

THE ROLE OF ONLINE TRAVEL' GROWTH FOR THE COMPETITIVENESS OF EUROPE AS TOURIST DESTINATION

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Abstract: Tourism is one of the fastest running industries in the global economy fostering economic development worldwide. Between 1990 and 2000 international tourist arrivals globally increased by 51 %. International arrivals in Europe grew less than total international arrivals resulting in an increase of 41 %. Such developments led to rather pessimistic forecasts that the market share of Europe as a tourist destination would continuously decline. In the first years of the new century, however, world-wide international arrivals varied considerably. As figure 2.a shows, the annual growth rates were positive with the exception of the years 2001 and 2003. The slight global reduction in 2001 should not be exclusively attributed to the attack of 9/11, for the slow-down began already earlier in the year. The sharp decline in 2003, however, from worldwide around +3% in 2002 to - 1.7% in 2003 seems to be linked to epidemic diseases such as SARS as well as to the military actions against Iraq. In that frame, the international tourist arrivals in Europe continued increasing even in the year of the sharp decline of global international arrivals (2003). The increase is more probably caused by European citizens changing their travel plans from long-haul travel to intra-European travel. Such shifts from long-haul travel towards short-haul or intra-European travel are also supported by the surcharge raised by airlines as a result of oil price increases. In addition, it is important to be mentioned that the European travel market is one of the most innovated and competitive trough the liberated online purchase of tourist products. Concerning the share of companies receiving orders online the tourism sector is above average of all branches. The difference seems to be even bigger in new Member States. When the use of ICT for B-2-B-relations or management purposes is regarded, however, tourism enterprises are below the average of all branches.

Key words: planning, online travel, competitiveness, destination,

According to the latest UNWTO World Tourism Barometer, international tourism arrivals expanded by 6% in 2007, to 898 million international tourist arrivals, as compared to 2006.

“Economic and tourism growth are driven by emerging markets and developing economies. While mature markets remain the leading destinations in the world, the faster

growth rate of new markets confirms UNWTO's main message of tourism's potential for the developing world", said UNWTO's Secretary-General, Francesco Frangialli.

Of the additional 52 million worldwide arrivals in 2007, Europe received some 19 million and Asia and the Pacific 17 million. The Americas was up by around six million, Africa by three million and the Middle East by five million.

All the different regions registered increases above their long-term average, with the Middle East leading the regional growth ranking (+13%), followed by Asia and the Pacific (+10%), Africa (+8%), the Americas (+5%) and Europe (+4%).

Tourism is one of the fastest running industries in the global economy fostering economic development worldwide. Between 1990 and 2000 international tourist arrivals globally increased by 51 %¹. International arrivals in Europe grew less than total international arrivals resulting in an increase of 41 %. Such developments led to rather pessimistic forecasts that the market share of Europe as a tourist destination would continuously decline. But according to the latest statistic data, Europe is the world's largest destination region with a share of over 50% of all international tourist arrivals, **Europe** is growing above average and totaled 480 million tourists in 2007. Destinations like Turkey (+18%), Greece (+12%) and Portugal (+10%) or Italy and Switzerland (both at +7%) are proof of the positive impact of the continued economic pick-up of the region in 2007.

Europe the most stable tourist region of the world

As the international tourist arrivals in Europe continued increasing even in the year of the sharp decline of global international arrivals (2003)². This at first glance surprising development, however, should not be misunderstood to mean that European destinations attracted more tourists from outside Europe, for the indicator 'international tourist arrivals' comprises all trans-border tourist arrivals, i.e. also those within Europe. The increase is more probably caused by European citizens changing their travel plans from long-haul travel to intra-European travel. Such shifts from long-haul travel towards short-haul or intra-European travel are also supported by the surcharge raised by airlines as a result of oil price increases.

