

TrendTopic
Tourism

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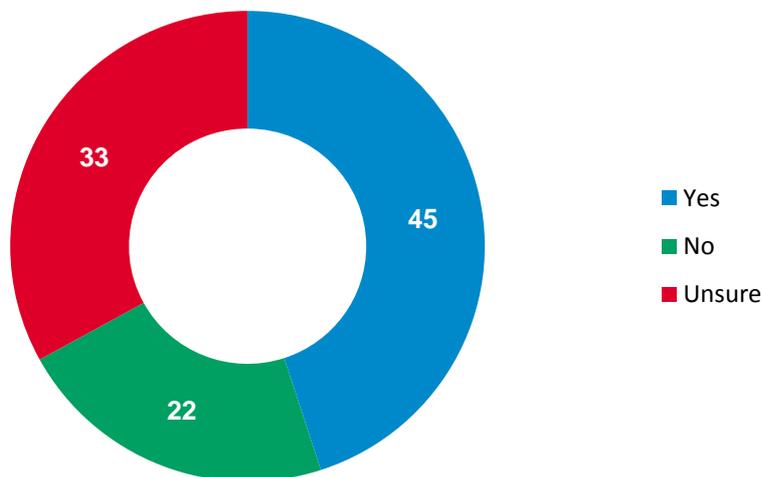
Market Trend Continues Upward

- After a good year in 2010, prospects for tourism are even better for 2011. Four out of five Germans already started planning their holiday trips at the end of 2010 according to the Forschungsgemeinschaft Urlaub und Reisen (Research Association for Holiday and Travel) FUR. At the beginning of 2011, the Stiftung für Zukunftsfragen BAT discovered that already 45% of Germans were determined to go on a holiday trip lasting at least five days. 33% were still unsure. Only 22% were certain that they would not go on holiday.

2011 will be even better

2011 Holiday Planning

Planning a trip of at least 5 days?



Source: BAT Stiftung für Zukunftsfragen (Foundation for Future Studies)

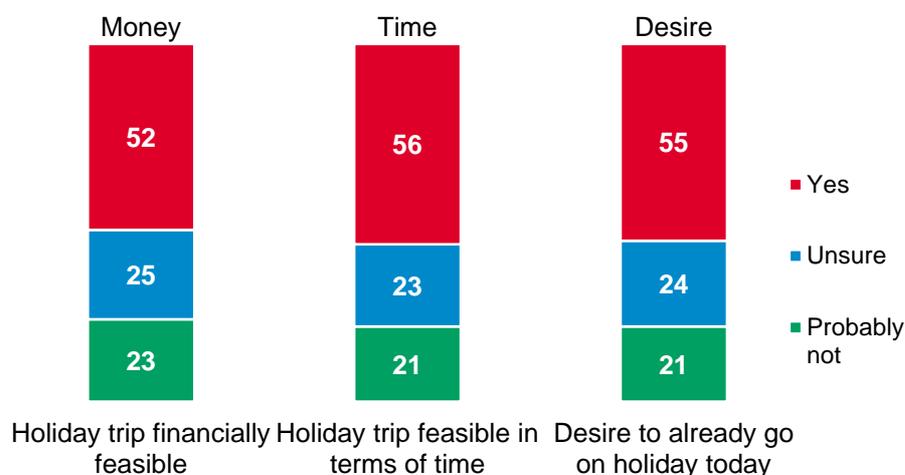
- At the beginning of 2011, 28% of those determined to travel still did not know which destination(s) to visit. This is a larger number than those who have already decided on Germany or another destination. As a result, the German holidaymakers still represent a high potential for the advertising of travel destinations.
- Growth is also in sight globally. According to the World Tourism Organisation (UNWTO), an increase of about 4% for international arrivals is conceivable for 2011 and would equal a volume of 965 million trips. However, this perspective of the future could change quickly in view of the continued risky situation for the global economy. The growth in global tourism is in particular attributable to emerging markets, which include countries such as India, China, Russia or Brazil. These countries hold an increasing significance as both source markets and travel destinations.
- Nevertheless, domestic providers also have high hopes. In the fall of 2010, fewer Germans perceived financial barriers that could hinder them from going on a holiday trip (23%, down from 27% in the previous year) in compared to the year before. Considering this background, the Research Association for Holiday and Travel expects a very good year for holiday

The number of travellers increases

tourism in 2011. Not only is the number of holiday travellers expected to increase, but also the number of trips and their corresponding expenditures as a result. 23% of Germans intend to travel more than in the previous year, and 17% intend to travel less. These figures stayed balanced on a regular basis in the previous years.

