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MARKET INTELLIGENCE / TRENDS

Domestic Holidays Boom as Heatwave Keeps Germans at Home

Holiday resorts on the milder Baltic and North Sea coasts are packed this summer as late bookers switch away from scorching Mediterranean destinations, according to researchers and tour operators. The German travel industry is enjoying a strong year with a 13% rise in summer 2018 sales revenues as of the end of June thanks to very strong early bookings before and after Christmas, according to the latest monthly analysis by market researchers GfK. However, growth slowed to just 4% in June as last-minute bookings dried up.

Several tour operators have confirmed that the current heatwave appears to be hitting late bookings as Germans either delay booking holidays completely or prefer to head off to a domestic destination amid weeks of temperatures well above 32°C (90°F) across the country. Thomas Cook confirmed that package holiday sales had slowed significantly recently due to this trend. FTI said it was seeing strong demand for domestic and overland destinations such as Northern Italy. GfK tourism expert Roland Gassner said demand is typically stronger for domestic holidays in hot summers.

These comments have been reinforced by new figures from the German Tourism Industry Federation (BTW), which represents both the outgoing and inbound travel sectors. Its latest Tourism Index, based on a GfK consumer survey, found that Germans will travel more and spend more on travel this year, with the number of 'travel days' probably increasing by 30 million this year from last year's 1.68 billion. The number of 'travel days' already increased by 2.6% in the first four months of the year. "Germans want to spend more money on private trips and excursions than in previous years," declared BTW president Michael Frenzel. However, they will probably also travel more within their own country, according to the BTW. The number of day-trips, which are overwhelmingly within Germany and represent a third of all private trips, already increased by 5% in the first four months of the year. "Apart from attractive offers, the continuing fine weather is definitely playing into the hands of travel and excursion destinations in Germany." Frenzel commented.

German Package Travel Law:

Tour Operators do U-turn on Turning Hotel-Only Bookings into Package Holidays

German tour operators are backtracking on treating hotel-only bookings as package holidays due to legal uncertainty under the country's new package travel law.

Among various changes under the law, which went into effect on July 1st, consumers have more legal protection for 'combined' travel agency bookings of separate travel products from

different suppliers (such as flights and hotels). Leading tour operators, including TUI, Thomas Cook and DER Touristik, responded to the new law with an important product change. They decided to turn hotel-only bookings into 'package holidays' from a legal point of view by adding free 'service packages' (such as destination services). This meant that such bookings were automatically fully covered by tour operator insolvency protection guarantees. As a result, travel agents were instructed to provide tour operator insolvency insurance certificates to customers for such bookings.

The move gave tour operators a significant competitive advantage over direct bookings of hotel accommodation or holiday homes, which are not legally defined as package holidays. But uncertainty has increased over the last few weeks whether such so-called 'voluntary package holidays' are covered under the new law or not. The German justice ministry told fvw earlier this month that a 'package holiday' must include at least two elements out of transportation, accommodation and vehicle rental for the same trip. Many travel agents worried that they were breaking the law by handing out insurance certificates for 'voluntary packages'.

In response, Thomas Cook decided to stop turning hotel-only bookings into package holidays from September 1st onwards. Customers who book a hotel through Thomas Cook, but no other product such as a flight or airport transfer, will no longer be given a legally-binding insolvency certificate. Referring to the legal uncertainty, Germany managing director Stefanie Berk said: "This way we will give our travel agency partners and customers more transparency with bookings of single products." However, the tour operator still wants to treat these customers in the same way as those booking full holiday packages. Cook will also continue its Sunny Heart package, offering added-value services such as customer support, destination services, crisis management and other services. "This means that we will offer our customers clear added-value compared, for example, to hotel booking platforms and go well beyond the legally compulsory service," she emphasized.

Among other major tour operators, TUI apparently plans to maintain its 'voluntary package holidays', which combine a single product booking with a service package. "How TUI is doing this fully meets legal requirements. The latest legal opinions we have confirm this," said a spokesman. In contrast, FTI sales & marketing chief Ralph Schiller commented: "Fundamentally, we welcome the move to stop turning individual products into package holidays. A well-meaning action by tour operators apparently doesn't seem necessary." FTI took a slightly different approach and is insuring the single product bookings separately.

Growth Pains: Overtourism 'is the exception, not the rule', claims German Association

Overtourism is clearly a problem demanding solutions in some destinations but remains the exception and not the rule around the world, according to the German Tourism Federation (BTW). The continuing growth of global tourism is increasingly causing problems such as overcrowding and congestion in various destinations around the world. Top destinations such as Venice, Dubrovnik and Barcelona have all faced challenges once again this summer coping with the flood of holidaymakers arriving by plane, car or cruise ship.

