

# Tourism Industry Intelligence

Strategic Information for Decision-Makers

## Prospects for the US Market in 1999

November/December 1998

### Positive but slow growth

The US economy is expected to end the year with a 3.4% rate of growth of its Gross Domestic Product (GDP). **However, a much lower rate of economic growth (1.7%) is expected in 1999.** Like Britain, the slow growth of the economy will put a damper on US citizens' travel abroad. The good news is that outbound travel will continue to grow. But this growth will be slower than 1998.

### Travel will increase

*The Travel Industry Association (TIA)* predicts that **travel will slow but not decline** - a 1.6% growth in total trips is projected for 1999. This compares with 3.7% growth in 1998. *TIA* also predicts a 5.7 percentage growth in travel expenditures for 1999, compared with 6.4% for 1998. According to *Dr. Susan Cook* of the *TIA*, **"the economic fundamentals will remain fairly conducive to growth in travel"**. An 11% increase in cruise passenger traffic is predicted as well as a 2.8% growth in airline traffic.

### Travel agents are optimistic

US travel agents are optimistic about travel prospects in 1999. **Nine out of ten agents surveyed expect clients to spend as much as or more than they spent in 1998.**

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## Key Trends in the US Market

### How they travelled

Around 36% of US leisure/VFR (Visiting Friends and Relatives) travellers travelled alone; 36% travelled with spouses; 25% with family/relatives and 14% with friends. **A mere 4% were with a tour group. Travellers opted for in-depth travel experiences, with 77% of leisure/VFR travellers visiting one country, 22% visiting two countries and only 9% visiting three or more.**

### Increase in travel & entertainment expenditure

**US companies will spend \$175 billion on travel and entertainment in 1998, around 12% more than in 1996,** estimates *American Express* in its 1998 *Survey of Business Travel Management*.

### ... But expect corporate cutbacks in 1999

The majority of corporate travel managers **expect cutbacks of up to 20% in travel and entertainment spending in 1999,** revealed a *National Business Association* survey in October.

### Leisure is recession-proof

**Leisure travel is seen by many in the industry as near recession-resistant.** According to *Roger Ballou*, formerly of *American Express*, "if you look at the history of recessions over the last 14 years in this country, at no point has leisure travel had a downturn".

## Performance of the US Market - Winners and Losers

	Country	No of Months	% Change	Total 1998
<b>Turks &amp; Caicos record good growth in 1998</b>	Turks & Caicos Islands	7	20.5	48,804
	St. Eustatius	2	17.0	469
	St. Kitts/Nevis	7	16.7	30,834
	St. Lucia	8	13.9	59,186
	China	10	13.5	570,831
	Curaçao	5	11.2	14,507
	St. Maarten	7	9.9	13,151
	Cayman Islands	7	8.0	195,670
	Antigua & Barbuda	8	7.8	51,824
	Puerto Rico	1	7.2	537,930
<b>China receives over half a million visitors in 1998</b>	Singapore	8	6.3	232,918
	Trinidad & Tobago	5	5.2	52,695
	Jamaica	8	3.2	593,922
	South Africa	2	3.0	24,916
	Cuba	6	2.8	22,316
	Japan	6	2.2	329,387
	Dominica	6	1.5	8,118
	Germany	7	0.4	1,131,942
	France	7	0.3	2,711,649
	Aruba	5	0.1	177,088
	Bonaire	6	-0.1	16,272
	Anguilla	8	-0.2	19,910
	Grenada	7	-0.3	19,400
	Barbados	7	-0.4	68,206
	St. Vincent & The Grenadines	6	-0.9	10,352
Bermuda	7	-2.9	172,753	
Guyana	6	-12.0	12,533	

Source: World Tourism Organisation and Caribbean Tourism Organization, 1998.