2011 Holiday Trips – Trend Indicators

Share of population between 14 and 70 years



Source: FUR November 2010

- According to surveys by the GfK from the first quarter of 2011, the number of travel bookings in the higher price range increased while they decreased in the price range below 1,000 euros. This could be understood as an indicator of increased travel budgets this year. Especially single travellers and couples will spend more for their summer holiday in 2011. According to the GfK, they will spend 6.7% more for their trip. The average price paid per person increases to 954 euros as a result. However, the increase of 2.6% in expenditures of families is comparatively moderate.
- The average length of travel for Germans was only 12.5 days in 2010. Consequently, Germans travelled one half day less than in 2009 (13 days). Even if the financial means become increasingly scarce for some households, they still would not want to miss their holiday travel. According to British American Tobacco (BAT), the duration of a holiday trip has continuously decreased in the last 30 years by approximately two days per decade: it was 18.2 days in 1980, 16.3 days in 1990, still 14.8 days in 2000 and, as mentioned above, 12.5 days in 2010. If this trend continues, the average travel duration could drop below ten days for the first time towards the end of the decade according to the research institute.

Holiday budgets increase in 2011

The length of holidays has been continuously decreasing for years

Trips Abroad – Turkey is Unstoppable

- According to the tourism analysis by BAT, Spain has maintained its leading position as the most important travel destination in 2010: 13% of holiday-makers travelled to the Balearic or Canary Islands and the Spanish main-

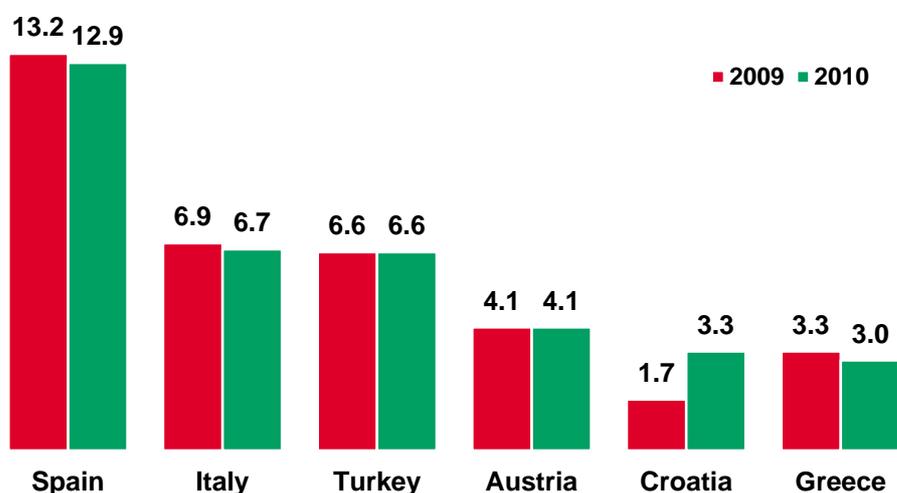
land for their main holiday trip – that is almost double the number of people travelling to Italy.

- The number of German guests has increased by an estimated 4% according to the Spanish Tourism Association. It is quite possible that Spain benefited not only from the overall more frequent travel by Germans but also from the strikes and unrest in Greece. When travel plans at the beginning of the year are considered, it appears that Spain will maintain its dominant position. Especially the Balearic Islands can once again look forward to many visitors in 2011.

