Internet (TNS Emnid 2004).

Generally, less people over 50 use the Internet as a purchasing medium than those under 50. Nevertheless, 63.5 percent of the Internet users have already made at least once online purchase, merely eleven percent less than the average of all online users. With 58 percent, travel bookings take first place for services used by Silver Surfers (Comtesse 2002).

4.2 Changes brought on by old age and their relevance for e-commerce

To some extent, owing to biological and psychological changes associated with getting older, the 50-plus target group has different needs in online communication than the younger generations. In order to successfully reach the 50-plus target group over the Internet, certain measures have to be taken. Thus, criteria that are essential for accessible online communication with this target group and results from changes brought on by old age will be emphasized.

Physical changes in the 50-plus target group

Due to the increased life expectancy, the retirement age is also raised, at which point an over proportional decrease in activities has to be taken into consideration. An epidemiological study reveals that, from a medical perspective, the 70-year-olds were ten years younger and healthier in 1982 than the 70-year-olds a decade earlier (Lehr 1988).

Basically, the biological process of elderly individuals is associated with an increasing reduction in the performance of the separate organs. From the online communication viewpoint, decreased performance in the sense organs and a weakened musculoskeletal system as a result of old age are of central interest when dealing with the 50-plus target group.

Due to various deteriorative processes in the eyes, a person's vision diminishes as they get older. This deterioration is perceived through a change in visual acuity, adaptation (contrast perception), color perception, visual angle and stereoscopic vision. Visual acuity deteriorates every decade of a person's life, which can lead to a loss of up to 80 percent of the visual acuity within the lifetime.

With increasing age, the sense of hearing diminishes and can result in problems with hearing high frequencies, sibilants and with distinguishing several overlapping sound sources. Hearing starts a continual decline around the age of 30 and thus almost one out of every two people between 45 and 64 years old has hearing problems and three fourths of the people over 65 hear poorly (Peskes 2000).

Due to increasing stiffening, the mobility in the arms, hands, feet and legs decreases in elderly people. In relation, a reduction in the dexterity or fine motor skills also has to be assumed (Gaubé 1995; Meyer-Hentschel/Meyer-Hentschel 1991).

Psychological changes in the 50-plus target group

Aging is also accompanied by a several processes of psychological change. In contrast to the biological changes occurring in the 50-plus target group, which are predominantly of a negative nature, the psychological changes present to some degree a positive development with age. Psychological elements include attitude, emotions, motivation, learning aptitude, memory, willingness to take risks, mental flexibility, the rate for assimilating and processing information, change in the behavior rate and the ability to solve complex problems (Meyer-Hentschel 1985).

Mental capabilities do not necessarily diminish with advanced years; rather, the elderly are, for example, by all means capable of processing and retaining almost exactly the same amount of information as younger people. However, they might possibly need more time for the same amount of material (Federsel-Lieb 1992; Peskes 2000).

4.3 Consequences for Internet use in the 50-plus target group

At this moment, the manner in which the differing age-related processes of change impact the Internet use in the 50-plus target group will be examined. Using this information, recommendations for implementing an accessible, 50-plus-friendly presence on the Internet can be given.

In order to contend with reduced vision acuity, large character height and illustrations are essential, thereby permitting the target group to easily read Internet content. The font should be 10 to 25 percent larger than on standard pages and at least 5 mm tall (Krieb/Reidl 1999). The optimal situation arises when the 50-plus online user also has the possibility of enlarging the font or even the whole page to their particular requirements. To avoid blurred text, it is advisable to increase the line spacing to at least 1.5 lines and not to keep the spacing between letters too close. Another important issue is to choose an optimal font. Using a font, which the target group trusts, such as "Times New Roman" or "Arial" is recommended.

People with sight problems have difficulties recognizing modern or squiggly fonts. The legibility of a font mainly depends on the light and dark contrast between the font and the background.

For the 50-plus target group, a large contrast between brightness and darkness, such as black and white, facilitates reading on the computer monitor. In general, it makes more sense to use a dark font and a light background because a negative font (light font on a dark background) communicates an odd feeling and thus is more difficult to read. However, due to decreasing adaptation capacities as well as the resulting sensitivity to bright lights associated with old-age, this statement does not hold true for the 50-plus target group. Since bright areas pose potential glare sources for many people over 50, the negative font with a dark background is more favorable (Härtl-Kasulke 1998).

In regard to the diminishing visual capacity to adapt to brightness and darkness, abrupt changes in contrast are also to be avoided when designing static and animated Internet pages. Since reduced color perception is prevalent in the 50-plus target group, web pages should use clear, intensive and contrast-rich colors. To facilitate contact with the page, buttons should have clearly differentiable colors and subtle shades should be avoided. In addition, avoiding color combinations such as blue-green-violet or red-green is recommended. Due to their age or the widespread red-green color blindness, the elderly often have a lot of problems distinguishing the aforementioned colors (Kölzer 1995).

For people, significantly impeded by their visual faculty, auditory communication provides advantages. In order to relieve them from long texts or small images, an audio function, run with a reading-software, can read the texts and describe the images (Randler 2005). When using an audio function on the Internet, it is important that the texts are spoken slowly and clearly and that any background noises such as music are avoided.

Reduction in the fine motor skills plays a rather lesser role in web page design. This problem primarily focuses on the computer technology with recommendations for hardware products, such as a desensitized computer mouse, which require less fine motor skills.

Nevertheless, an optimal Internet page design can facilitate interaction for people over 50, who are experiencing decreasing dexterity. Buttons should be placed so far apart that the Internet user can point to the individual buttons without any difficulties. In addition, the action radius of a button should be ample enough so that even a “click off target” results in success. An enlarged and clearly identifiable pointer in terms of color is also quite helpful in making seeing and navigating the mouse easier for the 50-plus user.

Even *psychological changes* associated with old-age effect Internet use in the 50-plus age group. Since older people assimilate less information in a set time period, reducing the information bits transferred in a time period and adapting to the needs of the target group is advantageous. To avert excessive demands on the user, clear structures and information, highlighting the essentials, should be used (Federsel-Lieb 1992).

If a larger amount of information is inevitable, then it has to have good format, an uncomplicated presentation and a well structured design. These elements include criteria such as logical page reproduction, paragraphs and subheadings. The restricted receptivity for information is mainly reinforced by the tempo in which data is presented. When dealing with reduced perception speed, information either has to be presented very slowly or, optimally, users can control the tempo themselves. In many Internet page sub-areas, users can already determine the viewing speed themselves. However, animation, such as video frequencies, short films, 3D image and 360° views, should progress at an acceptable tempo that corresponds to the target group's perception abilities and that features an unmistakable possibility for repetition (Comtesse 2002).

In general, to achieve an optimal result in transferring information on the Internet, a recommendable technique is to accompany or even substitute texts with images. Images deliver information in an organized manner, thus making it possible for elderly people to grasp it more quickly (Federsel-Lieb 1992).

In addition to the predominantly conventional criteria, the wording of the contents should also be considered. Addressing the 50-plus target group with labels associated with their age, such as "senior citizens", is not really advisable. A large number of the 50-plus target group feel young at heart and do not like being addressed with explicit old-age expressions.

5 Analysis of online communication in cruise tourism

Following a detailed explanation of the theoretical target state, the virtual cruise market supply was examined, with the intention of obtaining an overview of the current state in the cruise providers' Internet presence. Renowned in marketing management, *benchmarking*, acts as a suitable instrument for such an investigation. "In benchmarking, the best practice serves [...] as the benchmark, which has to be reached or surpassed" (Kotler/Bliemel 2001).

However, as seen from the 50-plus target group perspective, it became very quickly evident, that an optimal model for the Internet presence of cruise companies was inexistent. Similarly, optimal content was not to be found anywhere in the whole tourism industry. Even Internet content aimed directly at the 50-plus generation did not fulfill the established requirements (i.e. „50plus Hotels" in Germany). Only Internet forums specifically for mature people fulfilled one or more of the required criteria.

Thus, throughout the investigation, numerous criteria for designing an ideal, accessible Internet content aimed at the 50-plus target group were developed based on the insights so far presented and then compressed into a best practice example (font, page layout/general overview, audio, fine motor skills, content design, criteria for content, general view, technique, features, interaction). All of the criteria were entered into a catalogue with rating points. Using these benchmark-

ing catalogues, an analysis of the most important Internet presentations within the cruise market segment was carried out. In the analysis, each web page was compared to the optimal model for Internet content (detailed description in Hartmann/Markus 2006).

The selection process for the evaluated cruise companies was based on product range and annual sales: Hapag-Lloyd, Peter Deilmann, Cunard, Phoenix Reisen, Transocean Tours, Aida Cruises, Norwegian Cruise Line, Royal Caribbean Cruise Lines and Costa Kreuzfahrten.

Results

As anticipated, in the detailed analysis, none of the providers fulfilled all of the criteria. In the course of the font analysis, none of the providers completely complied with the 12 point or five millimeter requirement. Unfortunately, none of the providers offered online users the possibility of personally enlarging the font size so as to compensate for this deficit. The texts, written in "Times New Roman", "Arial", "Verdana" or "Tahoma", were all quite legible. The criterion regarding the contrast between brightness and darkness was met by nine of the competitors investigated. Some sub-topics, which appeared with too little contrast, were found only on certain Aida Cruises and Cundar pages.

A positive impression arose during the analysis: all of the providers abstained from using abrupt contrast changes and the basis of each page in the Internet content had a similar construct. Six of the nine cruise providers presented their Internet content with clear, intensive colors rich in contrast. However, none of the companies in the benchmarking investigation had headings and buttons with satisfactory colors. In general, the distance between the buttons was too small on almost all of the pages; hence, the standard for fine motor skills was barely fulfilled. And, the action radius of the buttons was not completely satisfactory in any of the Internet content examined.