## Market & Consumer Trends

### What does the weather have to do with it?

Poor weather in Britain was “probably responsible” for a 200,000 increase in holiday departures in May 1998 compared with 1997, reported *Travel Trade Gazette*. Meanwhile Germany’s *FVW* reported that “wet and unsettled weather in Germany also boosted trade in the travel agencies”. An *FVW* survey of 49 leading German tour operators found that normal brochure packaged holidays were being booked for summer at short notice. **L’Tur was selling over 3,000 packages on some days in July.** The mild weather in Europe this winter may also be responsible for lower traffic volumes this season. But the bad weather in the East and Midwest could have the opposite effect.

### Growing German interest in all-inclusives

TUI, the largest German tour operator reported that **the number of all-inclusive resorts offered has doubled, with growth in the 3 star category.** Meanwhile, another German tour operator, **NUR, also reported that the number of all-inclusives hotels offered has risen from 10 to 26.** ITS, the fourth largest German tour operator indicated that “**all-inclusive offers are playing an increasingly dominant role in the hotel business**”. Kastner, ITS Managing Director “doesn’t see an end to this trend”. More than half of all ITS hotels are all-inclusive.

### Cautious honeymooners

**Japanese honeymooners are starting married life with cautious travel decisions** reported *Travel Business Analyst*. The **number of days spent on honeymoon was 7.8 in 1998, a 2.5% decline on 1997;** the **total spent on honeymoon was US\$4,407 in 1998, a 5.2% decline on 1997.**

## Focus: All-inclusive Resorts

### Most successful

All-inclusive resorts are one of the most successful and fastest growing segments of the tourist accommodation sector. In this issue, we examine why.

### All-inclusives defined

All-inclusive resorts are those where **virtually everything is included in one pre-paid price** - airport transfers, baggage handling, government taxes, room, all meals, snacks, drinks and cigarettes, the use of all facilities and equipment and certified instructors. Even gratuities (tips and service charges) and nightly entertainment are included in this pre-paid price. The German tour operator **TUI** in association with **Allegro Resorts** in the Dominican Republic now includes sunglasses, bathing suits, tooth brushes, underwear, dresses, pants, socks, sandals and more in the price of their all-inclusive holiday. (See **Tourism Industry Intelligence** Nov/Dec 1997).

### Major All Inclusive Chains World-Wide

### Club Med in the lead

Resort	No. of Resorts	Total Room Stock	Headquarters
Club Med*	77	25,315	France
Allegro Resorts**	24	6,455	Dominican Republic
Club Robinson	24	5,397	Germany
SuperClubs	12	3,238	Jamaica
Clubs International	12	2,547	USA
Sandals	10	2,032	Jamaica
Club Aldiana	10	840	Germany

### The appeal of all-inclusives

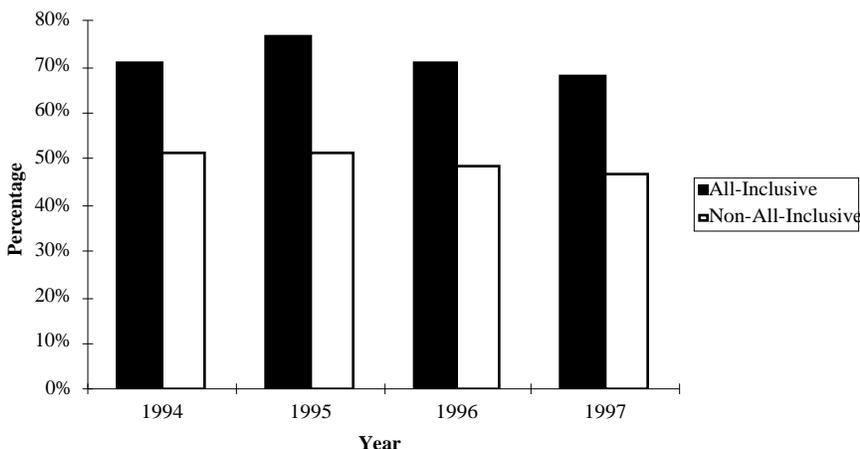
The attractiveness of all-inclusives lies in its **appeal to consumers** (value for money); the **simplification of procedures and control that it offers management** (all visitor expenditure is captured on the property without complicated billing procedures) and **travel agents like to sell all-inclusives** (they earn commissions on the whole package - even commissions on tips and taxes!). The main negative of the all-inclusive concept is the 'enclave' type of tourism it promotes (see checklist of advantages and disadvantages of all-inclusives overleaf).