Top Travel Destinations Abroad

2009/2010 travel destinations in %

*Spain is the undisputed leader,
Croatia shows strong gains*



Source: BAT Stiftung für Zukunftsfragen

- Spain also leads the ranks of the most important tourist destination for Germans in terms of travel expenditures. They spent almost 6.6 billion euros in the Mediterranean country in 2010 according to Commerzbank estimates, which is 200 million euros more than in 2009.
- In Italy, Germans spent 5.3 billion euros during the past year, which equals 0.8% more than in the previous year. Italy and Turkey are in a neck-and-neck race for second place when it comes to winning the favour of the holidaymakers – at least in terms of the number of travellers, but not their expenditures.
- For 2011, the prospects of attracting German tourists are significantly better for Turkey than Italy. Turkey already managed to surpass Austria, Greece and France by far in the previous years and can look forward to additional gains. The country in the eastern Mediterranean has probably benefitted not only from its reputation as an affordable travel destination but also from the Greek government's debt crisis.
- According to BAT (British American Tobacco), the major advantage of Turkey is found its diversity: natural resources, guaranteed sunshine, beaches and cultural highlights from the Hagia Sophia to the travertine terraces of Pamukkale, in addition to a high degree of hospitality and service orienta-

Excellent prospects for Turkey

tion. This offer apparently appeals to a broad range of target groups and is very popular with young adults, childless couples and families.

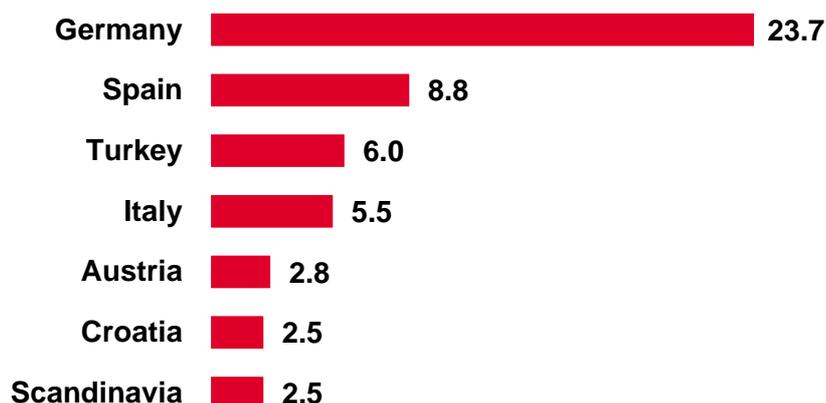
- Travel expenditures by Germans increased by 5% to 6.3 billion euros in Austria. This trend is moving somewhat away from summer trips and towards winter holidays. The alpine country also gained market shares with German travellers in 2010, while Switzerland lost some ground (Commerzbank). This is due to the Swiss Franc, which has been appreciating for years, making holidays in Switzerland noticeably more expensive for foreigners. Germans holidaymakers even spent a little less than in 2009. Switzerland is the only top 10 country – with the exception of France – to post even less receipts from Germany following the losses in 2009.
- The long-distance travel market once again posted significant gains following the crisis year of 2009. For 11.6% of Germans, holiday travel led to destinations outside of Europe (2009: 10.2%). All overseas destinations from Asia to Africa and from North America to the Caribbean recorded gains despite terror attacks and natural disasters.
- German travellers will only avoid travel to crisis areas in North Africa temporarily – many tourism researchers are convinced of this. The tourist memory is supposedly short. Travel destinations in Egypt and Tunisia could emerge as popular options for Germans in the medium term.
- According to surveys by the GfK, bookings for Egypt are accelerating again. Since the end of February 2011, significant tendencies of recovery have been observed. The increase is more pronounced in the online travel business in comparison to brick-and-mortar travel agencies.