Regarding the mentioned data, innovation is of crucial importance for European tourism, for it impacts on tourism demand as well as supply: The increase of international tourist arrivals since 1950 by 1745 % would not have been conceivable without the technological innovations in the transport sector that made car transport affordable to nearly everybody as well as air travel. Innovation by the tourism enterprises themselves aims at lowering costs and improving service quality to increase competitiveness³. The same is true with regard to the uninterruptedly increasing online travel which not only changes consumer habits, but also facilitates new marketing strategies in the tour operator sector. Concerning the share of companies receiving orders online the tourism sector is above average of all branches. The difference seems to be even bigger in new Member States. When the use of ICT for

¹ In the first years of the new century, however, world-wide international arrivals varied considerably. The annual growth rates were positive with the exception of the years 2001 and 2003. The slight global reduction in 2001 should not be exclusively attributed to the attack of 9/11, for the slow-down began already earlier in the year. The sharp decline in 2003, however, from worldwide around +3% in 2002 to - 1.7% in 2003 seems to be linked to epidemic diseases such as SARS as well as to the military actions against Iraq.

² Source: UNWTO, World Tourism Barometer, Vol. 4. No. 1, January 2006, p. 2.

Source: UNWTO, The impact of rising oil prices on international tourism, March 2006, p. 10. It should be noted, however, that the UNWTO analysis is based on the performance of tourist arrivals only. Other parameters such as length of stay, tourism expenditure or turnover of tourism enterprise are not taken into account.

Source: UNWTO, The impact of rising oil prices on international tourism, op. cit. p. 23.

³ Dimitrov, P., Innovation of Tourism, SWU Press, 2006

management purposes is regarded, however, tourism enterprises are below the average of all branches.

Regarding product innovation tourism is a very innovative sector. Lots of new products (nature-based tourism, wellness, cultural tourism etc.) were developed to meet evolving demand. Product quality and innovation are important factors to avoid the decline of destinations. But since a tourist usually takes a decision in favour of the destination that offers to meet a bundle of wishes (accommodation, events, activities) the competitiveness of destinations can only be maintained or improved when the respective stakeholders are networking and the adequate public infrastructure is provided.

Innovation increases tourism demand and improves competitiveness. The impact of innovation on the tourism sector is as complex as the sector itself. Since there is no supply side definition of tourism, innovation processes outside the sector (in its narrow definition) might be more important than those within. For example, revolutions in transportation starting with the first railways in the 19th century, making the next technological jump about 100 years later when the use of privately owned cars became a mass phenomenon, and ending in the growth of air travel without any doubt were the most important innovations that facilitated the astronomical increase in international tourist arrivals in Europe by 1745 % merely between 1950 and 2005.

This is true with regard to global development as well as to an individual destination. For spatial access is one of the *sine qua non* for tourism development. Furthermore changing transport prices, in particular the development of cheap air travel, has led to a combined mode-destination shift. Thus, it is not surprising that in the framework of the Slovenian innovation strategy as well as for peripherally located Member States such as Portugal, no-frills airlines are of particular importance. Irrespective of the answer to the question whether transport can be considered as part of the tourism sector it is one of the most important 'production factors' for all stakeholders, HORECA companies, travel organizers and the destination itself. This context hints at the fact that innovation can on the one hand primarily impact on tourism demand, whereas – on the other hand – innovation processes that take place within the HORECA sector and the travel organizers mainly aim at lowering costs and increasing productivity and price competitiveness. (*On the demand side a tourist is defined as a person staying outside its usual environment for no longer than one year*⁴).

Ongoing technological change, the use of information and communication technologies (ICT) affects both sides of the tourism economy simultaneously and will therefore be presented in both respects. Online information and online travel: rapid growth continues. Online travel sales continue their growth uninterruptedly. In only the two years 2004 to 2005 they increased by as much as 34% and reached in 2005 a volume of EUR 25.2 billion in the European market and another about 25% during 2006 to about EUR 38.3 billion.

