

Greetings from Europe

Landscape @ Leisure

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The Mediterranean Tourism Market

The countries of the Mediterranean basin are popular tourist destinations. The landscapes that inspire millions of people to travel include pristine beaches, historic cities, dramatic coastlines like the volcanic caldera of Santorini, cultural heritage sites with awe-inspiring ancient monuments and forest-covered mountains with picturesque villages. With this popularity comes certain economic benefits, such as income for thousands of businesses, job creation on a grand scale and development of poverty-stricken regions. But it also brings many problems. Most of these landscapes are nowadays being degraded by overdevelopment, as more and more land is used for building hotels, holiday homes, shopping centres, marinas, golf courses and other attractions, leading in turn to overexploitation of scarce water resources and deforestation. In fact, there are many cases where short-sighted policy makers and administrations have allowed greedy business practices to destroy the very same landscapes that put their respective region on the tourist map. This has resulted in the decline of several once fashionable Mediterranean travel destinations.

An analysis of Mediterranean-bound tourism reveals that there are certain market forces driving the annual mass migration of millions of sun seekers from the north to the south of Europe, which constitutes the world's largest tourist movement. These forces include Europe's major tour operators – used by the majority of tourists – and, more recently, internet-based travel operators, ownership of holiday homes and the rapid rise of low-cost carri-

ers that have driven the growing market share of self-planned travel at the expense of tour operators during the last decade.

Any landscape-related policy needs to consider these market forces in order to understand a land-devouring industry like tourism and to regulate and manage it in an effective way. This essay includes an overview of these market forces from a Mediterranean point of view as well as some thoughts on the trends and the outlook of European tourism, which is part of the wider leisure market.

'Leisure and tourism are two partly overlapping terms. We can spend our leisure time either in or out of town; any leisure activity away from our place of residence constitutes tourism, be it a day excursion or a six-month backpacker trip around the globe. However, tourism is not limited to leisure travel but also includes business trips, family reunions as well as other travel made for the purpose of satisfying personal and business motives such as health and professional development.'¹

Leisure travel constitutes the largest segment of tourism. It was the institutionalisation of leisure time in the form of paid vacations that led to the explosive growth of tourism, especially in Europe after World War II. More and more people could afford to spend both money and time for engaging in a recreational trip. What once used to be a privilege of the upper class, later became a necessity for most people living in an industrial society. Nowadays, even low-income households in Europe's developed

nations can afford a week's vacation in the Mediterranean.

This constantly growing demand for leisure activities away from home led to the formation of the tourism industry as we know it today. Millions of businesses ranging from multinational conglomerates to very small family-owned enterprises offer a great variety of travel experiences and provide huge capacities for transporting, sleeping and entertaining huge numbers of travellers. For instance, there are more than 23 million beds provided in all sorts of tourism accommodation (such as hotels and holiday villages) just in the 25 member states of the European Union.²

The mass scale of modern-day tourism is especially evident in the case of Mediterranean-bound travel of European tourists. This case will be used to illustrate the changing face of the tourism marketplace.

The Mediterranean basin attracts over two hundred million international tourists each year, making it the world's most popular travel region (numbers are even more daunting when taking into account domestic travellers in these countries). For instance, in 2007 23.8 million out of a total of 49 million Germans vacationing abroad headed to the Mediterranean, with 8.6 million Germans opting for a holiday in Spain.³

The inclusive-tour market that started to take shape during the 1950s has been dominating the Mediterranean-bound tourist traffic for decades. The majority of North and West Europeans vacationing in the south of Europe travel on an inclusive tour. This kind of tour is also popular with travellers visiting other places in Europe or overseas, but it is the Mediterranean that accounts for most holiday packages.

Inclusive tours provided by tour operators are the basis of the European holiday market.⁴ The production and distribution system of inclusive tours comprises the following actors:

- + producers or suppliers of individual travel services (e.g. accommodation providers, transport companies etc.);
- + tour operators acting both as producers (by combining the individual components into a new product) and wholesalers (through brochure production and reservation systems);
- + retailers (e.g. travel agencies, travel-related websites, etc.).⁵

Inclusive tours are dominating the summer holiday market from the northern parts of Europe towards the warm-weather destinations of the Mediterranean basin. For instance, 72% of Germans spending their holidays in the Mediterranean travel on an inclusive tour.⁶

Inclusive tours provide some compelling advantages to both consumers and suppliers of tourist services, a fact that explains the great success enjoyed by this product. Advantages for the consumers include the ease of preparing a trip to a foreign country and the affordable price of this trip. Suppliers of tourist services such as accommodation providers and transport companies actually bear no risk when signing a contract with a tour operator. It is up to the latter to fully utilise the bed and seat capacities they have under contract. In return, tour operators are charged prices that are significantly lower than those applicable to individual customers.