Trend of winter holiday in Austria

Long-distance travel recovers

2011 Travel Intentions

Shares in %



Long-distance travel 9.8

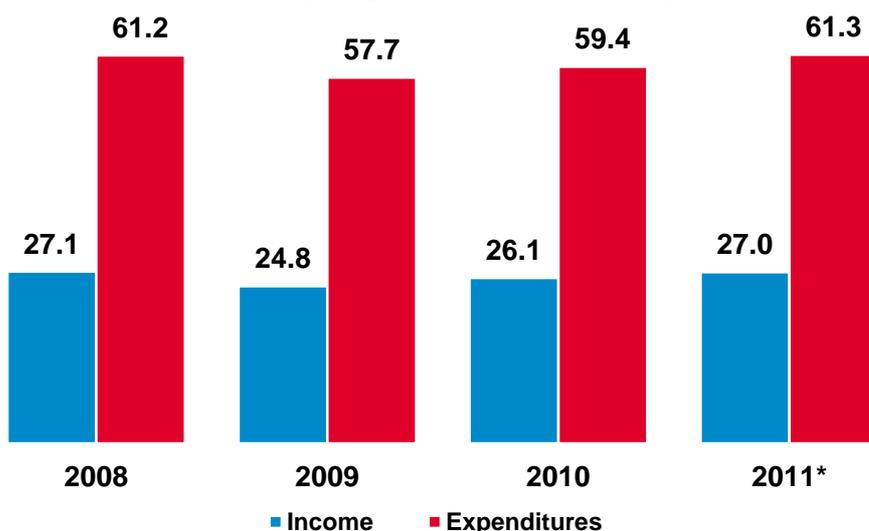
Planning January 2011; Holiday trip > 5 days; Basis: population > 14 years

Source: BAT Stiftung für Zukunftsfragen

- In the FFS survey at the beginning of 2011, 9% of those planning travel had already decided to spend their holiday in Spain. Turkey (6%) ranked second among travel destinations abroad. The high share of long-distance travel of 10% is probably due to the fact that these types of trips are planned for a long time in advance and the share of unsure people is relatively low. Nevertheless, Germany is once again the most popular holiday destination in 2011.
- According to forecasts by the Commerzbank, substantial increases in incomes for private households and decreasing unemployment are likely to stimulate travel expenditures by German consumers. Expanding investments will go hand-in-hand with higher budgets for business travel. Overall, German travel expenditures abroad are likely to noticeably increase by 3% in 2011. At 61.3 billion euros, they will be above the 2008 level, which was the record year prior to the economic crisis.

Travel Income and Expenditures

Travel account balance with foreign countries (in billions of euros)



Travel expenditures abroad continue to increase

* Prognosis

Source: Commerzbank

- Competition is increasing among the various holiday destinations. On the one hand, increasingly more destinations are being developed and actively marketed. On the other hand, German holidaymakers are familiar with more and more destinations. The high travel activity over the years allowed them to gather comprehensive travel expertise and the inhibitions about trying new places has decreased. According to travel research from 2010, 41% of German holidaymakers have travelled to a destination for their main holiday that they were not familiar with in advance. In 2001, the ratio was still at 33%.
- The ratio of new destinations for travel abroad was somewhat higher at 45%, compared to only 33% venturing to unknown places for domestic travel. Familiar regions also tend to be preferred for second and third trips.

Domestic Travel – Close Destinations Tempting During Crisis

- Germany travel remains trendy. More than 112 million domestic travellers lodged at a hotel, holiday apartment, youth hostel or camping grounds, which is 3.7 million more than the year before (+ 3.9%). As a result, Germany remains by far the most popular travel destination for Germans.
- Easy planning, short and therefore relatively affordable access and also price stability remain decisive arguments even after the economic crisis (Commerzbank). However, guests stayed for a shorter period of time at their travel destination in 2010. The number of overnight stays of German guests in German accommodations lagged behind the increase in the number of guests.
- More than one out of three travellers (37%) spent their holiday in Germany during the past travel season. The coastline of the Baltic Sea was the winner of the 2010 travel season according to a survey by the Stiftung für Zukunftsfragen (Foundation for Future Studies) BAT and welcomed about every 11th German holidaymaker. Especially the Baltic Sea coast in Schleswig-Holstein rejoiced over a significant increase of guests compared to the previous year (share of 6.4%). On the other hand, Mecklenburg-West Pomerania benefitted from the growing number of holidaymakers in the hinterland, such as the Mecklenburg Lake District (share of 7.3%).
- The Bavarian holiday regions also managed to maintain their number of guests, just like the coast of the North Sea. In contrast, travel destinations in Baden-Württemberg (e.g. the Black Forest and Lake Constance region) suffered declines – for the first time in years – and failed to maintain their previous year's high level.
- The city-states of Berlin, Bremen and Hamburg have grown in popularity. This generally holds true for large cities with a population of more than 100,000 since they recorded an increase of almost 8% in overnight stays during January to October from domestic travellers compared to the previous year. This is a strong indication of a continuing boom in city travel that has been evident over the recent years. The cities of Berlin and Hamburg stand out in particular. They have increased their number of guests by 38% and 42% respectively since 2005. Events such as "Ruhr Area: European Capital of Culture" were also a magnet for visitors in 2010. Urban centres probably also benefitted from increased travel activity by business travellers (Commerzbank).