None of the nine providers examined had an audio function or the possibility of changing the mouse installed on their Internet pages. Over 50 percent of the Internet presentations displayed the page content that was only satisfactory to inadequate. Half of this 50 percent disregarded all of the criteria, such as clear structure or using illustrations as an enhancement to the written message, whereas the other half each infringe upon just one of the criteria.

Only two cruise operators successfully transmitted information satisfying criteria, such as a logical page design or a sensible amount of information, namely Royal Caribbean Cruise Lines and Hapag-Lloyd Kreuzfahrten, without a single defect.

Concerning the general view of the Internet content in reference to accessibility, only four of the nine competitors could be rewarded for its overall general view. Aida Cruise, Hapag-Lloyd Kreuzfahrten, Cunard and Royal Caribbean Cruise Lines web pages stand out through their clarity and completeness amongst other things. Transocean Tours and Costa Kreuzfahrten could only be rated with

insufficient and inadequate, whereas the remaining three cruise operators received an average performance.

Although none of the providers had all of the recommended features installed on their web page, all of them were interested in informing customers about life on a cruise ship as accurately as possible, using comprehensive, colorful and fascinating methods. Except for the companies Transocean Tours and Norwegian Cruise Line, all of the operators offer a virtual communications instrument, such as a 360° view.

In regard to interaction, competitors appeared reluctant. Only the cruise operators Aida Cruise and Hapag-Lloyd Kreuzfahrten provided customers comprehensive individual actions. Furthermore, Aida Cruises and Phoenix Reisen were the only ones with a booking machine; hence, in 2004, only two out of the nine cruise companies examined used Internet as a direct sales channel.

Positioning of individual cruise operators

Based on the results of the investigation, all of the cruise operators addressed can be positioned on the German online cruise market based on their Internet presence. Fierce competition between Hapag-Lloyd and Aida Cruises places them first in the ranking. First and foremost, in comparison to the other operators, both demonstrate an outstanding presence on the Internet, primarily in regard to the general criteria. From the perspective of user-friendly design, which is an elementary focus in this work, Aida Cruises, Hapag-Lloyd and Peter Deilmann are located in the upper third, even though some of the preferred criteria are not fulfilled (see Hartmann/Markus 2006).

In the overall picture resulting from the investigation, all of the identified cruise operators' Internet pages have to be rated with a mere satisfactory or inadequate. Nonetheless, a large proportion of the aspects considered only rate the technical web page design. The content, on the other hand, is only marginally considered. The main reason for this disparity is that the content holds fewer requirements specific to the 50-plus target group.

6 Recommendations

On a *strategic level*, online communication and e-commerce with the 50-plus target group is of great importance to companies in the cruise industry and, in the future, its significance within corporate policy has to be enhanced.

The most important reasons for this decision will be expressed below:

1. E-commerce already represents an important portion of distribution in other areas of the tourism industry. Thus, e-commerce is, in general, a successful medium for tourism products.
2. The 50-plus target group is showing an increasing interest in the Internet. The number of mature online user is continuously growing stronger. Even

- the inclination to purchase products and services over the Internet is continually increasing.
3. Experience with using new media leads to changes in the attitude towards the Internet and e-commerce. With increasing experience, many customers raise the value of goods purchased over the Internet.
 4. The 50-plus target group has large financial buying power at their disposal and a lot of free time. Most cruise guests belong to this lucrative target group, who, of late, are engaging in the Internet. Silver Surfer user-profiles coincide with customer profiles for cruise operators.
 5. Half of all cruise guests consist of “repeaters”. These cruise guests already have a particular image of a trip and know the cruise product very well. Thus, intensive consultation with a travel agency is no longer required.
 6. Cruise tourism is continuously growing and has good prospects in the future. In time, the likelihood that a lot of online users are among the potential customers is also increasing.
 7. In 2004, people between 30–39 years of age made up the largest group of Internet users. The future 50-plus generation has already begun gathering extensive professional and private experiences with the Internet.
 8. In the USA, e-commerce has already taken hold and exhibits comparatively high growth rates. Germany will surely follow this trend in the foreseeable future.
 9. With e-commerce, the cruise product can be sold worldwide. Since embarkation and disembarkation harbors are located throughout the world, international guests can also be attained as customers. Internationalizing German cruise operators is only possible by incorporating an English Internet page with a booking mechanism.

Detailed justifications illustrate that an Internet application, used as an additional distribution channel for companies in the cruise industry, is indispensable. To attain this state, companies have to improve their online communication and increase customer retention over the Internet. Further objectives also include reducing the dependency on travel agencies and reducing costs, such as commissions for travel agencies.

At this time, a complete reorganization of the value added chain in the distribution area is not recommended, since a large number of the 50-plus target group will most likely continue to use travel agencies as a sales channel for cruises in the future.

Therefore, over the next few years, the intensification of online communication and digital distribution in the form of e-commerce should be implemented in the market using short-term as well as long-term objectives. A recommended course is to first of all provide e-commerce as an enhancement to the traditional distribution channel. Each company has to decide for itself, based on the short-term perform-

ance measurement, whether intensifying the focus on e-commerce sales and distribution is sensible or not.

In order to encourage the 50-plus target group to use the Internet presence of the cruise operators for information and communication purposes more frequently, specific requirements for this target group have to be addressed particularly on the *operative level*. The analysis of the practical situation of cruise operators indicates that the aforementioned criteria have not yet been vigorously addressed. To optimize online communication, these companies should adhere to the following recommendations:

1. Buttons used to navigate through the web pages have to be clearly labeled, thus making the buttons stand out. To begin with, a different color may be used for the frames or borders. The character height also has to be visually distinguishable from the rest of the text. The distance between the buttons as well as their action radii need to be increased.
2. The character height can be kept as is, if the online user has the option of enlarging the page. With a simple plus or minus menu, users could adjust the size of the characters to their individual needs. This method also applies to enlarging the on-screen pointer (magnification and a selection of intense colors).
3. The web page should also provide the option of selecting the negative presentation. Using this function, the color picture, i.e. dark-blue/orange on white, has to change to white on dark-blue/orange or provide additional color combinations.
4. For each text exceeding three lines, the installation of an audio function is recommended. As such, the web page visitor can have the text read aloud.

In supplement to the creative online aspects, three additional suggestions, which can fundamentally contribute to the success of online communication, will now be specified.

- Opening an electronic business, abbreviated *e-shop*, does not just help with the sales and distribution of merchandise, it also gives customers the opportunity of assessing e-commerce with low-involvement products and of building up trust in electronic commerce with the company.
- By implementing a “*cruise configurator*”, potential customers can individually design their dream vacation and feel fully attended to. The idea of a cruise planner emerged based on examples from other industries, such as the “car configurator” for automobiles. A “cruise configurator” is an interactive module, which makes the Internet page more attractive for online and offline bookings.
- *Controlling* indicates the path to success. Thus, along with online market research on the company’s web page, a general tool for controlling the e-commerce success should be built into sales. A survey on customer information and booking preferences should be carried out in travel agencies and on

ships. Thusly, companies can check if the costs and expenses for their Internet presence are worthwhile and decide whether or not to pursue the objective.

7 Five summarizing theses

Thesis 1: In the future, cruise operators should embrace e-commerce!

According to Chaffey (2001), within five years, companies will either become Internet businesses or cease to exist. The successes, achieved through a triumphant Internet presence and e-commerce in other tourism areas, demonstrate that this sales and distribution channel is also indispensable in cruise tourism.

Thesis 2: The 50-plus target group is eager for e-commerce!

People over 50 years old are becoming an increasingly attractive target group, mainly as a result of their growing percentage in the population and the large financial power at their disposal. Simultaneously, the interest shown in the Internet by this target group has visibly grown in the last few years and is backed by remarkable growth rates. With increasing experience, the target group's trust in the Internet is growing, thus facilitating e-commerce.

Thesis 3: Requirements for an accessible Internet content are high!

From the perspective of the 50-plus target group, Internet presence has to fulfill special specifications, which aid the target group when interacting with this new medium. A large number of these specifications (adequate character height, large buttons, distinctive colors etc.) should be present on every web page, as they also make using the page easier for other target groups.

Thesis 4: Cruise operators have to significantly improve their online communication – the industry does not yet have a best practice solution!

Since a cruise is a high-involvement product, e-commerce has so far been playing a rather minor role in the German cruise market. The current study verifies that, although cruise operators largely fulfill the general criteria for an accessible Internet presence, none of the operators consistently fulfilled special specifications for the 50-plus target group. The corresponding opportunities to optimize are dealt with in this report.

Thesis 5: E-commerce is indispensable for cruise businesses!

To optimize e-commerce, the concept established in this report shows the recommended course of action. On a strategic level, it clarifies why cruise companies should not miss the opportunity to adopt e-commerce as a sales channel. It also

defines short-term and long-term objectives. The operative level illustrates in detail a way to reach these objectives and offers specific options for optimizing accessible online communication.

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Business travel management

Trends and issues in global business travel management

Gerd Otto-Rieke

Following the successful start of Business Travel Days at the ITB Berlin in 2005, the Messe Berlin continued expanding the platform for business travel contacts at the 40th ITB Berlin. In 2006, the topic of business travel took on an even more prominent position in an extended congress and seminar program and stretched across all of the five trade fair days for the first time. Thus, in comparison to the previous year, the number of visitors at the Business Travel Days doubled and came to around 2,000 travel managers, business travel specialists and office managers. The participants readily embraced the training and seminar programs. In the meantime, the Business Travel Days have become an established and popular element at the ITB Berlin.