### Superior performance

The draw of all-inclusives lies in their superior performance. The data suggest that **all-inclusive hotels performed nearly 50% better than non-all-inclusive hotels**.

### All Inclusives out-perform standard hotels

Hotel Occupancy Rates in Jamaica by Category of Hotel, 1994 - 1997



## All-inclusive Resorts continued

### Travel agents love to sell them

Travel agents can earn more than twice as much commission from selling an all-inclusive resort compared with a traditional hotel.

### Surgically precise market segments

**All-inclusive resorts cater to visitor psychographics - the way their guests think, feel and behave.** They cater exclusively to **families** (Boscobel, Beaches, Club Med, Robinson Clubs), **couples** (Couples and Sandals), **hedonists** (Hedonism II), **health enthusiasts** (Le Sport) and other segments.

### Product and quality control

**All-inclusive resorts package and control all elements of the holiday** - from arrival at the destination to departure. **They are incoming operators, ground handlers, hoteliers and tour operators all in one.**

#### Advantages

- a) Value for money
- b) Tourists can plan holidays better knowing up front what the cost of the holiday will be
- c) Easier for travel agents to sell and they get commissions on the whole package commissions (greater incentive to sell)
- d) Simplifies relationships between hotels and guests, and minimises capital expenditure on computer equipment to track guest bills
- e) Simplifies inventory and stock procedures as all meals are prepaid
- f) Eliminates the money relationship between hosts and guests (no tipping allowed)
- g) Guests do not have to leave hotel so value-added from spin-off activities captured by the hotel can be limited
- h) Tourists can feel secure in a well-planned and orchestrated environment
- i) Creation of skilled, flexible and empowered staff
- j) Minimum size of 150 room seems to be necessary
- k) Introduces another category of vacation and possibly new markets. Adds diversity to destination.

#### Disadvantages

- Excessive animation, buffet lines
- Low inclination to spend outside the budget
- All-inclusive resorts pay out higher
- High expenditure/investment on skilled labour
- Theft difficult to control
- Eliminates the cash incentive for for workers
- Little potential for linkages outside of the hotel (e.g. taxi drivers, restaurants)
- Leads to enclave type of tourism; limits local participation and interaction of tourists in local community
- Staff can be easily exploited and over-worked
- Not as well suited for smaller properties
- Unable to take advantage of walk-ins, cruise passengers and business lunches as would conventional hotels.

Source: All Inclusive Resorts, *Travel Industry Analyst* No. 6, 1998

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## Hotel & Resort Trends

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### Disney struggles to keep investors smiling

It used to be the happiest company on earth. Year after year, **Walt Disney Co.**, spun solid gold profit from a one of a kind global franchise of entertainment. **But lately, the financial magic seems to have deserted the Magic Kingdom.** The *Economist* estimates that Disney's CEO Michael Eisner's 24 million share options in the company was worth US\$409 million when the shares peaked in May 1998 and by October 1998 they were worth just US\$21 million, a drop of US\$ 389m. Stuck with a **laggardly TV network, a rash of flop movies and a key market - Asia - in recession**, Disney's once-formidable business momentum has slowed to limping. **Tokyo Disneyland also reported a 26% fall in interim pre-tax profits.**

### All-inclusives march on

**SuperClubs is expanding into Latin America with the opening of four properties in Brazil.** The first hotel will open in September 1999 in the state of Bahia in **Northeast Brazil.** **The 350 room Breezes hotel will be the group's first venture outside the Caribbean and the first all-inclusive property in the region.** It will be followed by two more **Breezes** and a **Grand Lido**, all scheduled to open within the next four years. **Sandals will also add a second hotel in Cuba** in the next two years following the opening next February of the 350-room **Beaches Varadero.**

### Fly free

**Sandals** has introduced a special promotion – until February 1, 1999, **they fly clients free from the US to its 10 resorts in the Caribbean.** Clients must stay 7 nights or more to qualify for a free flight.