Holiday in Germany remains attractive

37% of holidaymakers stayed in Germany in 2010

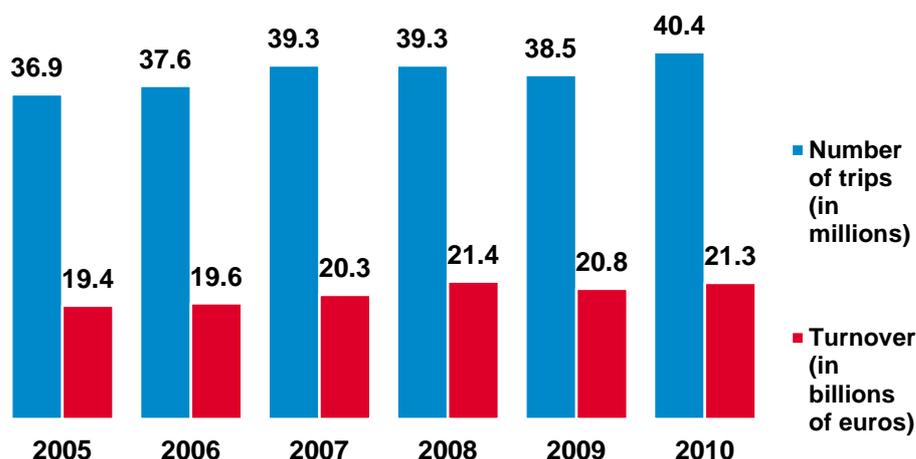
Operators Achieves Turnaround

- The German tour operator market has again returned to its growth path after small losses in the crisis period of 2008/2009. According to the German Travel Association DRV, the total volume of the market for organised travel in the 2009/2010 season was 21.3 billion euros, which is an increase of 2.5%. The number of travellers increased even more by 5.0% to 40.4 million persons.
- The difference between the development of revenue and number of travellers results from the price discounts of operators who sometimes passed on low purchasing cost for flights and hotels to their customers according to the German industry magazine *FVW*. The prognoses for 2011 are cau-

Industry returns to growth track

tiously optimistic. REWE Market Research expects a market growth of 2% to 3%.