But these headline-grabbing problems should not give the impression that 'overtourism' is a global phenomenon affecting all destinations, underlined the BTW, an umbrella organization whose members represent the outbound, inbound and domestic German tourism sectors. BTW president Michael Frenzel, the former long-serving TUI CEO and ex-WTTC chairman

who is also now a WTTC 'global ambassador', declared: "Overtourism is a specific problem and not a wildfire, even if this impression is increasingly given. "In the current public debate and media reporting on the topic of overtourism you get the feeling that every single city and beach on this planet is overcrowded. This is definitely not the case." Most destinations around the world, including Germany, are far from being impacted by overtourism and would welcome more visitors, he emphasized. Tourism brings people and nations together, creates jobs for local people, and makes an important contribution to the economy.

Instead, the BTW called for a public debate that will help clearly affected destinations to solve their problems without taking away the public's general wish to travel. "We need solutions that take the discontent of the population and tourists seriously, solve them and ideally prevent similar problems in other places," Frenzel said. Such solutions include better destination management and investments to steer visitor flows, diversification with new routes and excursions, **longer holiday seasons** and more offers for the off-season, according to the association. However, Frenzel himself already contributed to the overtourism debate this year when he warned at ITB that tourism risked becoming a victim of its own success by causing problems such as overcrowding and impacting the environment.

Lufthansa Group: Eurowings Drops into Red as Costs Take Off

Lufthansa's fast-growing budget subsidiary Eurowings will fall into a loss this year due to escalating costs, but should be back in profit next year once integration of ex-Air Berlin planes has been completed and growth has stabilized. Integration of a large part of the former Air Berlin fleet into the budget brand is lasting longer and costing more than expected. Lufthansa CFO Ulrik Svensson said the costs for the integration of 76 ex-Air Berlin planes had totaled €120 million in the first six months of this year and would increase by a further €50 million in the third quarter to €170 million. Together with higher staff costs and compensation for the recent spate of flight delays and cancellations, this would leave the Eurowings Group in the red this year. The budget airline already made an operating loss of €199 million in the January - June half-year, even though revenue increased by 9.2% to €1.9 billion.

But Eurowings is slated to return to profit in 2019 as the integration is completed, flight operations are stabilized and operating costs decline as a result. Svensson said: "With Eurowings, following its sizeable capacity increase, our prime objective is to return to profitability next year. We will also create structures to raise Eurowings' profitability to the levels of its prime competitors over the next three to four years."

Overall, the Lufthansa Group was able to compensate for Eurowings' problems thanks to solid growth in its core passenger business and other subsidiaries. Half-year net profits improved slightly to €677 million on turnover of €16.9 billion. Both Miami and Ft. Myers are serviced by Eurowings from Düsseldorf, Germany.

Flight Chaos: Eurowings Promises Better Support for Travel Agents

Lufthansa subsidiary Eurowings is promising better communications, more customer service and closer contacts with German travel agents in future after a summer marred by many cancelled and delayed flights. Travel agents had to cope with extensive additional work due to cancelled and delayed flights as well as dissatisfied passengers, especially in May and June. Many agents complained that Eurowings communicated poorly or not at all with them during

this period. The airline has admitted that the takeover of 77 ex-Air Berlin planes was over-ambitious and too fast.

In response, representatives of the airline and the German Travel Association (DRV) have met twice in the last few weeks to review this summer's flight chaos and have now agreed to work more closely together in the future. Importantly, Eurowings has promised to increase the number of call center staff by 40% to respond more quickly to travel agency queries. In addition, the airline has strengthened its airport teams to help stranded passengers more quickly in the future. Ralf Hieke, a DRV vice-president who represents medium-sized travel agents, welcomed Eurowings' commitment. "I am glad that we were able to make our positions very clear in exchange with Eurowings and that we are now sitting at the same table," he said. At a previous meeting earlier this summer, the DRV strongly criticized "the unacceptable conditions for travel agents in connection with the massive flight problems, cancellations and delays, as well as the resulting behavior of the airline with travel agents". The high number of cancellations and flight changes had reached a level "that is absolutely no longer bearable" for agents, tour operators and customers in particular, it declared.

Consumer Climate Mixed

In August of this year, the consumer mood in Germany did not present a uniform picture. While economic expectations improved, income expectations and the propensity to buy declined a bit. GfK forecasts a slight decrease in consumer climate for September of 0.1 points in comparison to the previous month to 10.5 points.