The dynamics of this process become even more evident when it is considered that in 1998 online travel sales only amounted to EUR 0.2 bn. The economic importance of individual Member States in this market is as heterogeneous as in the travel organizers' market in general. In 2006 the largest share of the online travel market (34 %) fell to the UK, followed by Germany (20 %), whereas the new Member States in Central and Eastern Europe only accounted for about 2 % (see the figures 1-2 below).

⁴ Source: Report 2004, p. 5 and UNWTO, World Tourism Barometer, Volume 4, No 2, June 2006, p. 3.

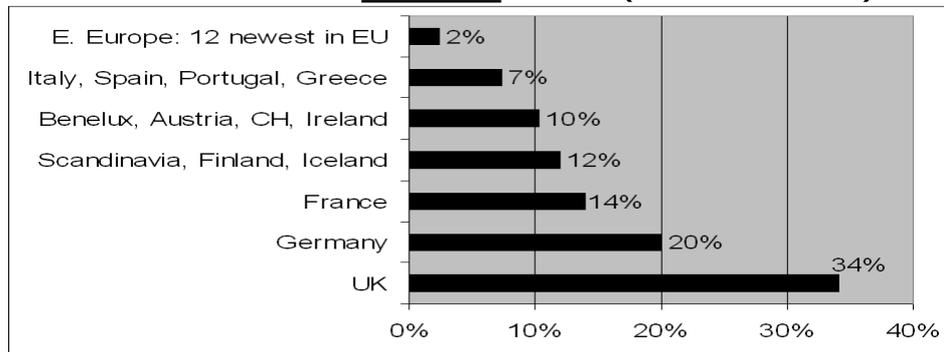
Source: European Commission, Feasibility and preparatory study regarding a multi-stakeholder European targeted action for sustainable tourism & transport, The Hague, 2004, p. 129.

Source: European Commission (DG ENTR): Innovation and Technology Transfer, broadening the horizons for European travel, May 2005, p.25., with regard to Portugal see OECD, Report on the national strategic plan for tourism of Portugal, 20./21. Nov. 2006, p. 3.

Source: The European Tourism Industry in the enlarged Community 2004 report, p. 59.

Figure 1

Geographic status for the European online travel market 2006 (EUR 38.3 bn.)



Source: Carl H. Marcussen, Centre for Regional and Tourism Research, www.crt.dk/trends, 22 May 2007.

The regional distribution of online travel sales also underwent drastic changes. Compared to 1998 Germany and the UK exchanged their leading positions. In 1998 Germany accounted for 34 % of the market and the UK for 17 %, whereas the other regions showed only slight variations in that period (the market share decreased in Scandinavia and increased in Southern Europe)⁵. But despite the fact that travel and tourism products belong, together with books, to the category of products most frequently purchased online and the impressive growth rates of the online travel market shown above, the market share of online travel sales on the total travel market still remains relatively small. It is estimated by Marcussen at 12.6 % in 2006. The reason is not a bottleneck on the supply side, but solely consumer habits. In a 2004 report the internet is primarily used as a source of information and to compare products and prices. Only about one in five persons surfing on tourism websites also book online, others prefer personal contact either at a travel agency or via phone, fax or e-mail. Thus, it is not surprising that 'simple purchases' such as booking flights or train tickets showed the highest growth rates, whereas online booking of package travel developed much more slowly and subsequently reduced its market share from about 27 % in 1998 to 16 % in 2006 resulting in shares of these services on the online market as depicted in the table below.