Revenue and Number of Trips in the Operator Market

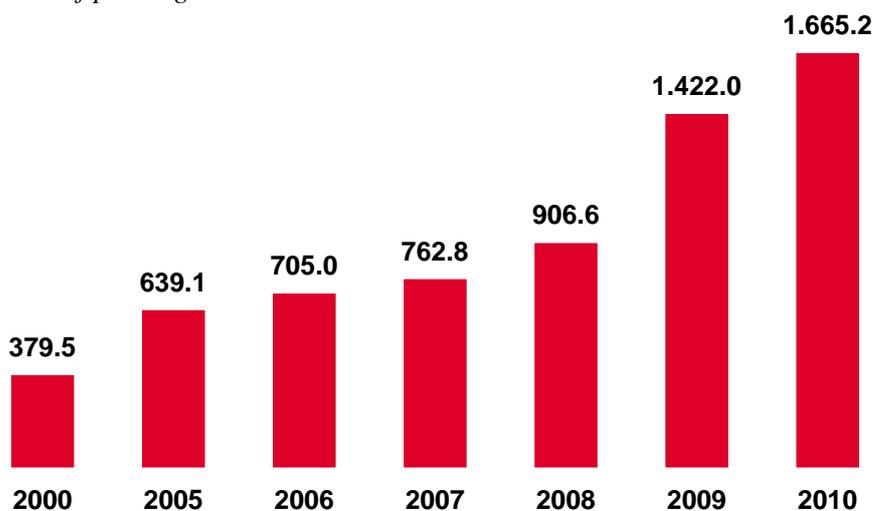


Source: DRV / REWE Touristik

- Package airline holidays managed to turn around according to surveys by REWE Market Research despite the ash cloud in the spring of 2010 (+1%). Long-distance growth was 3%, which can also be traced back to price increases due to an appreciation of the US dollar. On the other hand, short- and medium-distance travel only recorded a slight plus of 0.5%. However, operators had also cut flight capacities drastically due to the economic crisis.

Number of Cruise Ship Passengers from Germany

Number of passengers in thousands



Source: DRV / FVW

- The 2009/2010 travel year brought about a revival of ground-based travel. According to the DRV, this heterogeneous segment, which includes providers of holiday apartments and bus travel among other things, has grown by 2.5% after a decrease in the previous year.
- Ship cruises continue to develop in a very positive way and there is no end in sight for the boom. Additional new ships will be commissioned – by Aida or TUI Cruises, for example – in 2011. Cruise operators included in the FVW's analysis increased their revenues by 17.1% and exceeded the previous year's growth by 3.6 percentage points. The total market, which also includes cruise ship operators not surveyed by FVW such as Costa, Royal Caribbean or NCL, grew by approximately 14-15% (REWE Touristik).

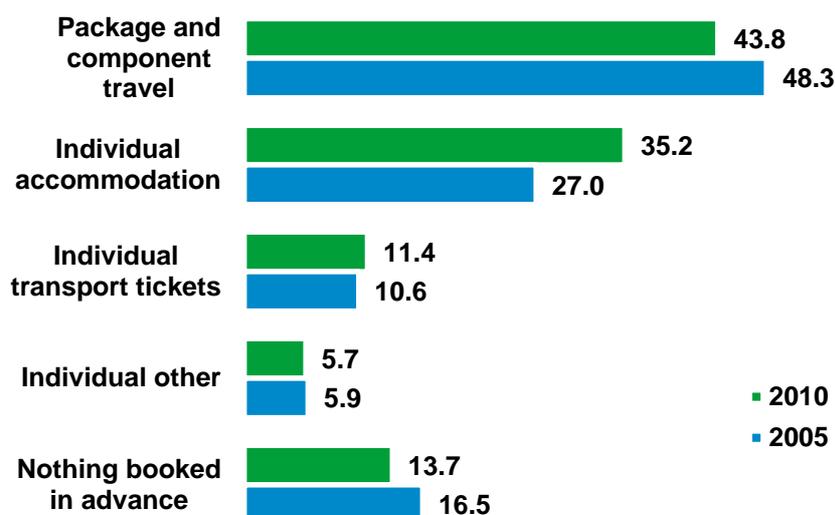
Cruise ship boom continues

Higher Demand for Flexible Offers

- The frequently predicted end of packaged tours appears to be quite premature – at least according to travel research by the Forschungsgemeinschaft Urlaub und Reisen (Research Association for Holiday and Travel) FUR. Classic packaged holidays and component travel combined for 44% of all holiday trips exceeding 5 days.
- Considering the many unpredictable political crises and natural disasters, professionally pre-packaged products combined with the operator's assurance appear to appeal to the security needs of many German holidaymakers.
- But the independence of holidaymakers is noticeably increasing. Accommodations were booked directly with the provider for 35% of holiday travels (hotel, holiday apartment, etc.) compared to 27% in 2005. 11% booked tickets on their own.