Many supplier firms in the Mediterranean countries – especially in the accommodation sector – depend to a large extent on tour operators for securing customers. The vast majority of suppliers are small firms that have until recently faced significant barriers in marketing their businesses directly on the international market. Many suppliers actually outsourced their marketing function to the tour operators and did not bother to develop any marketing skill themselves. The recent downturn in tour-operator-generated traffic was especially felt by these firms, as they did not know how to fill those beds that were left empty by the tour operators.⁷

2) Eurostat, *Panorama on tourism: 2006 Edition* (Luxembourg: Eurostat, 2006).

3) DRV, *Fakten und Zahlen zum deutschen Reisemarkt 2007* (Berlin: Deutscher ReiseVerband, 2008).

4) The ready-made inclusive tour is a service package comprising at least two complementary travel services; it is created in advance for a yet unknown customer and is offered at a total price, with the prices of the individual services not being identifiable.

The inclusive tour market of West and North European countries – representing the major source market of Mediterranean ‘sea and sun’ destinations – is dominated by a few major tour operators. This market dominance is the result of an accelerating trans-European consolidation process among Europe’s tour operators that started in the late 1990s.

The largest consolidation took place in 2007; out of the merger of TUI (Germany) with First Choice (UK) and of Thomas Cook (Germany) with MyTravel (UK) emerged two mega operators. The TUI-First Choice and Thomas Cook-MyTravel combinations represent 47% of the British market and 45.8% of the German market in 2006–2007.⁸ This horizontal expansion took place simultaneously with the vertical integration of the major European tour operators. Their portfolios include not only a number of tour operators in several European countries but also suppliers of inclusive tour components – such as hotel chains, cruise ships and charter airlines – as well as retail networks in the form of travel agency chains.

TUI’s horizontal and vertical expansion moves allowed the company to fully control the production and distribution chain of its inclusive tours. This expansion led to the ownership of hundreds of tourism businesses throughout the world. The portfolio of TUI comprises:

- + dozens of tour operator brands in 18 countries;
- + 3,300 retail travel agencies in 16 countries;
- + 35 receptive (incoming) agencies and tour operators operating in the destination areas;
- + 7 airlines with approximately 100 airplanes;
- + several hotel chains with a total of 237 hotels;
- + 4 cruise ships.

The accelerated transnational growth of major European tour operators resulted in strong oligopolistic and oligopsonistic phenomena.⁹ In this situation, hotels and other tourist accommodations of Mediterranean resorts are faced with powerful conglomerates that control the tourist flows not just of one but of several of

their major European source markets. This control is exercised through the distribution channels as well as the airlift capacity on charter flights, with Mediterranean-based resort hotels depending to a large extent on charter flights operated by tour operators. It should be stressed, however, that the rapid development of the tourism industry in the Mediterranean during the 1960s, 1970s and 1980s would not have been possible without the charter flights employed by tour operators to transport millions of Europeans. Some destinations strongly depend on these flights, as there is no sufficient alternative transportation capacity to bring in tourists.

Goodall and Bergsma¹⁰ point out that there is near perfect substitutability between summer sun destinations on the inclusive tour market, a fact that has put enormous pressure on room rates offered by hotels in these destinations. Tour operators are in the position to influence the destination choice of their Mediterranean-bound clients, considering that hotels located in so-called ‘identikit’ destinations and offering standardised services and facilities can easily be substituted.¹¹ Thus, tour operators can manipulate the competition among individual hotels and entire destinations belonging to the same competitive set. It is, after all, the tour operators that control each destination’s airlift capacity as well as the inclusive tour prices offered in the source markets.

The case of Greece shows the extent of a destination’s dependency on charter flights operated by tour operators, as 75% of all West and North Europeans – and 58% of all international tourists – vacationing in Greece arrive on charter flights. Tourists from Eastern Europe and overseas use charter flights on a much smaller scale.

One single tour operator – the Germany-based TUI and its subsidiaries – has been contributing significantly more than a quarter of all West and North European tourists vacationing in Greece. However, TUI’s contribution to visitor arrivals has also been shrinking in

5) Dimitris Koutoulas, ‘The Market Influence of Tour Operators on the Hospitality Industry: The Case of Greek Resort Hotels’, in Andreas Papatheodorou (ed.), *Corporate Rivalry and Market Power: Competition Issues in the Tourism Industry* (London: I.B. Tauris, 2006).

6) Grüner+Jahr, *G+J Branchenbild Veranstalterreisen - Grüner+Jahr Marktanalyse* (Hamburg: Gruner+Jahr, 2008).

7) Ibid. Dimitris Koutoulas, ‘The Market Influence of Tour Operators on the Hospitality Industry: The Case of Greek

absolute terms over recent years. TUI customers from North and West Europe vacationing in Greece dropped from 2.6 million in 2003 to 2.4 million in 2006.