1 The business travel market in Germany

Using various figures from the “VDR Business Travel Report Germany¹”, Kirsi Hyvärinen, Project Manager for the VDR Business Travel Report Germany, BearingPoint, explained the prominent position upheld in the topic of business travel in Germany. In 2004, the total expenses for business trips amounted to around 44 billion Euros, the total number of trips came to over 146 million. Just over 60 % of the companies interviewed spent up to 500,000 Euros on mobility; the remaining 40 % actually spent quite a lot more. Evidently, the manufacturing industry/construction generates 47 % of the business travel expenses; services follow with 24 %, then commerce with 19 % and finally the public sector with 9 %.

The sector with the largest cost pool is flights with 29 %, followed by accommodations (23 %). Around 14 % of business trip costs are generated by meals. Train expenses account for 12 % of the costs and, with a comparatively smaller share, rental vehicles make up about 5 %. The remaining 17 % can be attributed to miscellaneous entries.

¹ VDR- Geschäftsreiseanalyse.

Overall, domestic trips play the largest role for German companies, in particular in the public sector. In small companies with over ten employees, such trips account for 73 %. In contrast, companies with over 500 employees conduct trips much more often and even in other European countries. In the years 2002 and 2004, a constant increase of 6 % could be observed. In contrast, intercontinental trips were less frequent. The duration for business trips, in which transactions were carried out, decreased in comparison to previous years (2004: business trips lasted an average of 2.4 days).

In 2004, travel costs were economized chiefly due to a larger percentage of online bookings, more rigorous travel guidelines, a reduction in the travel categories and the use of low fare carriers, discounts and special rates. Thus, 70 % of all the companies economized 10 to 30 % on their travel costs. In addition, online travel agencies and Internet portals are increasingly being used in the booking process.

Currently, companies consider the added value for travel management to be quite high. They are convinced that it guarantees proper travel quality and directly economizes costs through purchasing and control.

2 Building blocks for travel management

However, as Martina Egglar, Vice President Sales & Account Management, Marketing Central & Eastern Europe, Carlson Wagonlit Travel (CWT) explains, a travel manager's job is actually a balancing act. She stresses that a company's requirements should harmonize with the needs of the travelers. The greatest challenge for a travel manager is to exert gentle pressure on the business travelers, so that the travel guidelines are respected.

As an international CWT study demonstrated, 56 % of travelers consider set guidelines as non-binding. In contrast, 64 % of travel managers view compliance with the guidelines as mandatory. This discrepancy clearly reveals that, in practical situations, the concept of a travel manager has not been implemented everywhere. Travel management has good grounds for its attitude. In fact, 74 % assert that, in an emergency, the company is able to locate an employee more quickly, if he or she adheres to the guidelines. And, 57 % inform their employees that travel cost and meal expenses will not be refunded, if they do not adhere to the guidelines. Some 28 % actually threaten travelers with disciplinary measures or even dismissal for disregarding guidelines. Another 82 % emphasize the negative consequences for the company if data, which could have been used to negotiate better terms with the service provider, were to be lost as a result of disregarding the guidelines.

Another conclusion of the CWT survey is that travelers in select regions such as the Middle East have quite a lot more fear of flying than travel managers previously imagined.

As indicated by Andrea Zimmermann, Travel Manager at Woolworth Germany and lecturer at the VDR-Academy – Institute for Business Travel², there is cur-

² VDR-Akademie.

rently a savings potential in medium-sized businesses. She also emphasizes that even travel managers in small and medium-sized businesses could significantly contribute to cost reduction by implementing individual projects. However, according to the "VDR Business Travel Report Germany", medium-sized businesses feel defenseless in the face of cost increase. Andrea Zimmerman implied that travel agency service fees for companies between 10 to 250 employees are considerably higher than in large enterprises. This situation arises because medium-sized businesses often book in an unstructured manner over a variety of channels such as telephone, fax or e-mail. Thus, understandably travel agencies have to calculate higher fees for additional work and expenses, which are incurred.

In order to achieve sustainable cost reduction, it is very important for businesses to set and implement clear travel guidelines. Travel guidelines, which have been used for over one year, should be updated and realistically formulated. Furthermore, from Zimmermann's point of view, using credit cards is essential in order for costs for business travelers to be posted correctly and promptly each and every time. Far too often, advanced payments are still found in businesses. Such transactions delay travel cost accounting; hence, incalculable additional amounts can accumulate by end of year. In contrast, credit cards create the required transparency. Accordingly, in her experience, rental vehicle invoices are inaccurate in about 50 to 60% of the time and could be easily reviewed and rejected using credit card account statements.

Andrea Zimmermann recommended some important building blocks for travel management:

1. Work with guidelines, which correctly reflect tax laws and can be understood by all. Employees should be notified about any changes.
2. Concentrate or consolidate turnover, for example direct demand towards certain hotels/hotel chains. Proper hotel control usually results in savings of 10 to 30%.
3. Analyze the flight routes and negotiate directly or even plan the revenues with the airlines
4. Do not reimburse the use of private vehicles with mileage allowance even though employees are on business trips. Use preferably rental vehicles. Clearly specify the type of vehicle and the equipment components so invoices can be easily verified and costs for unnecessary extras contained.
5. Effectively purchase, plan and carry out conferences.
6. Replace advance payments with credit cards.
7. Compare prices.
8. Booking methods should comply with a company's needs as well as with modern technologies.

In order to benefit from a saving potential of up to 30%, skillful negotiation and transparent supervision are required. At the same time, attention must always be

given to the total cost account. This practice is particularly important for completeness and for enhancing comparability. Direct and indirect travel costs have to be differentiated. Direct costs are incurred with transport, board and lodging, the savings potential is estimated at well over 10 %. Indirect costs include for example booking fees, credit card and software expenses. The savings potential can total around 40 to 60 %.

3 Indirect costs, workflows and the role of travel agents

Andreas Wilbers, a freelance consultant and lecturer at the VDR-Academy – Institute for Business Travel, investigated the aspect of indirect costs. He explained that, since the introduction of the zero-fee practice, service fees are increasingly being adopted as a commission method in travel agencies. As a result, a trend has arisen, in which businesses book their business trips online with increasing frequency. Thus, quite regularly the “make-or-buy” question emerges. However, the aim is to balance the costs with the travelers’ burden in planning, booking, completing and billing trips. Quite frequently, only direct travel costs are considered and process costs neglected when a company makes a decision in favor of autonomy in business travel bookings. Furthermore, the Internet often offers very economic prices, which can quickly escalate as soon as an additional phone call is required (i.e. for rebooking a flight because of sudden adjournments). Therefore, any decision regarding a suitable booking channel should keep in particular business experience in mind because theoretical and practical circumstances do not usually demonstrate a 1:1 compatibility.

Another cost factor could be the workflow in a business, which has to be audited on a regular basis. Otherwise, formal travel authorization often makes the process unnecessarily complicated and expensive. As a result, acting on the best-buy rule and finding the best price in the Internet or securing the best service fee does not suffice for Andreas Wilbers. To be more precise, businesses have to pay more attention to who accepts the responsibility for the booking process and what consequences this decision may have. The moment employees become aware that they are accountable for finding the best offer, the more time they tend to invest in searching for the best offer. This inclination makes costs rise drastically. Thus, the question arises on the reasonableness of such practice. Normally, employees refuse to participate in best-buy practice. Conversely, a travel agency could take up this responsibility. An agency usually has reliable contacts with rental agencies and airlines, which could be reduce costs for changing and cancelling reservations. Nevertheless, it is wise to take advantage of the opportunities provided by the Internet and keep tabs on the travel agencies. When considering which booking method to use, it is advisable to book internally with an Online Booking Engine (OBE) for basic trips and go through a competent travel agency for more complex trips.

William A. Maloney, Executive Vice President, American Society of Travel Agents (ASTA), describes the methods, in which travel agencies can position themselves in business travel. Over the last few years, substantial cuts and changes have occurred, for example

- Advancements in the Internet
- Economic recession
- Two wars, terrorist attacks
- Epidemics and natural catastrophes
- New low cost carriers
- Zero-fees in the airlines

A study carried out by ASTA shows that, on the average, 97% of ASTA members were already imposing a service fee of about 27 US\$ in 2005. In fact, 70% of travel agencies charge diverse fees depending on the travel destination. In addition, 60% of travel agencies differentiate according to the price of the ticket or the number of paid tickets. Almost 50% base their service fee on customer relationship. The largest proportion of the fees usually arises for the travel planning process. On average, travel agencies calculate over 65 US\$ for this service.

In the beginning, some travel agencies abstained from charging fees because they feared it would alienate customers. However, a 2004 study determined that customer loyalty lie at 90% in spite of service fees. This attitude explains how consolidation edged its way into the industry and why some travel agencies in the USA have actually grown larger and stronger than ever before despite the turbulent conditions. Thus, travel agencies are still to be regarded as dominant entities for vacations and business trips. Thereunto, William A. Maloney quoted Nietzsche: "What doesn't kill us makes us stronger".

According to an ASTA representative, airlines depend on travel agencies to sell at least 50% of their tickets. However, in this field, the market changes rapidly and as a result online-bookings are continually becoming more popular whereas the telephone is losing significance. Thus, it comes as no surprise that the percentage of travel agencies with websites amounted to 65% in 2004. In 45% of the instances, online-booking mechanisms are available. Furthermore, 74% of the travel agencies claim that their customers search the Internet for information before contacting the travel agency. Thus, the question arises as to why customers still frequent travel agencies instead of booking online. Grounds could be:

- Almost 90% of customers particularly appreciate the specialized knowledge offered in travel agencies.
- Over 80% attach importance on the assurance of receiving aid in case something goes wrong.
- Almost 75% place value especially in convenience and believe that they will receive the best price.