Economic optimism increased again: The economic optimism, which was on a downswing with small interruptions since the beginning of 2018, did not continue its decline in August. The indicator climbed up noticeably by 6.5 to 22.2 points. It remains to be seen if this will become a trend. The indicator is currently being backed by current economic developments. According to recently published data from the German Federal Office of Statistics regarding gross domestic product (GDP) for the second quarter of 2018, the economic dynamic in Germany has finally progressed forward somewhat. GDP increased by 0.5% in the second quarter compared with the previous period. Despite a trade conflict with the USA as well as increasing energy prices, the German consumer is once again showing greater economic optimism. They believe in the German economy's solid growth trend.

Income expectations decline slightly: In contrast to the economic outlook, the income expectations for this month declined somewhat. The indicator dropped 4.9 points to 52.6 points. Despite the current regression, the level of the income indicator remains high. It's difficult to tease out the exact reasons for this regression. It's possible that recent high energy prices that have fueled inflation to a current 2%, interfere with the excellent job market conditions, as well as the solid income increases. Based on the continuing low interest level, it might be obvious to some consumers that savings are increasingly losing value due to inflation.

Propensity to buy continues without significant fluctuations: The propensity to buy remained almost unchanged at an overall high level in August. The indicator dropped by one point to 55.2 in August. In comparison to the previous year, there has only been a drop of three points, which underscores the stability of the consumer tendency. The indicator's excellent track record is due primarily to very good development in the job market. The employment numbers are continuing to increase. As a result, the fear of job loss among

employees remains low as before. This ensures planning security with consumers, particularly when it involves larger expenses.

Consumer climate shows slight fall: GfK forecasts a slight decrease in consumer climate for September 2018 of 0.1 points in comparison to the previous month to 10.5 points. Despite the second decline in a row, consumers continue to assume that the good consumer economy will continue even if the dynamic could possibly drop off somewhat. Therefore, GfK expects that private consumption for this year will increase by 1.5% in real terms and meet the GfK forecast made at the beginning of the year. The positive outlook for the consumer economy will only continue as is if the job market remains stable, which is the current assumption, and there are no additional risks threatening from the price front. An increase in inflation would certainly dampen the consumer climate.

SALES ACTIVITIES

DERTour Reiseland Webinar (August 21st, 2018):

We joined forces with DERTour on their special Florida webinar for Reiseland travel agencies (over 300 in Germany). The many features, benefits and myriad experiences in VSPC were the focus of the 45-minute presentation attended by 85 agents. Participants actively engaged in an ensuing Q&A session, whereby we were praised for the comprehensive and informative content delivered.

Visit USA Germany ‘Cinema’ Road Show (September 10th – 11th, 2018):

We will participate in the Visit USA Germany’s new ‘cinema’ road show this fall. This exciting concept entails projection of our destination presentation on big movie screens, i.e. each partner will be holding a 15-minute presentation in the cinema hall for all participating travel agents. In addition, partners will each have a table during the travel market for one-on-one discussions with the participants before the presentations and during the breaks. We expect to train up to 80 agents in both Stuttgart (CinemaxX Stuttgart SI-Centrum) and Frankfurt (CineStar Metropolis). After the presentations, an American dinner buffet will be offered followed by viewing the 45-minute Brand USA movie “America Wild” as the grand finale of the evening. In addition, travel agencies will have the opportunity to invite their best customers to join us for the Brand USA movie, whereby all partners will also have the chance to engage with these hand-picked consumers before and after the movie.

This month we finalized all logistics, put the finishing touches on our presentation and delivered all required material to the organizer.

Visit USA Switzerland Road Show (September 25th – 27th, 2018):

Scheduled to be held in St. Gallen, Zurich, Basel and Bern, the road show is expected to attract over 200 travel agents. Both morning and evening training sessions are being scheduled during which we will have the opportunity to present our area in the more intimate roundtable format. By virtue of conducting trainings in four Swiss cities in short order, we will cover a broad catchment area just ahead of the upcoming important fall booking season. Space was limited for these training events allowing for only 10 suppliers; thus, we are pleased to have secured this excellent exposure and engagement opportunity by means of our early registration. Logistics were finalized, deliverables were deployed, travel arrangements completed.

Visit USA Road Show Netherlands (October 2nd – 4th, 2018):

For the first time, the Visit USA Netherlands will organize a B2B road show, which will include training events in three cities: Zwolle, Amsterdam and Den Bosch. The road show is expected to attract over than 200 travel agents. The training format will include intensive speed dating sessions for all agents. In addition, we will have networking opportunities in Amsterdam with tour operator product managers and the trade media. Preparatory tasks continued this month.

