

CENTRAL EUROPEAN OFFICE

SEPTEMBER 2018

Prepared by: Marion S. Wolf
Director Central Europe

MARKET INTELLIGENCE / TRENDS

Global Ambitions: TUI Wants to Enter US Travel Market

Europe's biggest tourism group not only wants to expand in Asia, but even enter the US travel market through online sales, according to CEO Fritz Jousen. TUI wants to become 'a global internet group' with customers not only in Europe, but also in China and the USA in future, Jousen told German business magazine Bilanz in an interview. "We are going with our offer to China and the USA," he declared. The TUI chief explained that the German group will not open any travel agencies in these new markets, but will sell online through its international portal TUI.com.

Jousen has previously outlined the German group's ambition to sell holidays in countries such as Italy and Spain along with emerging markets in Asia, especially China, and Brazil. But this appears to be the first time that he has referred to the large US market as well. TUI is already active in China through a tour operator venture, but is only a small player compared to giants such as Ctrip. Across the Atlantic, the group's Canadian venture Sunwing, which has its own airline and hotels in the Caribbean, also sells holidays to US customers, experts noted. Jousen also emphasized that TUI will invest heavily in digitalization to make customers more personalized offers in the future. He underlined the financial importance of the group's own hotels and cruise ships for profits as well as the strategy to expand sales of destination activities.

The comments came ahead of TUI's pre-close trading update this month in which the group confirmed its profit outlook for the year ending September 2018. Overall, TUI has 5% revenue growth in source market sales for summer 2018 (as of 23 September), with bookings up by 4%, average selling prices 1% higher and 98% of the program sold. Revenues in the Northern Region, including the UK and Nordics, are 4% higher, based on a 2% rise in customer numbers and 1% rise in average prices. The Central Region, including Germany, has a strong 8% revenue increase, with a 7% increase in bookings and 1% improvement in prices. The Western Region has a solid 3% revenue increase, with 2% more customers and a 1% rise in average prices.

Commenting that the financial year "is closing out as we expected", Jousen confirmed that TUI expects underlying EBITA growth of at least 10% this year despite "challenging" factors such as the hot summer in Northern Europe and disruption of airline operations. "Having continued to expand our hotel and cruise offer, occupancies and yields remain high, and the number of customers purchasing holidays from us has grown in all major markets, even with the sustained period of hot weather in Northern Europe this summer. This demonstrates the

strength and resilience of demand for our holiday experiences, although as previously stated, the hot weather has limited our ability to outperform,” he said. Tour operator sales are benefitting from increased capacity to Turkey, Greece, North Africa and Bulgaria while volumes to Spain “have continued to normalize compared with the very high growth seen in recent years”, the company pointed out.

For winter 2018/19, TUI is showing a 2% rise in customer numbers so far, with higher bookings in most markets, but a 1% drop in average selling prices as demand rises for North Africa and Turkey and “normalizes” for the higher-price Canaries.

Thomas Cook Suffers Sunstroke as Heatwave Keeps Holidaymakers at Home

Thomas Cook expects profits to drop 15% this year after the long hot summer in northern Europe persuaded many customers not to go abroad on holiday, resulting in excess capacity that sparked heavy price-cutting. Europe’s second-largest tourism group announced it now expects profits of £280 million for the year ending September 2018 compared to its previous forecast of at least £323 million. Shocked investors sold off shares, prompting a 28% slump in the share price. Full-year results will be announced on 29 November.

CEO Peter Fankhauser explained: “Summer 2018 has seen a return to popularity of destinations such as Turkey and Tunisia. However, it has also been marked by a prolonged period of hot weather across Europe. This meant many customers spent June and July enjoying the sunshine at home and put off booking their holidays abroad, leading to even tougher competition and higher than usual levels of discounting in the ‘lates’ market of August and September.” He admitted: “Our recent trading performance is clearly disappointing.”

The sales slowdown in August and early September becomes apparent when comparing the latest cumulative figures, which cover sales up to September 15. With 90% of the summer 2018 program sold, Thomas Cook now has a group-wide cumulative 12% rise in bookings, but a 5% drop in average selling prices, mostly due to a higher mix of short/medium-haul airline bookings. Tour operator sales are 1% ahead of last year with average prices up by 3%, compared to flat bookings, but a 4% increase in average prices up to July 21.

“Trading since the last update has been tough as a consequence of the sustained period of hot weather across Europe this summer.” The impact of the hot summer is also being felt in winter trading, Thomas Cook admitted. Winter 2018/19 bookings are 2% lower than last year, although average selling prices are 1% higher.

Eurowings Promises Better Flight Performance Next Year

Lufthansa’s budget airline Eurowings is promising smooth flight operations in 2019 after its over-hasty expansion, strikes and other factors caused chaos this summer. Eurowings hit the headlines repeatedly this year for countless flight delays and cancellations as it tried to integrate former Air Berlin planes into its fleet and capture market share. The airline’s punctuality plummeted to just 60% between May and August.

