

CENTRAL EUROPEAN OFFICE

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MARKET INTELLIGENCE / TRENDS

Consumer Climate: Stable Despite Slight Losses

Overall, consumer sentiment in Germany weakened slightly in September. Despite this small decline, the consumer climate remains stable at a strong level. The current decline is, however, indicative of how consumer sentiment is not completely immune to the prevailing rise of uncertainty, which also seems to be affecting consumers. First and foremost, this uncertainty is being fueled by the greater perceived terror threat in Germany as well as by the decision made by the British public to vote to leave the European Union. The consequences of this for the European and, above all, German economy are still completely unclear. Nevertheless, research analyst GfK confirms its forecast that a rise in real private consumer spending of around 2% in 2016 appears achievable and realistic. Consumption therefore remains an important pillar of economic growth in Germany

Income expectations: The regular increases and decreases in income expectations continued in September. After growing last month, this month the indicator lost 5.7 points. However, this has only erased some of the noticeable gains of 8.6 points recorded in August. As a result, at 52.6 points, the income expectations indicator remains strong above the 50-point mark. Consumers seem set to remain very optimistic when reflecting on their future financial situation. They have good reason to feel this way. The very stable developments on the labor market coupled with a rising rate of employment are even resulting in noticeable increases in collectively agreed wages. What's more, thanks to the very low inflation rate, employees also have more in their wallets in real terms. Since increasing wages also have a positive impact on state pensions, people in retirement are also optimistic for the future in terms of their finances.

Propensity to buy: Like income expectations, propensity to buy also declined slightly this month. The indicator fell by 4 points to 53.3 points. However, as is the case with income expectations, the desire to make purchases is still very high and has remained above the 50-point mark. Here, too, no reversal of trend is being observed, as consumers' inclination to buy remains intact. Provided that the labor market continues to run smoothly and employees are consequently not worried about their jobs, the signals for consumption are expected to stay positive. This is made even more likely by the fact that conditions for saving are anticipated to remain unfavorable given the persistently low interest rates. The most recent indications from the European Central Bank suggest that interest rates will remain at rock bottom in the months to come. This is also implied by the recent extension made to the ECB's bond purchase program.

Spain Soars as Turkey Tumbles

German air travelers are flocking to Spain, Greece and Italy this year and turning their backs on Turkey and North Africa, according to new official figures. Strong growth for Spain, good increases for most European destinations and a surge in long-haul travel to the Americas, the Caribbean and parts of Asia were confirmed in the German federal statistics office's half-year figures for outbound passengers departing from German airports. Total passenger numbers increased by 3% to 51.8 million from January to June 2016, with international passenger volumes up by 2.9% to 40.2 million and a 3.4% rise in domestic passengers.

Spain was the clear winner in the first half-year. The number of German airline passengers to the country, which is by far the largest destination in terms of air travel, increased by nearly 11% to 6.2 million. There was an 11.6% rise to just over 2 million passengers to the Balearics and a 9.3% increase to 1.5 million visitors to the Canary Islands. In contrast, passenger numbers to Turkey, the second-largest destination, dropped 13.4% to 2.76 million travelers. This included a 29% drop in travelers from German airports to Antalya.

There was good news for Greece where German air arrivals increased by 6% to 1.1 million, including a 3.7% rise to 0.5 million for the Greek islands. Among European air destinations with a mix of business and leisure travel, there was a 3.6% rise in outbound passengers to the UK, a 4.5% increase to Italy and a slight 1.8% rise to France.

There were diverse trends for 'intercontinental' destinations (covering all destinations outside Europe). Asia saw good growth with a 3.9% increase, led by a 28.7% surge in travel to Thailand and a 7.3% increase for the UAE. Air travel to the Americas grew by 2.8%, with strong increases to the Dominican Republic (+15%) and Mexico (+11%), while the USA saw a moderate 1.2% increase and Brazil welcomed 1.4% more arrivals from Germany. But air travel to Africa slumped, including a 36% drop to Egypt (which had 0.4 million arrivals from Germany) and a 47% fall to Tunisia, with just 97,000 passengers in the first half-year.

Overcoming Customer Fear by Talking Rationally About Risks

The travel industry can respond to customer fears about certain destinations through honest and balanced communication about real and perceived risks, according to security expert Richard Fenning. The many crises around the world affecting tourism, and making customers fearful of travelling, are unlikely to be solved in the short term, thus forcing the travel industry to take a long-term approach, the CEO of the British firm Control Risks told the fvw Kongress in Essen this month. "We live in an age of disruption on a scale that we have not seen for some time," he said. There are threats, such as terror attacks, conflicts such as the civil war in Syria, and different kinds of disruptions.

In the USA, Donald Trump "has changed the political dialogue" by openly saying what many people think, while Russian President Vladimir Putin is "the best political disruptor in the world", capable of bold and unpredictable moves designed to restore Russia's lost prestige, he commented. China faces an "enormous demographic time-bomb" of having to get rich before it gets old, while Europe is experiencing the "trauma" of mass migration and the disruption of the Brexit vote.

Customers are currently responding emotionally to perceived "threats" rather than rationally to real "risks", he explained. "We confuse fear and risk." With Turkey, for example, "the

risk is less than people think”, the experienced crisis expert commented. “People should take a balanced view of the country.”