In the business travel sector, travel agencies find their presence to be justified in particular when their personnel take on duties and responsibilities such as managing the process, data aggregation or collaboration with suppliers. Their added value has become more transparent through the zero-fee practice. And, the importance of travel agencies is actually increasing. According to the National Business Travel Monitor by Yesawich Pepperdine Brown & Russell/Yankelovich Partners, the number of business travel who booked their trips via travel agencies increased from 25 % in 2004 to 32 % in 2005.

4 The job of business travel managers in the future

In response to this growth, a panel endeavored to determine what the job description of a Business Travel Manager would be in the future. To begin with, Hans Doldi, travel agency owner and Vice President of the DRV³, asserts that an official job description does not yet exist. The job description for “travel agent in the transport field” has been around since 1998. Vocational training can take place in a travel agency or in a business within the travel management sector. Hans-Ingo Biehl, Manager at VDR-Service GmbH and Director of the VDR-Academy, added that, in contrast to the past when a travel manager was involved with controlling flight turnover or stipulating travel guidelines, in many companies the travel manager now also has to tend to event management and telecommunications. This divergence suggests that on one hand this career should be called “mobility manager” and on the other that the job description has not yet been standardized. He also commented on the professional training program “VDR-Certified Travel Manager”, which the VDR-Academy has been offering since 1998. The demand for this program is very large.

Hilke Seeba said that, from the perspective of the human resources department at TQ3 Travel Solutions, vocational training for travel agents is viewed simply as the basics for working as a travel manager. Therefore, TQ3 trains its staff in-house, especially in the area of controlling. Franziskus Bumm, Director of the central department Key Account Management & Sales at DER, relates similar experiences. University graduates with previous experience are preferably hired because the requirements of the customers are so high. The DER would then prepare the graduates for their future duties and responsibilities in a trainee program. Jürgen Schäfer, from Kerstin Schaefer e.K Mobility Services, puts both arguments into perspective. Basis knowledge as a travel agent is indeed great; however, there is a lot more in play as a travel manager – the position is not just as a travel organizer. A travel manager has to be well versed not just in purchase but also in i.e. travel guidelines, income tax laws and personnel regulations. Jürgen Schäfer lobbies associations and politicians to create a travel manager training program accredited by the Chamber of Commerce and Industry (CCI).

³ Deutscher Reise Verband – a German Travel Association.

In her presentation, Ursula Luchner-Brock, industry coordination for tourism at the CCI Berlin, stated that, in 2004, the “travel agent” was still the most popular apprenticed occupation in Germany with 7081 apprenticeships. “Transport service agent” (1680 apprenticeships) followed in second place. Whereas these two training programs concentrate more on outbound tourism, the training program for “tourism and leisure agent”, created in August 2005 (380 apprentices since being founded), focuses more on inbound tourism.

The training program for travel agents encompasses a complete lesson spectrum. The apprentice

- plans, designs and sells package and individual tours as well as business trips,
- sells products from other service providers, i.e. train, flights and hotel,
- calculates prices and handles payment and billing transactions,
- uses information, communication and booking systems,
- coordinates teamwork between the business and external partners,
- consults and informs customers and
- pays attention to legal affairs and business regulation guidelines.

Normally, a three-year program has to be completed in order to acquire these skills. However, this period can be shortened, if necessary, in proportion to the previous knowledge and experiences. As a result, the educational institute or business designs the training plan. To facilitate comparing the quality of the training program, trainees have to complete an intermediate and final exam. The advantages that a travel agent delivers for business trip services include:

- Knowledge about transport providers and the lodging industry,
- Knowledge about reservation and information systems,
- Requirements for using transport licenses,
- Knowledge about organizing individual and additional services,
- Knowledge about legal and commercial regulations,
- Customer service and sales.

5 Career opportunities in business travel management

In her keynote speech, Ilona de March, Spokesperson for the Managing Board at TQ3 Travel Solutions, identified the current requirements that the economy places on young professionals. At first, she reminded the audience of the facts that the travel and tourism industry is the largest segment in global economics and that

hundreds of thousands of jobs owe their existence to business travel. In actual fact, online strategies are replacing individuals more and more; however, the fact that technologies also create new opportunities should not be overlooked. Thus, occupational fields in professional consulting, i.e. marketing and information technology as well as key account and product management, have gained importance. Even TQ3 are straining to find qualified personnel. For young professionals, it is very important to learn to be constantly prepared and to stay up to date with the current ideology. As such, individuals should not have to wait for employers do take initiative. Mobility, which is already common practice in other countries and continents, also holds particular weight. Languages – as well as the courage to speak them, even if the grammar is not perfect – are also important. Being open to other customs and cultures can also help a career. Furthermore, assuming that a job can be held for the next 40 years is utopian. Therefore, flexibility is also demanded.

Prof. Dr. Ewald Brochhausen from the University of Applied Sciences (UAS) Worms demonstrated the aspect of a fruitful collaboration between theory and practice. The Business Travel Association of Germany (VDR)⁴ and the Faculty of Tourism and Transport at the UAS Worms have already presented information twice at the Business Travel Management Days on topics such as “Business travel management in a business context”, “Service providers in business travel management” and “Business travel management in practice”. A survey of 100 students revealed that students attribute a somewhat lower importance to travel management in personal careers; however, they consider it as an important sub-field in the tourism industry.

In the meantime, numerous degree dissertations are being written at the UAS Worms. These topics are often drawn up in close collaboration with the VDR. In addition, VDR oversees the students during the projects. This co-operation shall continue in the future with the new bachelor and master’s degrees. A module for business travel management has already been integrated in these degree programs. This topic is relevant for all students writing the sixth-semester exams. In the ensuing four-semester master’s degree, the module is an elective.

In the end, Prof. Dr. Ewald Brochhausen reassured the audience that, with a background intensively integrated in practical experience and theory, considerable career opportunities were available. In point of fact, just over 90 % of the students are able to celebrate a signed contract within just three months of graduating.

⁴ Verband Deutsches Reisemanagement e.V. (VDR).

Long-term perspectives in the tourism industry

Space tourism

Robert A. Goehlich

Abstract

This chapter provides an overview of the current space tourism market and possible projections. After defining the term “space tourism”, some aspects on space tourism flights are introduced, followed by a classification of current and possible future market segments of space tourism activities. Market demand is derived from different surveys carried out in last decades. Worldwide proposed vehicle concepts, existing space travel agencies and organizations supporting space tourism are presented. The chapter is concluded with a forecast of space tourism.

1 Introduction

Currently, there are only three possibilities for accessing space and orbit Earth as far as human spaceflight is concerned: Russian Soyuz, the USA Space Shuttle and Chinese Shenzhou. For the time being, only Soyuz has been used for space tourism and there are no indications that the Space Shuttle will be used for this purpose. Shenzhou is under discussion for tourist transportation in the mid future. The lack of alternative access is a critical factor limiting the supply of space tourism services. A breakthrough in this area, such as the development of a new generation of reusable launchers could have a significant impact on space tourism (Goehlich, 2006). Low-cost and low-risk access to space is presumably vital for expanding the space tourism market. Traditionally, very high levels of public funding and minimal private investment have characterized human spaceflight activities. Space tourism flights might have the potential to change the balance in human spaceflight from public to private expenditures.

Currently, the number of commercial space launches in a year is between 70 and 80. Obviously, when comparing this data to the 70 or 80 commercial aircraft which take-off every minute all around the world, the way the space industry operates today makes it very difficult for any commercial venture in space to yield a profit. Supporters of space tourism argue that this is where all the excitement

about space tourism comes in. Space tourism has the potential to provide a high number of flights on a regular basis, which is essential to radically reduce launch cost. Tourism flights would have virtually no saturation limits: in the early years, though, the focus would be on suborbital flights, short orbiting trips, simple orbital hotels and after that trips to the Moon, perhaps even with accommodations at a lunar hotel in the far future, or even tours to Mars someday. In other words, people might be the payload of the future.

Today's space tourism flights are in the so-called early pioneer phase, which means approximately one or two tourists per year. For example, Soyuz flights to the International Space Station ISS cost approximately \$20 million and last approximately 10 days. In April 2001, Dennis Tito – shown in Figure 1 during his arrival at ISS – was the first space tourist followed by Mark Shuttleworth in April 2002, Greg Olsen in October 2005 and Anousheh Ansari in September 2006.



Fig. 1. Pioneer space tourist Dennis Tito (NASA)

Compared to other tourist enterprises, space-related tourism, as a commercial activity, is in its infancy. However, facts show that the space tourism industry is already larger than most people realize. The true potential for space tourism in the coming decades does not rest on one or two flights per year for \$20 million per trip, but on providing a wide range of services with different price levels. Peak turnovers from ticket sales in the range of \$10 billion per year (Goehlich 2003) and even additional turnovers from novel secondary markets such as space fashion, space food, space entertainment, space sports, etc. are imaginable within this century.

2 Definition of space tourism

In general, space tourism can best be defined using the following two paragraphs. Whereas in the first definition a tourist must reach space to be a space tourist, according to second definition, it is also correct to use the term space tourist for anybody who simply pays money for a trip to watch a Space Shuttle launch at Kennedy Space Center.

- *Definition 1:* Space tourism is the term broadly applied to the concept of paying customers traveling beyond Earth's atmosphere.
- *Definition 2:* Space tourism can be defined to include not only the vehicles that take public passengers into space, but also from the perspective of the "destination" paradigm. As such, the industry can be envisioned to include not only earth-based attractions that simulate the space experience such as space theme parks, space training camps, virtual reality facilities, multimedia interactive games and telerobotic moon rovers controlled from Earth, but also parabolic flights, vertical suborbital flights, orbital flights lasting up to 3 days, or week-long stays at a floating space hotel, including participatory educational, research and entertainment experiences as well as space sports competitions (i.e. space Olympics). (Space Policy Institute, 2002)

3 The beginning of space tourism

Determining exactly when space tourism began is difficult because key events can differ for each observer. In this study, there is a differentiation made between the idea, motivation/stimulation and realization stages.