### Turks & Caicos call halt to all-inclusives

**Turks and Caicos called a halt to all-inclusives placing a moratorium on their further development.** The island is expected to have 1,700 rooms by the end of the year and the **Turquoise Reef**, bought by the all-inclusive operator, **Allegro**, will be the last all-inclusive to open on the island. Already more than half of the hotel rooms in **Turks and Caicos** are in all-inclusive establishments.

### Stress-less and health-fit rooms

**Hilton is testing a new concept – Stress-Less Rooms and Health-Fit Rooms – designed to keep travellers relaxed and healthy while away from home. Rooms include such extras as massage tools, a yoga video, and aromatherapy lotions, while Health-Fit Rooms are equipped with exercise equipment and fitness magazines.** The new concept is being tested in 16 properties across the US.

### Hilton splits

**Hilton shareholders voted to separate the company's gaming and lodging businesses.** **Hilton's gaming interests include 15 hotels/casinos and riverboat casinos.** The firm is expected to merge with **Grand Casinos** to form **the world's largest gaming company in terms of square footage and revenue.**

### Fashion group enters the Fray

**The Versace Group has chosen the Gold Coast of Australia for its first luxury hotel, Palazzo Versace.** The property estimated to cost US\$125 million, will feature 263 guest rooms and 72 condominiums. **It is due to open on the eve of the Sydney 2000 Olympic Games.**

### Lifestyle brands

Canadian hotel management company, **Tradewinds**, has created two new brands for **Barbados.** One new brand, **Time Out**, will cater to the 18-35 year old market at three properties - Blue Horizon, Worthing Court and Andrea-on-Sea. All located close to lively areas, the hotels will be sold on an accommodation-only basis. A second brand, **Latitudes**, is aimed at sophisticated individualists who are looking for more than sun, sand and sea and will be launched next winter. **Tradewinds aims to have 3,000 rooms in the Eastern Caribbean by 2004.**

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## Technology Update

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### Virtual Safari

The **Djuma Game Reserve** in South Africa has permanently installed cameras with spotlights at two of its waterholes transmitting an image every 30 seconds on the internet. Since its launch on Monday September 14, 1998, **Djuma Game Reserve** achieved an initial 20,000 "hits" per day and by November 24, 1998, this figure had increased to 800,000 hits per day. **Djuma Game Reserve's** web site is estimated to be the largest in Africa and one of the fastest growing in the world. Interestingly, 12% of all hits originate in Japan. Djuma's web site is: <http://www.africam.mweb.co.za>

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## Destination Watch

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### South Africa gets serious

South Africa will have a marketing budget 14 times larger than the 1998 budget. A joint initiative by South African businesses has made 15.3 million pounds (US\$23 million) available to spend from April 1999 on promoting the country as a tourist destination. The *World Travel and Tourism Council* estimates that by the year 2010, 174,000 new jobs can be created directly by the travel and tourism industry in South Africa and 516,000 jobs can be created within the broader South African economy.

### South America bands together

Nine South American countries have set up a \$38 million marketing initiative to jointly promote the region as a tourist destination. Bolivia, Brazil, Chile, Columbia, Ecuador, Paraguay, Uruguay, Venezuela and Argentina have formed an umbrella group called **Prosur** (Promotion of Tourism Throughout South America). **Prosur** will be developed in three stages and over three years, starting with a US\$3 million promotion between now and 1999. The funds are both from private and public sectors. The nine countries will be marketed under a single brand. The scheme is expected to bring an extra 2 million visitors to the region and generate US\$4 billion.

