



- Policies - Structural Changes in the Industry

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IFTO Policies

Structural Changes in the Industry

Changing Sales Patterns – the Growth of the Internet

Until the late 1990s, the majority of leisure travel arrangements were sold across Europe in one of two ways, namely:-

- Direct by tour operators, using brochures, newspaper advertisements and other promotions such as teletext.
- Through high street retail outlets – either independent travel agents, or the tour operators own retail premises.

The internet has led to a revolution in sales patterns, both in relation to traditional businesses, but also in the effective creation of new routes to market for different businesses.

In many parts of Europe, the high street travel agent remains a key component to selling leisure travel.

Nevertheless, the massive growth of internet penetration means that an ever increasing proportion of the population of most EU countries are prepared to research their trips and book their travel arrangements on line. Some sample data is included below¹:-

	Percentage of Population online	Percentage who regularly research travel online	Percentage of population who regularly book travel arrangements online
Sweden	74.9%	45%	16%
UK	59.2%	32%	40%*
Germany	59.0%	39%	17%
Netherlands	65.9%	38%	n/a

* 40% represents the proportion of leisure travel arrangements made online.

In some markets of Europe, internet sales now represent 50% or more of the total sales of tour operators.

The use of the internet has also led to a new breed of suppliers. Online retailers have grown rapidly, whether acting as pure retailers, and as such as a direct replacement to high street retailers, or in some instances packaging their own product as a replacement for tour operators, by making available the flights and accommodation of other suppliers. These businesses are directly in competition with the established players, and in some instances are taking significant business from them. However, these businesses are not always the subject of the same level of regulation by authorities as traditional players, which has the potential to cause market distortion.

Access to the internet has also meant that it is increasingly possible for suppliers to go directly to consumers, apparently avoiding the need to sell their products through intermediaries such as travel agents or tour operators.

¹ Data obtained from European Travel Commission portal, and is accurate to 31st August 2006.

However, the dominance of the major search engines has meant that where a supplier does seek to sell their product direct, in order for them to succeed, they have to ensure a high number of hits on search engines to ensure that their product is appropriately positioned. This can be challenging, and to date it has proved very difficult for many accommodation suppliers successfully to market their products directly through the internet.

As such, it is IFTO's view that there remains an important role for tour operators in using their marketing skill and expertise to bring the products of accommodation suppliers to market in a cost effective fashion.

The internet has become the preferred sales channel of many new airlines, for whom it provides a route to market. The most successful online travel sites tend to be those of the airlines, with Ryanair and EasyJet featuring in the top ten travel sites for most markets in which they trade.

It should be noted that despite attempts of the EU to provide consistent consumer protection across Europe, customers booking on the internet are not always aware of their rights, and those rights may vary according to the location of the website.

No-Frills Carriers

EU aviation liberalisation in the early 1990s created a climate whereby it was possible for new carriers to develop into EU routes with relative ease.

Since the turn of the decade, there has been a massive expansion in the number of so called 'low-cost carriers' and 'no-frills carriers'. This has been led in particular by the growth of Ryanair and EasyJet, although most EU countries now have one or more carriers operating in their market.

In the 12 months to August 2006, Ryanair carried 38 million one-way passengers, EasyJet carried approximately 32 million passengers and Air Berlin carried approximately 20 million one-way passengers.

The majority of passengers travelling on the no-frills airlines do so for leisure purposes, and as such, these airlines are in direct competition with the tour operators who make up the majority of the IFTO membership.

Indeed in some instances, IFTO tour operator members have adjusted their business models to compete head on with the no-frills carriers. In many ways this is not difficult, as the traditional operating model of charter airlines is not dissimilar to the no frills carriers, in that costs are kept low and the aircraft experiences a very high utilisation, thus reducing the cost per passenger.

The no-frills business model relies on a number of features, and in particular:-

- Short sectors – normally less than three hours.
- Four to five round trips per day.
- Point to point flights, without any form of hub as operated by more traditional carriers.

The no-frills carriers have also been able to grow their business by the use of single aircraft types and rigidly containing their costs of operation, as well as attempting to ensure very high loads and strong yield management processes.

It can clearly be seen that there are distinct similarities with charter operators.

There is however one very distinct difference between no frill airlines and charter airlines. That is that the charter airlines are generally carrying the customers of tour operators who are bound by the terms of the Package Travel Directive. This means that the majority of customers travelling with charter airlines are protected in the event of the financial failure of the holiday provider.

IFTO is therefore concerned that the no-frills carriers do have a market advantage which is not available to traditional players, and is therefore concerned that regulation, or the lack thereof, is actually distorting the marketplace.

Furthermore, since the no-frills carriers have been concentrating on operating leisure routes within the EU, this has led tour operators to review the markets in which they operate, and tour operators are increasingly choosing to operate to different destinations from those used by the no-frills airlines. Tour operators are therefore looking to operate to destinations not normally featured by the no-frills carriers as part of their response to the competitive threat.

Changing Destinations

Across Europe, customers are travelling increasingly to different destinations. Whilst the traditional mainstream destinations of Spain, Greece, Italy, France and Cyprus remain very important destinations for most EU outbound markets, there has been a massive growth in new destinations, particularly those around the fringe of the Mediterranean, such as Egypt, Turkey, Bulgaria, Tunisia and Morocco. There are a number of factors contributing to this growth.

Many destinations recognise the potential revenue for tourism, and governments have therefore focussed on encouraging the tourism product. This has led to significant increases in the number of beds available, as well as construction of the supporting infrastructure to encourage and support tourism.

Furthermore, prices in the traditional destinations have risen in recent years, partly as a result of the strength of the Euro when compared to other currencies. This has meant that prices in the traditional destinations are no longer as attractive when compared to source markets as they once were. When the price of a beer is the same in Rhodes as it is in Hamburg, a holidaymaker does not have the same desire to travel to that destination for their holidays.

The growth of the no-frills carriers has also impacted on the destinations which tour operators choose to feature. The no-frills business model generally involves inter-EU flights with less than three hours flight time. In some source markets, the no-frills carriers have swamped the routes to other EU destinations. As a result, tour operators have looked to find alternative destinations, and these are typically those destinations outside the EU but still within a reasonably short flying distance. Alternatively, destinations a little further away but with growth potential for the reasons already outlined have been the destinations of choice.

The net effect of all these changes has been a boom in destinations outside the EU but still in the Mediterranean basin.

There has also been significant growth in long haul destinations, triggered by the relatively good value for money these destinations offer, particularly when compared to Euro-zone countries. The growth of these destinations is however under some threat from environmentalists' pressure in relation to the environmental impact of aviation.