Presumably, the idea for space tourism was set in motion millenniums ago and cannot be dated. In 1969, following the success of the Apollo missions, Pan Am airlines began taking ticket reservations for a shuttle to the Moon. This initiative can be taken as one of the first steps to motivate and stimulate the interest of a large number of people for space tourism. The ticket as shown in Figure 2 was unexpectedly popular. A total of 90 000 reservations were accepted. The only problem was that there was no trip. The tickets were valid for seats on the first available flight, but no such flights have yet occurred (Lindsköld 1999). In past decades, some companies and individuals have also tried reaping a profit from the space tourism business by cheating. They sold tickets for scheduled spaceflights, which they were not able to offer. Dennis Tito's stay at the International Space Station in 2001 initiated the actual realization stage for space tourism.

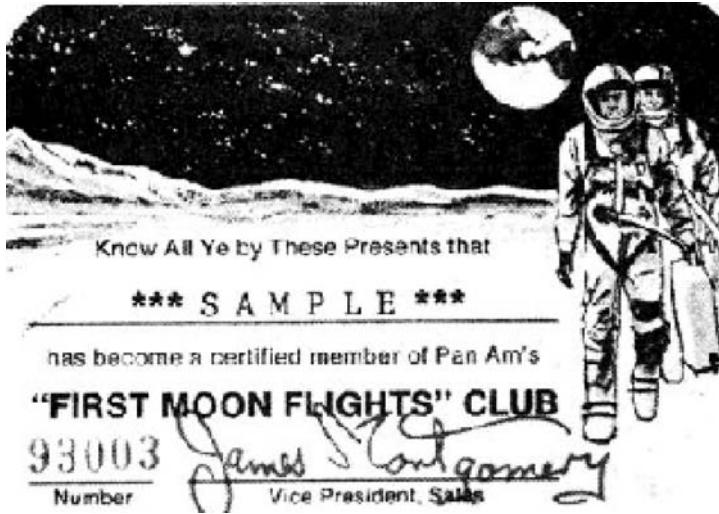


Fig. 2. Pan Am Certificate (Pan Am)

4 Tourist attractions in space

As in every commercial activity, knowing customers' desires is the secret to successful tourism in space. Market research has shown that what most people want to do in space is watch the Earth. There seems to be an endless fascination with seeing the different continents roll by, with no visible borders between countries. Watching space is simply fascinating, because without the atmosphere in between, stars are much brighter and clearer when viewed.

Since suborbital trips would be fairly short (about ½ hour or maximal 3 hours if using a carrier aircraft), meals might not really be necessary. However, passengers would want to play with food, like drinking from a ball of water floating in the air, so some food should be provided. For orbital trips lasting one or more days, nourishment is a necessity. In addition, meals have a large significance in human culture, indicating a successful event. Surveys are necessary to determine the space tourists' preferences: a traditional astronaut meal served in a condensed gelatinous form listed in Table 1 (Lane and Schoeller 2000) or a luxury tourist meal. Some air passengers actually choose airlines depending on their meals. Therefore, this topic should be given special attention.

Playing in weightlessness and floating is something tourists would definitely want to try, but should be restricted to vehicles with cabin dimensions that are smaller than airplanes used for parabolic flights. Being able to talk about the trip afterwards may be just as important as taking the trip itself. In addition, by going into space, space tourists would qualify for astronaut wings. Therefore, getting some kind of recognition after having made the trip would be an additional bonus.

The wish to play and eat in weightlessness can also be satisfied in parabolic flights; however, the remaining wishes – watching Earth and space and receiving recognition – require suborbital or orbital flights.

Table 1. Space Shuttle Menu

Breakfast	Lunch	Dinner
Dried pears	Tuna	Shrimp cocktail
Beef patty	Tortilla	Beefsteak
Seasoned scrambled eggs	Banana pudding	Potatoes au gratin
Oatmeal with brown sugar	Shortbread cookies	Asparagus
Orange juice	Almonds	Strawberries
–	Grape drink	Lemonade

5 Stages of space tourism

Current and future space tourism activities can be divided into different stages of complexity, resulting in different prices as shown in Table 2. Activities in Stage 1 to Stage 4 do not reach space (i.e. the altitude is lower than 100 km), therefore the “real” space tourism activities first start in Stage 5. Prices listed in this table for non-realized stages (put in parenthesis) are estimations made by space travel services or other authors. A description of each stage is given in the following sections.

Table 2. Stages of space tourism

Stage	Description	0-g duration	Flight duration	Price	Realized
1	Natural attractions and others	none	none	\$0–\$2000	yes
2	Terrestrial tour	none	none	\$20–\$8500	yes
3	Parabolic flight	½ min.	few hours	\$4000	yes
4	High-altitude flight	none	few hours	\$32,000	yes
5	Suborbital flight	5 min.	½–3 hours	(\$200,000)	no
6	Orbital flight	1 day	1 day	(\$300,000)	no
7	Orbital flight plus stay (ISS,..)	10 days	10 days	\$20 M	yes
8	Moon flight	weeks	weeks	(\$100 M)	no
9	Mars flight	months	months	(billions)	no
10	Titan flight and beyond	years	years	(billions)	no

5.1 Natural attractions and others (stage 1)

This stage includes all natural phenomenon or industrial products in direct correlation with space, which are normally low-priced, and for observation or adventure purposes. Typical natural phenomena include starry skies, shooting stars, northern lights, eclipse of the sun, lunar eclipse, etc. Examples for industrial products are space food, space proofed pen, space proofed wrist watch, etc.

5.2 Terrestrial tour (stage 2)

This stage includes theme parks, organized tours to watch rocket launches and space camps. Theme parks are primarily attracting young people and families. Organized tours to watch rocket launches mainly take place at the Space Shuttle. Tourists can enjoy a three-day stay at Kennedy Space Center, Florida, USA, including access to the NASA shuttle launch viewing area during a Space Shuttle launch, IMAX movie and post-launch celebration.

Space camps are mostly located at Huntsville, Alabama, and Yuri Gagarin Cosmonaut Training Center at Russian Star City near Moscow. They last two to four days and offer one or more of the following attractions: training in a centrifuge, neutral buoyancy or Soyuz simulator.

5.3 Parabolic flight (stage 3)

Weightlessness within Earth's atmosphere is only possible in a parabolic flight. Each maneuver starts from level flights at around 9 km, pitches up to approximately 45 degrees nose-high resulting in a 20 seconds 2-G recovery. After that, aircraft engines are powered back and the airplane is launched into the same parabolic trajectory a ball would follow, providing everyone inside the aircraft with approximately 20 seconds of weightlessness. At the bottom of the parabola, the aircraft pilot pulls out the dive, resulting in a 2-G load for 20 seconds and levels off for the next arc (ISU 2000). About 20 maneuvers are performed during a flight. In general, parabolic flights can open up weightless experiences to the general public. It also aids the space tourism business by introducing the public, many of whom could be potential investors, to the concept of private space tourism activities. Today, a good marketing concept has to be implemented to make space tourism more attractive for potential customers.

5.4 High-altitude flight (stage 4)

Passengers in a high-altitude aircraft at up to 25 km altitude can see the curvature of the Earth below and the dark sky of space above. They would see expansive views of whatever region they were flying over. Space Adventures, Inc. offers MiG-25 flights for about \$32,000 (Space Adventures 2006). Alternatively, MiG-21, MiG-23, MiG-29 and Su-30 can be used, too.

5.5 Suborbital flight (stage 5)

Much higher altitude suborbital flights, as shown in Fig. 3, would open up new regimes for space experiences. These space trips would be very similar to the airplane flights offered by the first barnstormers, which provided the first commercial market for aviation in the early 1920's. The interest in these flights was enormous, with some people paying up to a week's salary to be able to take a ride lasting only a few minutes. The most promising vehicle is SpaceShipTwo, which is to start operation in 2009 (Virgin Galactic 2006).

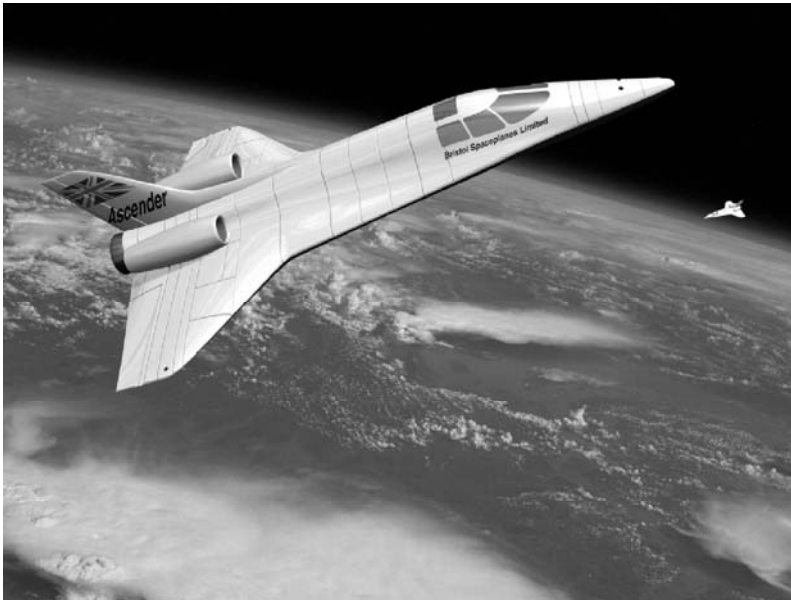


Fig. 3. Suborbital flight using the Ascender (Bristol Spaceplanes)

5.6 Orbital flight (stage 6)

In the near-term, space tourists could participate in short orbital flights with Russia's expendable Soyuz as shown in Fig. 4. However, astronauts are cramped for room resulting in an unsatisfying experience in weightlessness. Instead, in the middle-term, orbital flights with reusable launch vehicles such as the Japanese Kankoh Maru could offer passengers more space and less expensive rides.