### Eight years of growth for Panama

International tourist arrivals by air in Panama increased by 11.6%, to 343,520 in 1997, the eighth consecutive year of growth. Panama recorded a 9.1 % growth for visitor arrivals overall to 482,980 - including 58,000 tourists arriving by land and sea and 81,460 same-day travellers. The biggest market for Panama is the US (27.6% of total arrivals) followed by Latin America. Europe had an overall increase of 9.6% in 1997, but accounted for only 7% of all air arrivals.

### Asia Pacific drops sharply

The Asia Pacific region is expected to welcome 5 million fewer tourists this year, according to the *World Tourism Organization*. Inter-Asian travel has been hurt the most, down 10%, but bargain prices and package deals are increasing long haul tourism to the region by 2 million, mostly from Europe, the US and Canada. The WTO predicted that worldwide tourism should grow 1.5% to 2% in 1999, compared to 2% in 1997 and 5.6% in 1996.

### Thailand – a bright spot in Asia

Tourist arrivals to Thailand rose year on year by 7.34% to 6.23 million in the first 10 months this year, according to the *Tourism Authority of Thailand*. In October alone, arrivals climbed by 16.8% over the same month last year. Thailand received 7.4% more visitors from recession-hit East Asia, while growth from Europe was 30.9%.

### Watch for China

Over the next 12 years, the tourism sector in China will grow by 9% a year, predicts the *World Travel and Tourism Council*. The industry will create over 21 million jobs in the next 12 years. More than 5.5 million direct industry jobs are expected to be provided over the next 12 years and a further 16 million related jobs will be supported by travel and tourism spending.

### Four Seasons in China

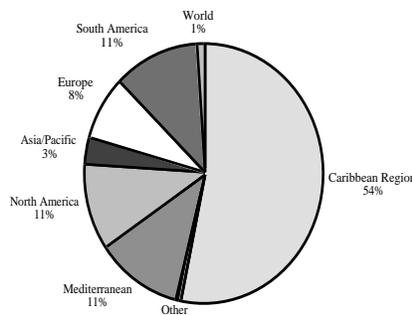
Four Seasons will debut in China in 2000 as manager and part-owner of the Four Seasons Hotel Shanghai.

## Focus: The Cruise Tourism Challenge in the Caribbean

### No. 1 destination for cruising

The Caribbean is the number one destination for cruising and the most important geographic market. **Just over half of the 103,062 cruise berths in North America are marketed in the Caribbean.** Growth of cruise tourism has not been without its difficulties. We examine some of these challenges.

1998 Cruise Bed Days by Region



Source CLIA, 1998.

### Rapid growth

Cruise tourism represents the fastest growing segment of the Caribbean tourism sector, growing nearly twice as fast as stay-over arrivals. Between 1986 and 1996, the number of cruise passenger visits to Caribbean destinations increased from 5 million to 10.7 million, an average growth rate of 8.2 percent per annum.

### Key challenges:

This rapid growth has one catch: **cruise passengers spend less.** The *Caribbean Tourism Organization* (CTO) estimates that cruise passengers spent an average of US\$112 per visit, compared with US\$818 per visit by stay-over tourists. A number of strategies have been put in place to encourage greater expenditure including: **enhancing the destination experience; encouraging cruise passengers to return as long-stay visitors; and encouraging cruise lines to source more goods and services from Caribbean suppliers** (e.g. Red Stripe beer from Jamaica).

### Increasing the benefits

### Managing growth

Ships are getting bigger with 2000 berths very much the norm. Most destinations are experiencing **increased levels of “bunching”** as a smaller number of ships bring increasing numbers of passengers. The need to balance cruise and long stay visitors is also critical as most destinations do not wish to **“crowd out” their longer stay, higher spending visitors.** Already **Bermuda** has hiked up passenger taxes to encourage the low-volume high-yield end of the market; **Cayman Islands** will not allow ship calls on **Sundays** and **Public Holidays** and **Tobago** has refused to let cruise ships call at Charlotteville, a picturesque fishing village. Management of the waste that ships and their passengers generate as well as monitoring environmental damage (dumping of garbage, breaking of reefs) are also key.

