

Further Decline For The Travel Retail Market In Europe

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The travel retail market recorded another weak performance in the first 9 months of 2010, with sales declining further after the falls of 2008 and especially 2009.

Low consumer confidence behind weak performance

The ongoing poor state of European economies and high unemployment rates were behind the weak performance in travel retail.

Low consumer confidence translated into travellers often opting for cheaper holiday options with a rise in holidays at second homes or staying with friends and family, choosing low cost carriers, travel accommodation other than hotels such as apartments, guesthouses and agri-tourism outlets.

Initial estimates put the overall decline in value sales of European travel retail at around 1-2% in 2010, compared to the double digit declines of 2009.

Another marked trend was the search for internet deals, often through last minute reservations, but also for advance bookings in order to get lower prices.

This was the driver of a much stronger performance in online travel retail sales, which grew healthily in the whole of Europe, around 3-4% over 2009/2010 based on provisional estimates.

A few success stories

In 2010, all-inclusive trips also recorded a solid performance following the growth recorded in 2009, but after a steady decline in the previous five years. The reason for the revival in all-inclusive in Europe was consumers seeking value for money and greater control over their holiday budget.

The best performance in 2010 was once again cruise benefitting by several favourable underlying trends including the higher level of relaxation they offer and the possibility to visit several countries in one trip.

Cruise operators also embraced some of the most important trends in the travel and tourism industry such as health and wellness tourism, making cruise one of the most successful industry sectors over the last decade.

Market players under strain

The poor performance of the travel retail market in 2010 and the search for low cost options and deals by travellers led to holidays being bought at discounted prices and, as a result, lower margins for travel retailers.

Several tour operators and travel agency chains were under strain in Europe in 2010. Sales and profits of most travel retailers declined, including those of the market leaders, TUI and Thomas Cook.

The latest financial data released by TUI shows that its company revenues fell by 8.3% to EUR9.8 billion in the nine months to 30 June 2010. A similar performance was recorded by Thomas Cook whose revenues fell by 9% over the same period.

Increased consolidation was the response to this difficult situation for travel retailers. The recent announced merger between Thomas Cook and The Co-operative Group in the UK, for example, enables the new entity to cut costs, gain scale and aim for profits in a severe business environment.

Slow recovery expected

Recovery in the European travel retail market is not expected to be fast. Euromonitor International forecasts that travel retail will be the last travel and tourism category to recover from the global economic crisis and is likely to return to 2007 sales levels only by 2014.

Also some structural changes are predicted to inhibit recovery such as the entrance of new online players resulting in lower retail prices and driving down margins.

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