5.7 Orbital flight plus stay (stage 7)

Organized by Space Adventures, Russia's Soyuz is used to transport space tourists to the International Space Station for \$20 million, illustrated in Fig. 5. This ground-



Fig. 4. Orbital flight with Soyuz (NASA)

breaking mission can open the door for other would-be astronauts, who desire to fly to a space station. Some companies plan to run TV series, with the selection process forming the basis of programs. The best recruited candidates would take part in quiz shows, from which a selected number would undergo action training such as skydiving and simulated space flights. TV cameras would accompany contestants through all of the stages, as well as through final training, launch, docking, their stay at the space station, return flight and landing. In the future, one or two tourists per year could presumably participate in this activity.

Space Island Group has proposed to build a ring-shaped, rotating space hotel. This hotel would be the first to have zero gravity; however, future designs call for a hotel that could rotate once per minute to create a gravitational pull one-third as strong as Earth's. At the present, there is no space hotel in operation.

5.8 Moon flight (stage 8)

When compared to a simple suborbital or orbital flight, the complexity of the scenario increases significantly when considering a trip to the moon. In the context of space tourism, moon trips are unlikely in the short term, except if tourists would just orbit the moon and not land on it. Space Adventures, Inc. plans such a flight for about \$100 million (Space Adventures, 2006).

Once mass space tourism to Earth orbit becomes an every day occurrence, wealthy tourists would possibly also like to travel to the Moon and even land on it. H.H. Koelle investigates this scenario in various publications (H.H. Koelle, 2002a, 2002b, 2002c).

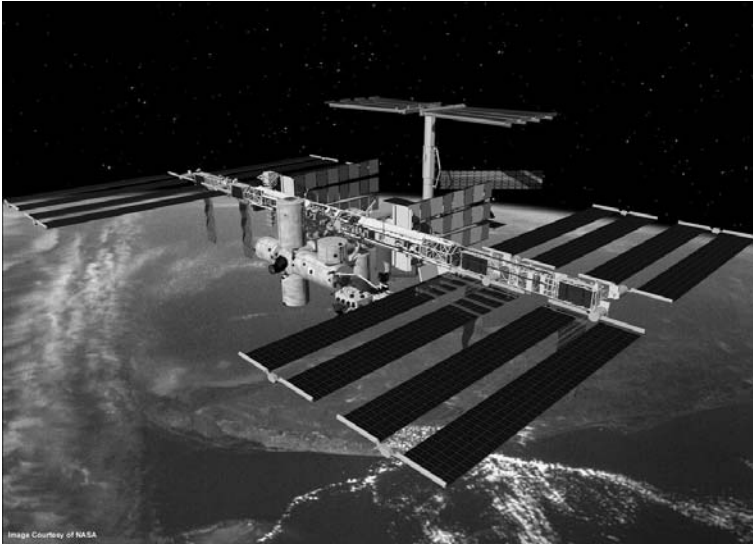


Fig. 5. Visiting the International Space Station (NASA)

5.9 Mars flight (stage 9)

To date, no manned mission has ever been undertaken to any of the other planets of the solar system. USA, Russia and China have plans to send astronauts to Mars. The main problem, decreasing the travel time, has not yet been resolved. Tourists would also want to land on Mars; just staying in the Mars orbit does not seem to be attractive enough for such a long journey. It is highly unlikely that space tourists will fly to Mars in coming decades, but not impossible.

5.10 Titan flight and beyond (stage 10)

Space tourism flights to other planets beside Mars are not imaginable even with improved rocket propulsion technology such as fusion or fission engines in view of the very long travel times.

6 Market demand according to passengers

Market analysis studies supply evidence, indicating that prospective passengers are largely driven by ticket prices. The author uses different survey data for determining a market demand model, resulting in Figure 6. A special relationship between price and demand for suborbital and orbital flight is determined based on results of various market surveys and polls. In general, the figure shows that passengers are willing to pay more for orbital flights than for suborbital flights. However, market analysis must take into account that there is a difference between saying “I would like to make a trip into space” and actual paying for a ticket.

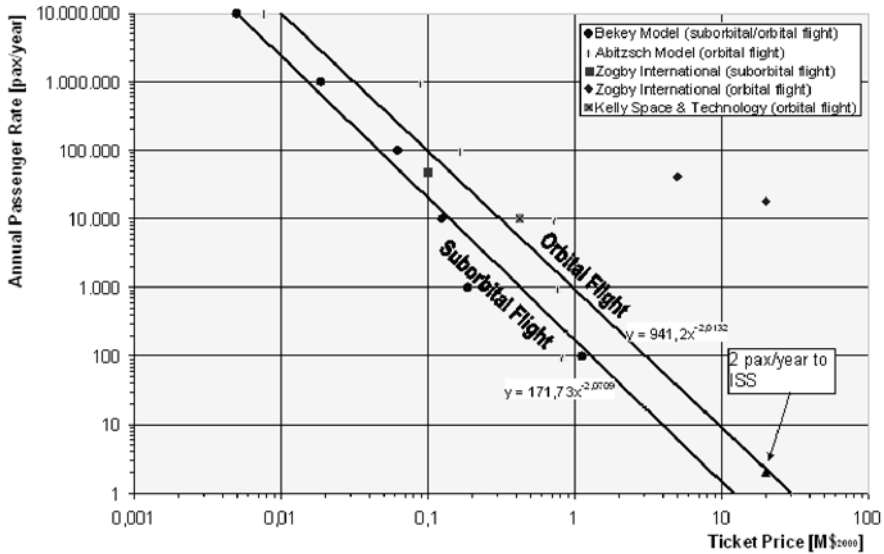


Fig. 6. Model of annual passenger rate as a function of ticket price

7 Market supply according to manufacturers

Presumably, mass space tourism flights may only be economically feasible by using reusable rockets. There are two trends in Reusable Launch Vehicle (RLV) development. One is developed by governments like X-series of USA, and the other by private companies partly stimulated by organizations like X Prize. Overall, over 300 worldwide proposed vehicle concepts for RLVs exist, which could be realized by manufacturers in various countries summarized in Table 3 (Goehlich 2006). The majority of these vehicles are proposed for human space flight, but a few are unmanned. Table 4 indicates four realized RLVs, namely X-15, Space Shuttle, Buran and SpaceShipOne. Buran has only been launched once and therefore its reusability has not yet been verified.

8 Market stimulation with space travel agencies

Few travel agencies like Space Adventures (USA), Incredible Adventures (USA), Spacetopia (Japan), German Space Shop (Germany) and Interglobal Space Lines (USA) are already offering space-related tourism products and services. Space Adventures is the largest one. In November 1999, Space Adventures acquired the Space Voyages division of adventure travel leader, Zegrahm Expeditions and 100 percent of division assets. This acquisition has created the world's largest space

Table 3. Comparison of worldwide RLV concepts

Country	Suborbital	Orbital	Total
Argentina	1	0	1
Canada	2	1	3
China	0	3	3
France	1	14	15
Germany	3	18	21
India	0	1	1
Israel	1	0	1
Japan	1	8	9
Romania	1	0	1
Russia	3	50	53
United Kingdom	4	10	14
USA	46	132	178
Total	63	237	300

Table 4. Comparison of worldwide RLV realizations

Country	Suborbital	Orbital	Total
Russia	0	1 (Buran)	1
USA	2 (X-15, SpaceShipOne)	1 (Space Shuttle)	3
Total	2	2	4

travel agency with headquarter in Arlington, USA (Space Adventures 2006). Online reservations for space flights are possible. More than a hundreds passengers have already put down a deposit and some of them have already paid the full ticket price.

9 Market support by organizations

Supportive profit or non-profit organizations such as X Prize Foundation, Space Transportation Association, Space Tourism Society, ShareSpace Foundation and Japanese Rocket Society are important instruments for space tourism activities in terms of public relation. The most famous one is the X Prize Foundation. The X Prize is a \$10 million prize to jumpstart the space tourism industry through competition between entrepreneurs and rocket experts in the world and was awarded to Scaled Composites' SpaceShipOne in 2004. The X Prize competition follows in the footsteps of more than 100 aviation incentive prizes offered between 1905 and 1935 that created today's multibillion-dollar air transport industry (X Prize Foundation 2006).

10 Next steps

The most challenging task for a successful establishment of a mass space tourism market is to link the gap between today's conditions and conceived future demands concerning technical, economic and political aspects. In the current situation, only a few manned missions are performed annually; they are very costly and must be planned years in advance. In the future, rockets must have operating characteristics like airliners with low launch costs and a high transportation volume. As a result of a previous study (Goehlich 2003), a desirable goal is to achieve mass space tourism by implementing the following three steps, illustrated in Fig. 7:

- Step 1: Increasing space awareness for the general public.
- Step 2: Developing and operating a suborbital vehicle for semi-regular flights.
- Step 3: Developing and operating an orbital vehicle for regular flights.