Del-Tour Belgium - Florida Workshop (October 18th, 2018):

After a very successful Florida-themed travel agent workshop with Belgian tour operator Généraltour in 2016, we were invited to participate in a new event this year by Del-Tour. Mr. Gerald Ponsard, former USA & Canada Product Manager at Généraltour, has moved to Del-Tour, a new Belgian tour operator and has been tasked with building a new USA program. Primary focus is Florida and to this end, a one-day travel agent workshop will be conducted to familiarize agents with the Sunshine State program, wherein VSPC is included. Agents will be trained in small groups in 15-minute sessions. In addition, a VR booth will be set up giving agents a virtual experience. Furthermore a photo gallery of the workshop will be projected live on social media through Eventer, a geolocation based app. Preparatory tasks continued this month.

Tenzing Travel Staff Site Visit (October 21st – 23rd, 2018):

Tenzing Travel (formerly known as Kuoni Nederland) is among the top Dutch tour operators with a vested interest in generating business to the US and Florida. The tour operator offers tailor-made vacations and operates on a consumer-direct sales model.

Three sales staff from Tenzing's headquarters in Amsterdam will tour through Florida for one week making stops in our area, Orlando, Naples and Miami. We liaised closely with our Leisure Travel Department on itinerary development, accommodations and further logistics this month.

Willy Scharnow Foundation Fam Tour (October 21st – 24th, 2018):

Similar to ASTA in the U.S., the German institute for travel education known as the "Willy Scharnow Foundation" was founded in 1953 to grant better professional opportunities in tourism to German travel agents. They do this through several means, one of which is educational familiarization trips and seminars.

This year's event marks the 23rd Willy Scharnow Foundation Fam tour to our area. The group will be comprised of 12 hand-picked agents from travel agencies affiliated with the following tour operators specifically: Dertour, Explorer Fernreisen, FTI, Meier's Weltreisen, Neckermann Reisen, Thomas Cook Reisen and TUI – all of which feature our area's accommodations products. Our destination partner will be Visit Orlando where the group will start out from 10/18-21 with United Airlines being our cosponsoring carrier. UA will sponsor 13 seats (12 agents + 1 WSF escort).

Accommodations have been secured. A rooming list is expected next month. We liaised closely with our Leisure Travel Department regarding further details such as transportation arrangements between Orlando and our area, itinerary feedback, etc.

USA-Canada Experience Netherlands (November 1st – 2nd, 2018):

The Dutch travel trade event “USA-Canada Experience” is a two-day event providing supplier partners with an exceptional opportunity to inform and educate the Dutch travel trade and conduct one-on-one sales meetings directly with product managers and media. A full-day workshop will see us holding comprehensive training sessions for over 100 agents from all over The Netherlands. The event will culminate in an exciting contest and travel prize raffle. Respective input was provided. Additional preparatory tasks are underway.

Visit USA Austria Seminar (November 14th-15th, 2018):

Known as Austria’s premier travel trade event, the Visit USA Seminar Austria will be held in Salzburg this fall and is expected to attract up to 140 agents. The format will comprise an afternoon seminar with an ensuing evening training event. The seminar program will include a table top marketplace and an on-stage “interview” session with each exhibitor. The Visit USA Committee Austria will again organize a post-seminar “evaluation breakfast” during which we will have the opportunity to provide feedback and discuss future planning. Our ‘early-bird’ registration has been submitted thereby securing a discounted participation fee.

Additional Activity:

- Ms. Bente Hisgen of **Thomas Cook Lübeck** was provided with comprehensive information and insider tips on our area in preparation for her own visit to our area next month.
- **Visit USA Netherlands** announced an update to their website this month (www.visitusa.nl). As each member will be portrayed with a dedicated landing page, we provided fresh VSPC content and updated imagery.
- We received all of two inquiries related to Red Tide this month. Both were from German travel trade professionals (one agent, one tour operator). Thanks to the excellent updates we have received from HQ we were able to provide applicable updates.

MARKETING INITIATIVES

With the summer break still in session, we utilized the time to deploy ‘last call’ reminders to several vendors to submit their invoicing and proof-of-performance materials promptly.

Public Relations:

Kaus Media Services - VSPC’s German PR Agency

This month saw us assisting the agency with the following projects:

- **Press Release August:** Proofread and corrected.

All initiatives, activities and programs described herein have been duly completed as described.