Greek hoteliers are facing a situation of oligopsony, with just one company supplying 28% of their clientele from twelve of the largest source markets, or 17% of all tourist arrivals. The dependence is more acute in mass market-oriented resort destinations (such as the islands of Crete, Rhodes and Corfu), with TUI providing an even higher share of tourists and airlift capacity to fly them in.¹² The drop in business generated by tour operators has directly impacted the income of thousands of tourist businesses and households in Greece, as most businesses did not manage to substitute these losses with tourist traffic from other market segments.

Mediterranean destinations have suffered significantly from the recent downturn in tour operator business. This downturn was caused by the slump in the economy of many European countries after 2000 as well as by the migration of a rapidly growing number of internet-savvy consumers from inclusive tours to self-planned and self-booked trips. Mediterranean tourist businesses can therefore not rely solely on tour operators, as they have been faced with fewer tour operator clients since 2000, dropping prices charged to tour operators as a result of dropping inclusive tour prices, and shorter stays of inclusive-tour vacationers.

Three developments have been largely responsible for the recent loss of market share by tour operators who have been dominating the European holiday travel market for many decades:

- + bookings made directly with suppliers over the internet ;
- + growing availability of cheap flights provided by low-cost carriers;
- + growing interest of European consumers in owning a vacation residence in the Mediterranean.

Many travellers are now directly booking their trips on low-cost carriers for their travel instead of using charter flights arranged as part of inclusive tours. By combining a cheap flight with accommodation booked at a discount over the internet, they can easily organise their own trip at a cost comparable to the price of inclusive tours. The internet has therefore empowered independent travel by allowing both ends of the traditional distribution chain, suppliers and consumers, to circumvent the in-between distribution channels comprising tour operators as wholesalers and travel agencies as retailers and to directly transact with each other.

Even the Mediterranean holiday trips that were tightly controlled by tour operators have been strongly affected by this new trend. Suppliers, in particular, are motivated to directly deal with the end consumer. For instance, hotels can sell their rooms at a considerable discount over the internet and still earn more than if they would have sold the same room to a tour operator. Accommodation providers, airlines and other suppliers are thus freed from paying travel agents commissions and from conceding low net rates to tour operators.

Millions of European consumers have recently acquired property in Southern Europe with the expectation of using it themselves, renting it out to other holidaymakers when not in use, or profiting from rising real estate values. Residences include villas, apartments or hotel rooms, whereas ownership options vary from full ownership to timesharing, fractional ownership, condo hotels, etc.¹³ During the last ten years or so, this third trend has driven a construction boom, especially along the Mediterranean coastline of Spain. New high-rise apartment towers and villa complexes have been added to the existing hotels, restaurant, shops and other businesses catering for decades to the tourism market. The Spanish coastal zone is now densely built up and urbanised not just along the waterfront but also deep into the hinterlands. The trend towards residential tourism is also highly visi-

Resort Hotels', 2006.

8) Data from CAA, *ATOL Business*, Issue 29 - Summer Season 2006 (London: Civil Aviation Authority, 2007) and DRV, *Fakten und Zahlen zum deutschen Reisemarkt 2007* (Berlin: Deutscher ReiseVerband, 2008).

9) Constantinos Bastakis, Dimitrios Buhalis & Richard Butler, 'The perception of small and medium sized tourism accommodation providers on the impacts of the tour operators' power in Eastern Mediterranean', *Tourism Manage-*

ble in the Persian Gulf area. Places like Dubai, Abu Dhabi and Oman are currently very popular with buyers of holiday residences from both East and West Europe.

The anticipated rise in property values has led many buyers to see the purchase of a holiday home also as an investment. However, those who opted for a Spanish property fell victims of the real estate bubble, as the value of holiday homes plunged following years of steep price rises. This sudden drop in property value has been limited to Spain. However, it may also happen in other parts of the European sunbelt with problems of overcapacity and overbuilding and of poor land use planning by local authorities. Further trouble for the holiday home market may arise from the rising cost of flying. Many European consumers decided to buy property in the south because cheap flights on low-cost carriers allowed them to make multiple visits to their holiday homes each year. If for any reason the cost of flying will rise (due to rising fuel costs or the imposing of environmental taxes on fuel), then the prospect of owning a holiday home in another country will become less attractive.