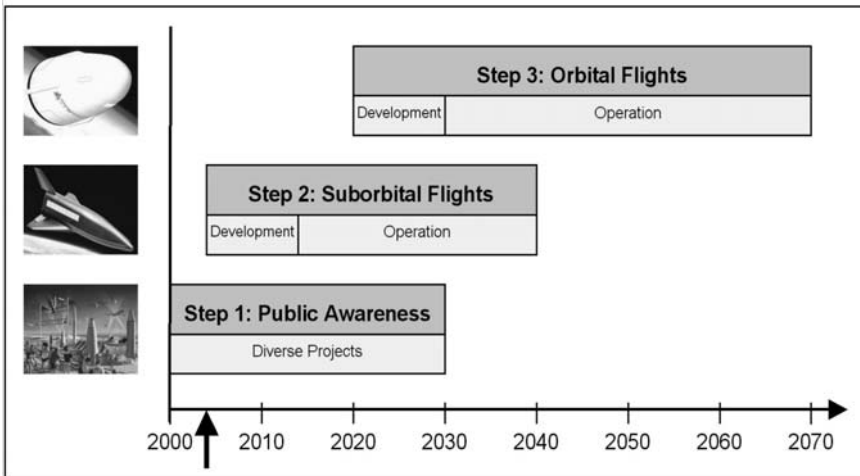


Fig. 7. Proposed life-cycle scenario for mass space tourism

11 Conclusion

This market analysis suggests that a significant potential market does indeed exist, with individuals and companies willing to pay for space tourism activities. However, given current costs for a rocket launch, it is unlikely that mass access to space will occur in the near future. Many business opportunities might develop when space tourism becomes a global activity. Almost every market niche would demand large quantities of products, from food to high technology devices.

Like any other professional planned business, once space tourism gets started, it is expected to develop progressively in several phases. Beginning at a relatively small-scale and high-priced “pioneering phase”, the scale of activity might grow and prices might fall as it matures. Finally, it might become a mass-market business, similar to aviation today. The phrase “space adventure or individual travel” is a convenient one to describe the first phase. Customers might be relatively few – from one per year to ten per year; prices would be high and the service would be more close to “adventure travel” than to luxury hotel-style or first class flight. Orbital accommodation would be safe but “spartan” (Goehlich, Schumann 2004). The mature phase might see demand increasing from ten passengers per year to thousands of passengers per year. Tickets to orbit would cost less and flights could depart from many different airports. In the mass phase, ticket prices might fall and customer count might grow from thousands of passengers to hundreds of thousands per year.

Acknowledgments

The publication of a space tourism market chapter in this book was encouraged by Professor Conrady and Dr. Buck, which is gratefully acknowledged by the author.

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The future of leisure travel

Eva Ludwig

Abstract

The market for holidays and travel is becoming more complex and dynamic. Customer behavior is increasingly incalculable. Although short-run movements are relatively well documented, there is no overall picture for long-term perspectives. The question is: in what direction is the holiday and travel sector headed?

The Kuoni Travel Holding, based in Zurich and celebrating its 100th birthday in 2006, published an in-depth study about the Future of Leisure Travel. The commissioned Gottlieb Duttweiler Institute (GDI) of Switzerland analyzed the holiday market of the future with the aim of drawing up a map showing the most important trends and changes to be expected in the future.

In parallel, in March 2006 at the ITB, a panel discussion was held on the Future of Travel moderated by Jürgen Drensek, Chairman and spokesman for Vereinigung Deutscher Reisejournalisten e.V. – an association of German travel journalist. His guests included Prof. Dr. Felizitas Romeiss-Stracke, Owner of BSF, a creative leisure research company and Prof. Peter Wippermann, Founder of the Trendbüro in Hamburg.

The following text combines a summary of the findings of the Kuoni GDI study combined with the most interesting results from the ITB panel.

1 The most important driving forces for change in tourism

1.1 Social drivers

- Ageing society: In 2020, the elderly will be in the majority in Western Europe. Children and young people will be in short supply.
- New family structures: More and more singles. Ever fewer families with children.

- Social class: Decline of the middle class in Western Europe.
- Leisure time declines: Western Europe must work longer again. Raising the pension age retards the growth of senior travel.
- Individualization: Growing demand for individual holidays.
- Values: Value orientation increases resulting in a new competition of values. Ecological, ethic and social values become ever more important.
- Health consciousness grows: Destinations with potential health hazards will come under pressure. Areas with contaminated water and beaches, polluted air, ugly buildings, a risk of infection, etc., will be avoided.

The panelists identified two driving forces that have the strongest influences on the future travel behavior: the demographic changes and the Internet.

The future elder generations will have traveled much in their active lives and will be in better physical condition to continue traveling until old age. Many seniors will be affluent enough to qualify as ‘best agers’ and be thus the most interesting target group for travel companies. Support services that provide security and guidance, for example through some of the more crowded places like airports, or even help senior customers to navigate through the chaos of the Internet, will enable seniors to continue spending more money on travel. But there will also be a growing segment of seniors with less money to spend. They will have to support their children and grand children, who struggle with higher financial burdens than earlier generations.

Today’s individualization is the result of the multi-option-society consumers fought for in the past decades. This achievement is seen as liberating the individual person, but the downside is already recognizable. Who will provide orientation, which options to take and which not and why? Providing guidance and orientation to consumers will become extremely important in the future.

Using values as the new guides is one possible answer. In this context, Romeiss-Stracke talks of the transition from the ‘fun society’ – Spassgesellschaft – also called the experimental society of the 1990s, to the new ‘existential society’ – Sinngesellschaft – that will become the growth segment of the future.

1.2 Technological drivers

- Information availability: The spread and performance of information and communication technology continue to increase. Access to tourist and booking information will become simpler, faster and cheaper.
- Transport: more, faster and cheaper long-distance connections.
- New search and mapping services: Geo-tagging, Google Earth and GPS revolutionize maps.
- Tracking services make it possible to mark travelers like parcels and to locate them at any time.

- Extreme engineering: opening up new destinations that were previously closed to tourists, i.e., underwater hotels and space trips.
- Environmental-control technology will become more important. Destinations threatened by natural catastrophes will depend more and more on early-warning, water-treatment and weather-control technology.

The other important driver acknowledged during the ITB discussion was the Internet. Wippermann spoke about the individualization of the media. Today, everybody can produce media. Travelers connect to other travelers and chat in Internet portals and write their own holiday-blogs. Further progress such as merging Internet, TV and telephone into one source fuelled by the widespread use of broadband technology would change the travel industry fundamentally. The manner in which services and products are presented and sold to the customer would have to change accordingly. Until now the Internet mostly provided information. In future, combining information with emotions (360° views, movies, personal virtual online travel consultants, etc.) will become standard.

The new media give consumers power over suppliers and tour operators. Travel reports and recommendations presented in blogs and on travel websites can change the image of hotels or airlines. Consumers are taking control of where they are searching, what they are buying, what they are recommending, with whom they are interacting. Companies that manipulate ratings and bestseller lists risk a lot. Unfortunately, this new trend makes orientation for the consumer on the Internet even more difficult. As a counter trend many users, especially seniors, may ask themselves whether they really need the Internet. The opportunity thus arises for specialized travel agencies and operators that provide personal consulting services to seize the reigns of progress.

However, a major part of society will never have access to the new media since they lack 'digital literacy' – arising from active denial of new technologies, as in the case of many seniors or even simply do not have the necessary education and financial funds.

1.3 Economic drivers

- Greater competitive pressure: Tourists expect more for less money.
- Polarization of demand for cheap and luxury offers: Growing pressure on the middle.
- Daily rock-bottom prices are normal and expected. The downward price spiral will revolve faster and faster and the margins will shrink.
- Fading Europe: End of industrial working in Western Europe.
- Booming Asia: Wealth and power shift towards the East.
- Vulnerability: Growing vulnerability of financial markets.

Price has become a key decision maker in the Internet age. Consumers have spent much time in front of their computers searching for and gathering information on the best and cheapest offer in spite of having to sift through non-emotional websites, complicated booking screens and limited tools to compare offers. Price will continue to be the main driver in price driven markets where next to simple, compact and comfortable basic products, individual do-it-yourself niche products are offered. Here, depending on their financial budget, consumers may combine a low-cost carrier flight with either a luxury hotel or a day bed in a private accommodation found over the Internet.

For distressed and overstrained consumers looking for relief and guidance, the new support markets will have an enormous growth potential. This growth will be driven primarily by small companies such as for example a one-woman-agency offering Yoga tours to India, than by the big tour operators or traditional travel agents. The latter are seen by experienced Internet consumers mostly as having the same level of knowledge as they themselves have. The former, the tour operators, are struggling with the necessary internal changes in the light of a declining mass market.

A growing population segment that is mostly neglected consists of people who have a very small budget for living and traveling, in Germany some may call them Hartz-IV-Empfänger, unemployed people living on social welfare checks. They have time – and would buy very low priced packages.

1.4 Ecological drivers

- Unspoiled nature will become scarcer and, therefore, more valuable.
- Climatic change. Regional climatic advantages shift.
- End of the oil reserves.
- Traffic jams will become chronic; the consequential effects increase and make traveling an even greater torture.
- Ozone: the sun is dangerous. Sun? Just say no!

1.5 Political drivers

- Political uncertainties increase and prevent or restrict travel.
- Growth of terrorism. Security measures, visa regulations and entry controls will become even stricter and make travel more complicated.
- Opening up of China. China and its numerous previously unknown sights could develop into the world's most popular tourist destinations over the next 15 years.
- Declining trust in politics.
- Disintegration of shared values. Clash of cultures. Intercultural conflicts spread and intensify. Thus, traveling will become more dangerous again.

2 Megatrends and counter trends – the consequences for the travel industry

In principle, holiday travel remains a mass business. However, it will be less organized and a more individual form of mass consumption. Holidays will be less frequently booked as package arrangements and more often compiled à la carte. Conventional categories will be dispensed with and the required service and comfort modules booked as required.