Addressing top German travel industry managers at the fvw Kongress in Cologne this month, sales director Oliver Wagner apologized for the problems, which he blamed on a combination

of internal and external factors. He admitted that Eurowings had tried to do too much too quickly. For example, it had taken longer than expected to integrate the former Air Berlin planes into the fleet for technical reasons, resulting in a shortage of planes to operate the flight schedule. In addition, air traffic controller strikes worsened the situation by causing delays and cancellations. “We were doing well until April. But the planning became obsolete in May and June,” he said. “The planes were not ready.” But Wagner claimed that flight operations had now stabilized following the addition of the 77th and final ex-Air Berlin plane into the fleet in August and promised that this summer’s situation would not be repeated. “My message is that we have a stable flight schedule for next summer, it is planned conservatively,” he declared.

One key measure will be to split the fleet between planes operating domestic routes and international routes in order to improve punctuality. Planes flying domestic routes in the morning and evening “will stay in Germany” during the day instead of being used for Mediterranean routes that might lead to delays, he said. In addition, the airline is planning longer turnaround times at airports. Moreover, Eurowings now has sufficient reserve planes should one of its aircraft suffer a technical problem. The airline has an overall fleet of 185 planes at 13 bases serving over 200 destinations.

On other topics, Wagner said Eurowings would review its pricing and tariffs for business and leisure passengers over the coming year. It will launch a new booking tool for tour operators and will broaden its website into a ‘travel platform’ with a range of ancillary offers to cover ‘the whole customer journey’. In an initial step, the airline announced an exclusive partnership with German accommodation portal HRS. From December onwards, Eurowings passengers will be able to book hotels from the HRS portfolio directly on the airline’s website at special rates and with additional services. Members of Eurowings’ loyalty scheme will get points for HRS bookings.

Personalizing Holiday Packages

Package holidays should become much more personalized in order to offer customers a better experience, Thomas Cook Germany chief Stefanie Berk told fvw in an interview. Traditional ‘package holidays’ no longer exist, according to the experienced tourism manager. “The words don’t even describe the product any more. No one wants to be part of a package. Instead, it’s about an individual kind of holiday,” she insisted.

Tour operator holidays have already been made much more flexible in the last few years through measures such as different lengths of holidays, ‘open-jaw’ flights with different arrival and return departure airports, and a greater choice of hotel rooms, said Berk, who is responsible for Thomas Cook’s tour operator activities in Germany and Central Europe. The second stage of this modernization process is the current phase of ‘individualizing’ package holidays. “We offer various services; for example, customers can select their preferred hotel room or reserve a sunbed in advance,” she said. But Berk is already looking ahead to a third phase, when package holidays could become more personalized.

At present, customers cannot easily judge the real value of a tour operator holiday, she claimed. “Many (packages) include services that customers cannot evaluate at first glance, such as seat reservations, train travel, in-flight catering or better cancellation conditions,” she explained. Such added-value elements pushed up the price of a holiday in comparison to competitors, leaving cheaper offers ranked first in travel agency booking systems “regardless

of what the package actually contains". In future, packages containing elements such as seat reservations, train travel to the departure airport and in-flight catering could be 'unbundled' to create a 'basic' offer. Such a 'basic' holiday package would enable a better comparison of similar offers from different tour operators in terms of price and content. Customers could then be offered this 'basic' holiday package and a choice of extra options, such as greater luggage allowances, an individual airport transfer or additional services in the hotel. This would provide customers with a much more personalized holiday to match their needs and wishes.

However, this would require closer cooperation between tour operators and travel agents. "In future, we only want to offer customers what is really relevant for them. But to do this we have to enrich the booking systems with CRM data," she pointed out. Travel agents would then be able to use customer data for higher quality advice and consultation. The overall holiday package, combining the standardized basic offer with personal extras, would enable the tour operator to generate higher prices and travel agencies to earn higher commissions as a result.

German Consumer Climate Looking Sunny

In September, the consumer climate in Germany has, by and large, seen positive developments according to the GfK consumer climate study for this month. Both economic and income expectations are on the rise, whilst propensity to buy has taken a slight hit. GfK forecasts a further small increase in consumer climate of 0.1 points in comparison to the previous month, moving to 10.6 points.

Economic expectations continue upward trajectory: In September, economic expectations increased for the second consecutive month. The indicator rose by 4.9 points to 27.1 points. The dip for the six months or so leading into July therefore seems to be over and the indicator is, once again, on an upward trajectory. However, in comparison to the previous year, the indicator is still down by a good six points. As before, neither the trade dispute between the EU and the USA nor the threat of a hard Brexit seem to be restricting economic optimism long-term. Consumers perceive Germany's growth to be stable. Consistently positive messages from the labor market are also buoying the economic mood.