Figure 2

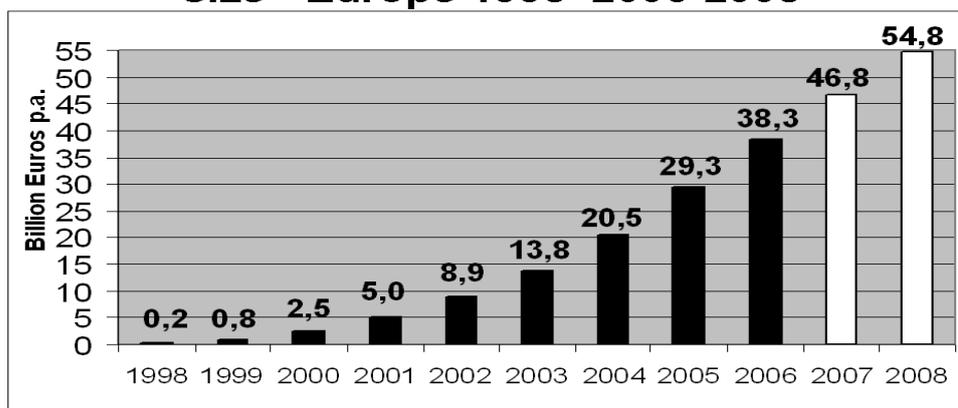
⁵ Source: Marcussen, Carl H. (Centre for regional and tourism research, Denmark): Trends in European internet distribution - of travel and tourism services, 26.4.2006.

Source: Marcussen, Carl H.

Source: Marcussen, Carl H.

Source: Eurostat, SIF 12/2006, Use of the internet among individuals and enterprises, p. 6.

Trends in overall online travel market size - Europe 1998–2006-2008



Source: Carl H. Marcussen, Centre for Regional and Tourism Research, www.crt.dk/trends, 22 May 2007.

Table № 1

The European online travel market 2006 by type of service

Air -	56%
Hotels -	16%
Packages -	16%
Train -	10%
Car rent -	2%

* Source: Marcusson, Carl H (Centre for regional and tourism research: Denmark): Trends in European internet distribution - of travel and tourism services, 26.4.2006.

The heterogeneity of the tourism industry presented is also reflected in the use of ICT. The EBW 2006 report concludes that taken as a whole the tourism sector ranges in the middle in terms of the overall use of ICT, but with remarkable variations⁶. This is confirmed by the latest e-Business W@tch report⁷ which reveals that tourism companies, more than those of the other industries surveyed, consider consumer expectations as the most important reason for the use of ICT⁸. According to the report travel agents and tour operators belong to the strongest adopters of ICT, followed by hotels, whereas gastronomy companies are clearly below these two sub-sectors. Since the latter represent the vast majority of tourism enterprises they clearly dominate the average in the sector. As regards ICT use for customer relations (B2C), above all marketing and sales activities tourism enterprises clearly range above the 10 sector average, whilst in terms of business-to-business relations (B2B) they remain below average. When the three sub-sectors of tourism are examined travel organizers are above 10 sector average even regarding the ICT use for B2B-relations, whereas accommodation enterprises just reach it and the gastronomy sub-sector is again below average. This result shows that tourism companies clearly focus on their customers and explains the rapid structural change in the marketing activities of tour operators towards direct marketing

⁶ Source: Marcusson, Carl H.

⁷ The e-Business W@tch Reports annually published by the European Commission survey up to ten industries in several Member States.

⁸ European Commission: e-Business W@tch Report 2006., Sector impact study No 8, 2006, ICT and ebusiness in the tourism industry (in the following 'EBW report 2006') p. 69.

without travel agents. More than companies in other sectors, tourism companies are not only prepared to, but also receive orders online with remarkable differences between the three sub-sectors. It should be noted that some of the new Member States are clearly above average, a fact that indicates that the catching up process has spread to all areas of the economy.

The retrospect clearly shows that tourism enterprises have developed a multitude of new tourist products, in particular since early mass tourism turned to more differentiated and individualized forms. Nature based tourism, adventure tourism, cultural tourism, wellness tourism are only names to categorize the variety of new products. Product innovation is probably more important in the tourism sector than in other industries. For since the vast majority of tourism enterprises, the small and medium sized HORECA companies, are immobile they are forced to develop new products to attract new customers or make their guests return. The study titled 'Early warning system for identifying declining tourist destinations, and preventive best practices' pointed out that together with a decrease in product quality, a lack of product innovation is the most important factor for the decline of destinations. For the same reason, local immobility, and to compensate for its disadvantages, the development of new 'sales markets', i. e. tourist generating regions, for the HORECA sector, is supported by public stakeholders - at national level the national tourism organizations- whereas tour operators develop new markets (destinations) on their own. The most recent examples at EU level are the conclusion of the memorandum of understanding with China on an approved destination status for the Community and the launch of the internet portal VisitEurope.com. But since one of the peculiarities of the tourism sector, at least when globally active tour operators are left out of consideration, is that the markets are relatively small because of the importance of transportation costs and that a tourist does not only consume one single product, eg. accommodation only, but a bundle of products, then another dimension of competition and competitiveness appears, that of destinations.