### Competing with cruise lines

**Caribbean destinations (particularly hotels) are also finding that Cruise ships are more competitors than customers.** The newer larger ships also provide greater on-board revenue opportunities which compete with passenger spending at the destination. **Carnival Cruise Line**, for example reports that on-board spending accounted for some 15 percent of its total revenues. Ships are therefore encouraged to close their duty-free shops and casinos when in port.

### Future prospects

Continued growth of the world cruise industry will fuel growth in the Caribbean. The industry will face a number of challenges (re-opening of Cuba) and opportunities (homeporting, new investments in port infrastructure, the undeveloped European market, growth of the Southern Caribbean). **CTO projects the number of cruise passenger visits to Caribbean destinations to increase from the 1996 level of 10.7 million passenger visits to around 13.4 million by the year 2000.**

## Editorial

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In this issue, we take a look at the US outbound travel market. Slower economic growth will indeed impact on travel. *Business Week* foresees "speed bumps" to the US economy's growth in 1999. Americans will continue to travel abroad in 1999 and 2000, however, like their UK counterparts, the rate of growth of travel abroad will continue to slow.

US outbound travellers are likely to continue to opt for the familiar (Europe and Mexico) and the pleasurable (Caribbean resort life and cruising). Despite the fall in prices to Asia as a result of the Asian financial crisis, there is no strong evidence of a boom to the destinations in the Asian region. Asia will need to rely more on Europe for their much-needed boost. Thailand demonstrates this clearly.

The cautious honeymooners in Japan is hardly surprising considering that the Japanese economy will shrink by 2.6% in 1998 and see only a minimal rebound in the next 18 months. The number of Japanese travelling abroad fell this summer for the first time in 18 years.

In this issue, we also take a look at the all-inclusive market – we expect that the superior performance, profitability and innovativeness of all-inclusive hotels will drive the continued rapid expansion of all-inclusive resorts worldwide. Two trends to watch are the movement of current semi-inclusives (drinks not included) to all-inclusive resorts (e.g. private game reserves in Africa) and destinations technologically in the forefront (e.g. Singapore) developing all-inclusive destinations (where one up-front price allows the experience of the entire destination).

We have also examined the challenges facing the Caribbean in coping with a growing number of cruise passengers - estimated at 14 million by 2000. Managing this growth; increasing the economic benefits of cruise tourism; and improving destinations' competitiveness are some of the main challenges identified.

In the next issues of **Tourism Industry Intelligence**, we will look at the prospects for the French and German markets in 1999 and 2000 as well as the time share, honeymoon and spa markets. We will also take a special look at Australia and Jamaica.

## Trends to Watch

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### Departure tax for life

Seychelles is planning to launch on April 1, 1999, a **US\$100.00 Gold card that will become mandatory for all visitors on November 1, 1999**. The gold card will replace the island's departure tax. **It includes entrance fees to all marine national parks and nature reserves and is valid for life**. It is hoped that because the card would be a one-off purchase, that it will encourage repeat business. About 12% of Seychelles' 130,000 annual visitors have visited the islands before.

### Sex tourism is recession proof

**Prostitution is a recession-proof business in Asia** reported Singapore's *Tourism News at a Touch*. **The Asia economic crisis is driving more women and children into the flesh trade, and the lower prices are attracting growing numbers of overseas sex tourists**. It is estimated that each year about 1 million are victims of sex tourism and organised prostitution.

### Europe fights child sex tourism

In the first European meeting bringing together the main partners in the fight against child sex tourism, initiated by the **European Commission, the Commission's strategies for fighting child sex tourism were elaborated**. These included key **actions on reducing demand for child sex tourism** (including deterring and punishing offenders and fostering cooperation between the tourism industry and NGOs working in the area) and **addressing the sources of supply** (poverty alleviation, respect for human rights and the rights of children and promoting the development of sustainable tourism in developing countries).

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