For the time being, residential tourism continues to develop rapidly in Southern Europe and beyond. This market has also secured a vote of confidence by the major multinational hospitality groups Marriott, Hilton, Ritz-Carlton, Four Seasons and Kempinski that are actively involved in running residential complexes.¹⁴

The three developments shaping the 'new tourism market' mentioned above (internet-based bookings, flying on low-cost carriers and ownership of holiday homes) have boosted independently planned travel in Europe. Independent travel of Europeans has been growing four times faster than packaged holidays since 2000.¹⁵ This new market has triggered a strong substitution process affecting the tourism industry since 2000 and resulting in the loss of market share by tour operators:

| Traditional inclusive tours | Independent travel |
|-----------------------------|---|
| Ready-made inclusive tours | > Self-booked travel components |
| Charter flights | > Low-cost carriers |
| Commercial accommodation | > Vacation home with some form of ownership |

The major European tour operators reacted by entering this new tourism market themselves. TUI and Thomas Cook, for instance, have created their own travel portals selling both inclusive tours and individual travel components directly to end consumers. They also relaunched their charter airlines as low-cost carriers and are in some cases involved in sales of vacation homes. Tour operators are mainly suffering a loss of market share in travel to West Mediterranean countries like Spain, Italy and France, which are heavily served by low-cost carriers. Countries in the East Mediterranean (such as Greece and Turkey) and in North Africa still rely for most part of their visitors on inclusive-tour vacationers.

There is an ongoing discussion about the following trends that are shaping – or are going to shape – the tourism industry over the coming years:

- + The mass holiday travel market is witnessing a polarisation with a clear distinction of the price-sensitive segment from the quality-seeking segment. A part of the market is looking for the best bargains when planning their vacations in the south and is extensively utilising special web-based deals, early-bird rates and last-minute offers. Another segment is becoming more and more quality conscious and is prepared to pay for travel experiences only if the value-for-money proposition is sufficiently convincing.
- + There is a growing market segment of people with enough money but with insufficient time to spend on travel with their families and loved ones. These money-rich, time-poor tourists try to compensate their shorter vacations with more intense and more luxurious travel experiences. The growing popularity of spas shows that people want to

achieve the same degree of relaxation within a shorter time span by opting for advanced relaxation techniques. Luxury travel is currently experiencing high growth rates.

- + The rapidly ageing population of Europe is a main concern for the tourism industry. Seniors are nowadays healthier, more affluent and more inclined to discover the world.
- + Much discussion has been made for many years about people being tired of mass tourism and looking for more personalised travel experiences. Travel to distant places offering more authentic and more fulfilling experiences has been growing, although the large majority of tourists still visit highly frequented travel destinations. Nevertheless, the industry tries to diversify and personalise their products by following the trend of 'mass individualisation'. Tailor-made travel packages, themed hotels and special-interest activities are examples of products being offered to tourists interested in less standardised travel experiences – often in the very same destinations where highly standardised travel experiences take place.
- + Sustainability is and will be a major issue for tourism. Consumers are becoming more environmentally conscious and perhaps willing to change their habits in order to do something for the environment (by switching, for instance, to greener modes of transportation like trains). However, consumers were until now quite reluctant to take on a significant cost – by paying substantially more or by changing their travel preferences – for the sake of the environment. Environmental issues have also become a mainstay on the agenda of local and national authorities and tourism industry bodies in many tourist destinations. There is a growing number of policy makers who are prepared to confront business interests that are undermining the future prosperity of residents and putting the sustainability of the local environment and economy at risk.

Despite these trends, what used to be a mass market will still be a mass market characterised by huge numbers of tourists flocking to

accommodation providers on the impacts of the tour operators' power in Eastern Mediterranean', *Tourism Management*, XXV (2004), 151–170.
12) Dimitris Koutoulas, 'The Market Influence of Tour Operators on the Hospitality Industry: The Case of Greek Resort Hotels', in Andreas

specific destinations and looking for similar travel experiences. Travellers in the quality segment of the mass market may be offered better travel experiences (such as luxury and more personalised services, more authentic experiences, etc.) but always within the context of a high-volume, globalised marketplace dominated by multinational companies and powerful brands.

Policy makers need to consider these market forces when deciding on land use planning measures and policies for landscape management. The tourism industry that has reshaped almost the entire Mediterranean landscape will continue to consume large expanses of land and will do so in a rather short-sighted manner unless there are strict guidelines and the means to enforce them. Tourism has brought prosperity to popular travel destinations but at the same time tends to undermine its very own foundations by altering – and even destroying – the landscapes that make people dream of travelling to distant places.

Papatheodorou (ed.), *Corporate Rivalry and Market Power: Competition Issues in the Tourism Industry* (London: I.B. Tauris, 2006).

13) Eleni Mitraki, 'Residential Tourism in Greece: Challenges and Perspectives', dissertation (National School of Public Administration, Athens, 2007).

14) Eleni Mitraki, 'Residential Tourism in Greece: Challenges and Perspectives', dissertation (National School of Public Administration, Athens, 2007).

15) Thomas Cook Group, *Corporate Strategy: Investor and analyst presentation* (London: Thomas Cook Group, 2007).