On the other hand, many people are looking for a greater sense of community. In many cases, the need for personal contact and to be together with friends and family is the reason for the journey – and this will become increasingly important. In the future, tourists will expect more meeting and dating services. The growing numbers of singles calls for services that help them organize their social and love lives.

As life becomes more complex and chaotic, as we are forced to be more mobile and travel with increasing frequency, we look for holidays as a counterbalance offering a touch of normality and stability – either stay at home or traveling to the same place year in, year out. The variety of arrangements threatens to overtax travelers more and more. How are thousands of elderly people of 80+ expected to get around large airports? In the future, straightforward but smart packages will be in demand, too. For simplicity is a privilege and also means VIP treatment: in the “fast lane”, travelers get where they want to go quickly and easily without queuing. On the other hand, simplicity also means more travel arrangements for “dummies”. Travelers will be given electronic, GPS guardian angels and thus monitored, guided and looked after by “remote control”.

There will be no more clearly defined holiday-leisure segments in 2020. For holidays are becoming increasingly packed with other activities. The number of hybrid arrangements offered will grow, e.g., hotels that merge with clinics, academies or museums, vacation clubs that also operate handcraft workshops, tower blocks with wellness resorts, cruise liners with temporary jobs.

By 2020, there will be virtually no unknown destinations any more. The world has been explored. Bombarded with stimuli, the majority of Western Europe’s older customers have experienced virtually everything. Instead of an ecstatic high, people want meditative tranquility and spiritual experiences. People are exhausted by life in the experience society. The more we can afford, the more we come up against the limits of our physical resources. Opportunities for relaxation will become more important than entertainment – just as is appropriate for the new ‘existential society’.

3 The evolution of tourism

Travel motives differ increasingly over time: travel for survival and occupational reasons are followed by travel for religious reasons to places of pilgrimage or on crusades. As society grows more complex, people start to show an interest in other cultures. Discovery, knowledge and education are important – as is, of course, the

ensuing prestige. Consequently, more emphasis is given to developing one's own personality in a dialogue with foreign customs, different kinds of art and new ideas, as soon as the individual assumes centre stage.

However, increased travel is not only the result of a growing self-awareness but also of the infrastructure available. The dangers of traveling decrease. Knowledge and travel experience increase while guides make travel easier. With the advent of new means of transport, traveling becomes faster and cheaper. Growing incomes mean that the great mass of people can travel solely for the sake of the experience, recuperation and pleasure: the way is free for tourism as a mass phenomenon.

4 Why we go on holiday

Basic motives and fundamental desires behind holiday travel, which will become even more important in the future.

- *Recreational*: The search for concentrated recuperation, relaxation and regeneration. Holidays as an emotional medicine against exhaustion, stress and depression.
- *Experiential*: The search for new experiences and sensations. To discover one's true self. The objective is not to see new places but to see with new eyes.
- *Diversivarian*: The search for pleasure, sport, games, variety and the chance to get away from it all. The chance to lose oneself in the fun and games.
- *Experimental*: The search for adventure and a dialogue with foreign ideas. Freedom from the limits imposed by things familiar and owned.
- *Tribal*: The search for love and togetherness with partner, family and friends.
- *Existential*: The search for purpose, happiness, relief and transformation. Travel with the aim of becoming part of something bigger and to find one's way.
- *Whatever*: No expectations. I travel because I can. Cheap offers generate demand.

5 Theses on tourism in 2020

Holidays as emotional medicine

The global trend towards health and fitness is leading to greater health awareness. Some talk of a new body cult and sensual illusion. Good health and a beautiful body are the prerequisites for being happy. Health is a growth market because more people are getting older and can afford to invest in their health and looks. Improved diagnostics and the early recognition of health risks cause people to concentrate more on their susceptibilities. Many of them develop an almost hypochondriac fear of becoming ill and are thus open to many offers that promise health benefits.

On the medical side, the growing specialization on technical operations also leads to nursing specialization and emotional care for patients. In particular, the frail, singles and people disappointed by high-tech medicine will increasingly seek emotional support during their holidays.

For tomorrow's health holidays, the emphasis will be less on the hardware, i.e., bathing facilities, saunas, fitness rooms, etc., and much more on the software, in other words, emotional and spiritual care.

In addition, hybrid offers combining health treatments or surgery in foreign countries, where operations are much cheaper, with hotel stays for recovery will be future growth markets.

"Get to" instead of escape

Tomorrow's travelers will increasingly look for the familiar and not the unfamiliar. More and more people will spend their holidays at home, in the region or with their families. A new interpretation of affluence is emerging in the mature markets and old societies. An improved quality of life means peace, space and more time for oneself and one's loved ones.

Older people have different values and wishes than younger people. The older we become, the more our happiness depends on immaterial values, on personal experience instead of ownership and on interesting relationships instead of boring ego trips. The immediate region will become generally more attractive. Holidays at home in a larger sense, i.e., not the dwelling but "at home in the region", will become more important.

More and more people, who can afford it, buy second homes in holiday locations or warmer regions. They want to escape their daily routine, not to an impersonal hotel but rather to their personal vacation hide-away. As a reaction to this trend Romeiss-Stracke notes that 'regional partnerships' will gain importance; established partnerships for example between urban agglomerations like Zurich and its rural and holiday regions like Grisons are imminent. In particular, support is needed for travelers as well as inhabitants in order to ease the negative effects of the increasing mobility.

Comfort and care

People who frequently change their places of work and residence – who travel a lot and spend more time with strangers than with their family – no longer dream of exotic countries. Mobile people with no fixed roots, at home in several different places, yearn for a genuine home. This yearning becomes all the stronger the more difficult it is to achieve what they want.

Given that more and more women work outside the home without more men assuming more responsibility for the housework, it will be increasingly necessary to satisfy the need for security, cuddles and a feeling of being cared for away from home. Tomorrow's travelers will be drawn less to the attractions of the foreign than to those of Hotel Mama where everything is just like at home – only better, and where someone gives us directions for our lives.

Wippermann identifies ‘Funky Biedermeier’ as a new trend in furnishing, a revival of the coziness of earlier days. It appears as if people are turning away from the big uncertainties of our everyday life and the coldness they feel in our today’s societies.

Social hubs for meeting and mating

Travel markets are relationship markets. We travel to meet families and friends, to encounter new personalities, to have casual sex or because we are secretly hoping for the love of our lives.

The search for a new partner is proving increasingly difficult for a growing number of singles. Under the new circumstances in which we live, conventional ways of finding a partner are inadequate.

One of the main reasons why online dating services are doing so well is that there are no “on-land” alternatives especially for older people. There is nowhere that people in the mature age groups can go to meet a new partner or lover in an easy and uncomplicated way.

For tour operators, an exciting market for real meeting places will open up as an addition to online-marriage markets, chat rooms and networking platforms. In future, marriage agencies will provide the software while tour operators supply the stage for romance, as well as the players for potential love stories.

Hyper holiday hubs: “more inclusive” made to measure

Tomorrow’s mass tourism will take place in hyper holiday hubs. Gigantic holiday resorts will be built in the Mediterranean, the United Arab Emirates, Qatar, China or Brazil. These hyper-modern recuperation centers will offer the entire spectrum of what the heart desires: warmth in all variations from direct sunshine to carefully measured thermo treatments, love from casual affairs to romantic adventures, physical recuperation from cheap face lifting to individual organic anti-aging treatments. With everything – including the airport – conveniently located in the same place.

Holiday hubs offer appropriate ready-made holidays, industrially prepared to the extent that they only have to be unpacked and served. Once the success factors for “good holidays” have been discovered, it will be possible to reproduce them wherever required. Given sufficient reserves of land and good transportation links, it will be possible to set up holiday hubs anywhere in the world.

The most popular “destinations” in 2020

The process of segmentation into a big mass market and into differentiated premium markets will continue. In the tourist sector, the differences between rich and poor will become more obvious than ever. Decisive for an intensive experience is personal service down to the smallest detail coupled with great style. Consumers will finally be able to claim: I have experienced something that I will always want to tell. No one can relate a similar experience.

Super luxury

Travel continues to be important for the super rich. After all, there is no better material way of demonstrating success than by traveling. The world's richest people solely want to associate with and measure themselves against their peers. In this connection, exclusiveness and the private sphere are key notions that define the elite. However, there are differences between the various generations. Via ultra-luxurious holidays, younger people show how far they are ahead of their contemporaries. The baby boomers see themselves as pioneers. Instead of investing in their businesses, they now invest in experiences, in their own lives and in the family.

Luxury

New luxury means privacy and adventure, i.e., spending a weekend with all members of the family in the shade of genuine old trees or inviting family and friends for a holiday with full service on one's private island or simply having time alone with no disturbances.

Given, however, that the general standard of living is likely to fall significantly over the years until 2020, it will become an ever greater luxury to be able to satisfy one's own highly individual wishes or yearnings for a short space of time (or even to simply decide on the time, place and service level of the trip), regardless of whether at sea, in the mountains or in space.

Cheap

Cheap is and remains everything that is packaged and easy for the tour operator to handle, i.e., all-inclusive holidays to Majorca for the family, a trip to Thailand for a couple. Everything that is aimed at the masses will also stay cheap: pensioner colonies in low-wage countries with standardized care services (jointly financed by the medical insurance fund), flights to San Francisco for 100 Euro or a cruise at a bargain rate with EasyCruise.

6 Conclusion

By 2070, it might even be possible to implant a travel experience in our brains, as in the film "Total Recall". Naturally, the souvenirs for the home display cabinet would also be provided.

Reference

Future of Leisure Travel – Trend Study (An independent study created by the Gottlieb Duttweiler Institute on behalf of Kuoni. © Kuoni 2006 ISBN 3-7184-7032-2)