Organisational Form for Holiday Travel Exceeding 5 Days

Responses in %; multiple answers possible



Accommodations are booked independently at a significantly higher rate

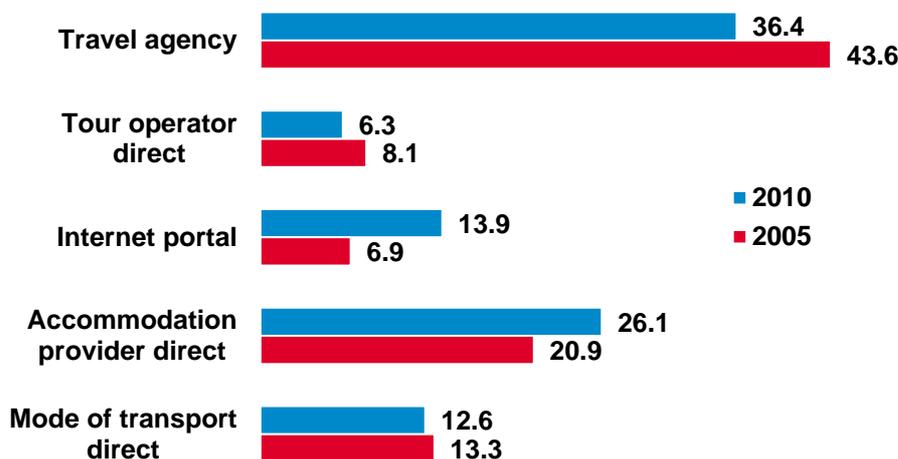
Source: ReiseAnalysen (Travel Analysis)

- Nothing was booked in advance for just 14% of the trips. In these cases, people simply left home and relied on their organisational talent at the holiday destination or during the tour. However, this type of holidaymaker has decreased in significance due to the ease of booking on the Internet.
- Above all, dynamic packaging travel has emerged as the competition for off-the-rack holidays: However, only 6% of all holiday travel exceeding 5 days was in the category of such flexibly packaged travel in 2010. This allows holidaymakers to individually combine flight, hotel and additional services without losing the legal protection of a packaged tour. More than 20% of Germans have already signalled a positive or very positive attitude towards these flexible operator products.
- Tour operators have developed or are currently working on corresponding IT systems for the individualisation of their products (combination of components within the scope of packaged travel). REWE Touristik's component travel (Dertours, Meier's Weltreisen) is the leader in this segment. Other companies such as FTI have followed. Thomas Cook now offers dynamic packaging at its Neckermann and Bucher brands (combination of travel services with daily updated prices).
- Component travel clearly has its emphasis in long-distance travel. A relatively large number of holidaymakers only books individual components: Long-distance travellers often have extensive travel experience and are satisfied with the booking of selected partial products.

More than 20% view component travel as positive

Place of Booking for Holiday Travel Exceeding 5 Days

Responses in %; multiple answers possible



Travel agencies lose, Internet portals win

Source: ReiseAnalysen (Travel Analysis)

- In their long-term prognosis, FUR expects that the market share of operator travel will continue its overall expansion until 2015. However, the boundaries of current segments will continue to erode and make classification increasingly difficult due to more flexible packaged travel and more Internet bookings. The significance of travel without booking anything in advance is likely to continue its decline in view of how easy it is to make reservations on the Internet.

Internet facilitates self-bookings

- Online portals and accommodation providers gain at the expense of travel agencies when it comes to the location of booking. Above all, the Internet allows for easier and more comfortable direct booking with the service providers. This supports the trend of booking individual services at the expense of all-inclusive packaged travel. Tour operators have correspondingly expanded their offering by being present in all booking locations.
- According to Internet Facts IV 2010, 9.6 million persons have already purchased flight tickets from budget airlines on the Internet and 7.1 million persons have already done so at other airlines. 12.2 million persons have booked holiday travel on the Internet and 13.9 million persons have already booked hotels (but this includes business travel). The Internet is no longer a niche.
- Many travellers now can hardly imagine planning a trip without using the Internet. The Internet has actually been adopted rapidly by travellers as a medium of information. Two-thirds of all Internet users already get their holiday information here. However, the Internet does not always replace other resources such as travel reports and travel guides; instead, it complements them.