A tourist can also be regarded as a consumer who is not looking for a certain product during his travel, but as a buying experiences; some of them consumed more passively, eg. cultural events, relaxing, for others a prerequisite is their own activity (skiing, diving etc.). Because these single products can only be consumed at the place of their production, the possible number and level of experiences is the higher and the competitiveness of a destination the better, the more products/experiences it offers. This results in two kinds of economic relations of tourism enterprises, a competitive relationship between companies selling the same product in the same destination such as accommodation establishments, and a complementary relationship between those companies in a destination selling different products which, however, build an attractive bundle from tourists' point of view to provide the experience that they expect from their holidays. Space tourism, one of the most recent new products, has not yet become a trend, it is 'very individual', but it clearly indicates that product innovation never ends⁹.

Moreover the amalgam of experiences that a destination can offer also depends on exogenous factors. One of them, access and transport is an important source of innovation. Other factors that cannot be influenced by the stakeholders in a destination is its geographical location. Regarding the competitiveness of a destination as a prerequisite for the survival of its tourism enterprises thus inevitably leads to the conclusion that enterprises selling complementary products should network to ensure that tourists perceive the destination as a cluster of products to satisfy their demand for holiday experiences. The EBW report 2006 highlights two quite interesting and successful examples of networking between enterprises: 'Your-Greece – travel services Ltd.' and the 'Countryside Tourism Association of Lithuania'. The former is an example of joint sales activities of small Greek hotels and the latter of joint

⁹ Source: European Commission (DG Enterprise Publication), Early warning system, 2004, p. 46.

activities concerning promotion, training and lobbying on behalf of Lithuania's farm-stay owners. When regarding the need for innovation to improve or at least maintain the competitiveness of a destination it should be taken into account that SMEs which are the prevailing size class in tourism usually do not have the resources for a reutilization of the innovation process. The OECD tourism committee therefore recommends that public tourism policy could foster this process by establishing centers of excellence which publish their results as examples to be used by destinations and enterprises. The European Commission is pursuing a similar approach and began in 2005 with the preparations for a competition to reward destinations of excellence. For this reason the Commission commissioned a study on networking: 'Feasibility Study Networking', and 'Innovation in tourism – How to create a tourism learning area – The handbook, 2006, to raise awareness for this aspect of competitiveness¹⁰.

Conclusions

In the course of the enlargement process some changes in tourism demand will certainly increase competition, but will primarily offer opportunities to improve competitiveness. The tourism industry should be encouraged to take up these opportunities and to make use of Europe's enlarged tourist potential. In the new Member States the catching up has been going on since the first steps of enlargement at the beginning of the 1990s resulting not only in an increasing number of tourism establishments, but also giving impulses to more innovation and use of information and communication technologies. Whereas in the HORECA sector market concentration does not jeopardize competition, the structural change in the tour operator sector, in particular with regard to virtual travel agents, has led to a degree of market concentration that is monitored by the European Commission.

It is one of the peculiarities of the tourism sector that competition does not take place at enterprise level alone, but as well – and perhaps more important – at destination level. As far as competition between destinations is concerned, all stakeholders in a destination should be encouraged to network in order to improve the product range and quality of their destination to meet consumer demand¹¹.

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¹⁰ EBW report 2006, p. 83 ff. (case studies).

Source: OECD, 2006, Innovation and Growth in Tourism, p. 38.

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