Income expectations show increase: In the wake of improving economic forecasts, income expectations also grew in September. Growth of 5.3 points more than makes up for the losses of the previous month. The current measurement is 57.9 points. That is the highest it has been for a year. The persistence of an excellent labor market has provided good conditions for solid income growth for employees. This also significantly pulls up statutory pensions, which are linked to salaries and incomes. This means that, although inflation has increased recently, consumers can still expect noticeable income increases in real terms.

Propensity to buy suffers slight losses: Despite slight losses, Germans' desire to spend remains intact. The indicator fell by 2.3 points in September to 52.9 points, which is still very high. Despite this small decrease, Germans remain in the mood to spend. The excellent position of the labor market provides employees with a high level of confidence in their job security. Job security, in turn, provides a certain level of surety with which to plan for larger purchases and expenses. People are also more willing to borrow to finance these larger purchases and expenses.

Consumer climate on the rise after two declines in a row: Following two consecutive drops, consumer climate is on the up once more. For October 2018, GfK forecasts a small increase in consumer climate of 0.1 points in comparison to the previous month, moving to 10.6 points. Private-sector spending will thus prove itself to be an important pillar of Germany's economic growth. Exports could be hit by higher tariffs or restrictions, which will primarily impact Germany, as an exporting nation. If this happens, it will be all the more important for the domestic economy to act as a sturdy and reliable anchor. This is why GfK is confirming its prognosis that real private consumer spending will rise by around 1.5 percent this year.

SALES ACTIVITIES

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

This month saw us participating in the Visit USA Germany’s ‘cinema’ road show featuring an exciting new concept which entailed projection of comprehensive destination presentations on big movie screens. Beyond this impressive presentation format to all attending retail agents, one-on-one sales meetings were held during a tabletop marketplace prior to the presentations and during the breaks. Over 80 agents were trained in both Stuttgart (CinemaxX Stuttgart SI-Centrum) and Frankfurt (CineStar Metropolis). After the presentations, an American dinner buffet was be offered followed by a viewing of the 45-minute Brand USA movie “America Wild” as the grand finale of the evening. In addition, travel agencies had the opportunity to invite their best customers to join us for the Brand USA movie, whereby we had very informative conversations with these hand-picked consumers before and after the movie. This format was highly productive and most appreciated by all travel agents as well as their clients.

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

Held in St. Gallen, Zurich, Basel and Bern, the road show attracted over 200 travel agents whom we had the privilege to train. Comprehensive educational sessions were conducted during both the morning and afternoon during which presented our area in the more intimate roundtable format. By virtue of conducting trainings in four Swiss cities in short order, we covered a broad catchment area just ahead of the upcoming important fall booking season.

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

We have registered to participate in the Visit USA Netherlands’ new 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 engage in networking opportunities in Amsterdam with tour operator product managers and the trade media. Preparatory tasks were finalized 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 being organized 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 were finalized 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 continued to liaise 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 has been transmitted. We continued to liaise 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. Respective input was transmitted; further 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. Preparatory tasks are underway.

Additional Activity:

- **DerTouristik** of Germany was provided with our image data base to include VSPC images in their new annual 2019/20 catalog.
- **Mrs. Notheis** of **First Reisebüro** in **Schwetzingen, Germany** was the only travel agent to inquire about the status of the Red Tide. She was provided with applicable comprehensive information including links shared with us by HQ.
- We assisted **Mr. Krämer** of **Kuna Reisen**, whom we met at the VUSA Cinema event in Frankfurt, with comprehensive information in preparation for his bringing a group to our area in Q1 2019.
- Input for the **Brand USA/VISIT FLORIDA Spring Multi-Channel Campaign** in Germany was discussed with HQ and Miles Media this month. We delivered assets accordingly. Launch of this campaign is scheduled April/May 2019. Concern has been expressed that this is rather late, since the primary booking period for the summer season is Q1.

MARKETING INITIATIVES

Our efforts continued this month in developing and completing marketing initiatives and advertising programs, which included:

Online Aggregators:

- **Travelzoo Europe (Germany)** – 2 weeks (August/September)
After a very successful campaign with Travelzoo last winter, we continued our excellent cooperation with a new campaign including the following elements:
 - **Dedicated eMail blast** to 340 thousand members containing attractive accommodations offers inclusive of air and car,
 - **Teaser integration** in the “Top 20” eNews blast to 2.2 M subscribers,
 - **Homepage teaser** placement (1.3 M unique visitors/mth),
 - and **social media** integration.

Results:

At 3minutes, 38 seconds, the dwell time on the Top 20 deals page was 42% higher than the Travelzoo average of 2 minutes, 33 seconds. Searches for VSPC as a specific location *tripled* during the campaign period, compared to the same period a month earlier. Total reach of 2.7 M, over 40,000 clicks on St. Pete/Clearwater, over 1,200 room nights booked.

In keeping with fiscal year-end, we followed up with vendors regarding submission of their invoicing and proof-of-performance materials.

Public Relations:

Kaus Media Services - VSPC's German PR Agency

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

- **Newsletter September/October:** Proofread and corrected.

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