Travel Operators Increasingly Focus on Earnings

- The market leader TUI suffered an additional decline in revenues in Germany during the 2009/10 tourism year. Despite increasing industry revenues, TUI's comparable revenues declined by 2.1% to 3.84 billion euros. Compared to industry revenues of 21.3 billion euros, the TUI Group achieved a share of 18.0% (excluding TUI Cruises and Hapag-Lloyd Cruises).
- In 2009, TUIfly transferred the marketing of city tours to Air Berlin. If this business were included, FVW's calculations would have resulted in a revenue decline of approximately 8%. However, TUI clearly maintained its leading position in the tour operator business. This becomes even more evident when adding Hapag-Lloyd Cruises and TUI Cruises, which both belong to the TUI Group. The total revenue would then be 4.2 billion euros. The divestiture of the city tours business has also contributed significantly to a considerable increase in operating earnings.
- As in the previous years, REWE Touristik has grown significantly. Total turnover increased by 3.6% to 3 billion euros. The component brands such as Dertour or Meier's Weltreisen grew faster (+5.2%) compared to the package holiday brands of ITS, Jahn and Tjaereborg (+1.5%). Overall, the tour operator division of the REWE Group maintained its second place slightly ahead of Thomas Cook.
- REWE Touristik already passed Thomas Cook in the previous season and recorded a share of 14.0% in 2010. Thomas Cook remained close behind with 13.4%; Thomas Cook's acquisition of Öger Tours in 2010 had a positive impact (FVW).
- Similar to TUI, considerations regarding earnings are in the foreground for Thomas Cook. Both companies are listed on the exchange. Operating income increased by double digit percentage points similar to TUI. At the same time, revenue grew by 9.6%. This was mainly due to the acquisition of Öger Tours and the individual flight bookings of the holiday airline Con-

TUI revenue continues its decline

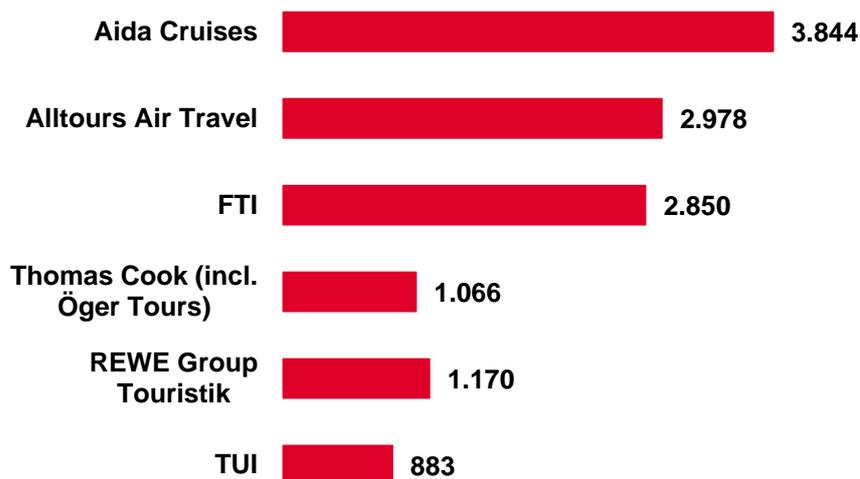
REWE maintains 2nd place thanks to component travel

Thomas Cook acquired the revenue from Öger Tours

dor. Without the additional revenue from Öger Tours, the overall revenue trend would have been negative according to industry estimates.

Travel Operators by Revenue for 2009/2010

In billions of euros



TUI and Thomas Cook still underrepresented in the cruise market

Source: FVW

- The limited capacities of the two international companies TUI and Thomas Cook, as well as the market expansion in the cruise market, have led to losses in market share in both cases. Up to now, Thomas Cook and TUI have not been or are only present in selected segments of the cruise industry.
- TUI Germany and Thomas Cook remain under earnings pressure in 2011; however, savings potentials appear to be exhausted for the most part. Both companies plan to have growing revenues in the summer. The pursuers have also started aggressively into the 2010/11 season. The successful cruise operator Aida Cruises has also attracted growing attention from the market leaders.

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