Overall, the travel industry is “remarkably resilient”, according to Fenning. While it could do little to influence risks, it should not try to play them down. “You should not try to say something is safe when it’s clearly not safe.” Instead, the industry should campaign for more objective media reporting of destinations and support “factual education” about risks.

Travel Technology: Google – Friend or Foe?

The German travel industry is closely watching Google’s latest travel services to see whether they help business – or take it away. The role of Google in the travel and tourism industry generated a controversial discussion at the recent fvw Kongress. In particular, managers are concerned about two new services: One is ‘Google Destinations’, which is designed to improve mobile travel planning with better displays of destination information. The other is ‘Book on Google’, which simplifies the booking process on a mobile phone by automatically filling in part of a booking with user information such as name, address and credit card number that is stored on the phone. According to Google, both services are designed to improve user comfort and thus increase the conversion rate. For Christian Bärwind, Head of Travel at Google Germany, these services are not a threat, but an inevitable development. “According to our own research, customers research online in advance for 90% of all trips. And every second search is made on a smartphone. It’s only logical that we adapt to these trends.” In particular, information display and data entry needs to be simplified to cope with the specific weaknesses of smartphones, with small screens and poor keyboards, he pointed out.

Lufthansa sees the new Google services as more of an opportunity than a threat. The airline has been using the ‘Book on Google’ function in several markets for the last few months. Customers who find a flight using Google Flights can decide whether to book that flight via the Lufthansa homepage, including manual data entry, or via Google. Sebastian Riedle, Senior Director Online Sales at Lufthansa, said the airline is satisfied with the initial results. “In markets where our own presence is not so strong, trust in the Google platform is perhaps greater than in Lufthansa. So this way we are reaching customers who we might not have reached in the past.” The key factor is that Google supplies all the data to the airline. “At the end of the day, it’s like a Lufthansa.com booking for us.” However, the airline will maintain a balance between using Book on Google as “an additional channel”, its own platform and bookings through partners.

In contrast, Haakon Herbst, President of the Hospitality Sales & Marketing Association, criticized the often-cited “partnership” between players in the industry. “If someone googles me and sees adverts from other hotels first, then, in my view, a few things need to be sorted out,” he declared. The key question is whether Google displays all suppliers or not. Similarly, Michael Buller, President of the German Internet Travel Sales Association (VIR), called for fair competition and access to customers. “If someone who makes a Google search lands in the Google world, in other words only with those suppliers who cooperate (with Google), then that’s not OK.” Google’s key advantage compared to OTAs, according to Buller, is that the technology giant not only knows a user’s travel behavior, but also a lot of additional information. “We’re heading towards a time when search will be replaced more and more by suggestions. That could be great, but it could also be a threat, if there is a monopoly situation and if personal customer information is misused,” he warned.

Tourism Summit: Merkel Hints at Changes to Package Travel Law

The German government could be ready to adapt the controversial new package travel law following protests, chancellor Angela Merkel indicated to industry bosses this month. The current draft law to implement the new *EU Package Travel Directive* has come under fire from the travel industry in recent months, especially over fears that travel agents could be legally liable like tour operators, if they sell two different travel products as one single booking.

Speaking at the German Tourism Summit in Berlin, Merkel said: "On the topic of the package travel directive, we have the situation of the small and medium-sized travel agents in mind and we don't intend to confront the whole tourism industry." However, she added that the government also had to take consumer interests into account.

Michael Frenzel, president of the German Tourism Federation (BTW), which organized the one-day conference, declared: "The current draft to implement the *EU Package Travel Directive* urgently needs changing." He said that justice minister Heiko Maas had advised that changes could be expected, and predicted that the controversial clause on travel agency liability for package bookings could be adapted. The draft law is due to be discussed by the German cabinet on October 12, and is scheduled to become law by autumn 2017.

KLM to Resume Amsterdam - Miami Flights After 5-year Absence

KLM Royal Dutch Airlines plans to resume seasonal nonstop service between Amsterdam and Miami starting October 30, 2016 after a nearly five-year hiatus. The new service, which runs through March 23, 2017, will operate Tuesdays, Thursdays and Sundays between Miami International Airport and Amsterdam's Schiphol Airport.

The Netherlands-based carrier plans to use Airbus A330-200 aircraft, with 30 seats in business class and 213 in economy class. From Miami, the KLM flight will depart at 9:35 p.m. for arrival at 12:25 p.m. local time the following day. From Amsterdam, the flight to Miami will depart at 3:35 p.m. for arrival at 7:40 p.m. the same day.

KLM last served the Miami airport in 2011. The carrier suspended its previous MIA service after a year in operation, but said now "the current market conditions are sufficiently favorable" to resume service to and from Miami.

SALES ACTIVITIES

Willy Scharnow Foundation Fam Tour (September 11th-14th, 2016):

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 22nd Willy Scharnow Foundation Fam tour to our area. The group was comprised of 12 select 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 was Visit Orlando with United Airlines being our cosponsoring carrier.

The beginning of the month saw us continuing close liaison with our Leisure Travel Department on final program details and logistics.

Visit USA Road Show Switzerland (September 19th – 21st, 2016):

Held in St. Gallen, Zurich, Luzern and Bern, the road show was most successful in attracting over 200 travel agents. During morning and evening training sessions we presented our area in the very productive and 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 booking season.

Oktoberfest Client Event (September 20th, 2016):

For the 2nd year, Visit Florida organized a signature event utilizing the traditional celebration of Oktoberfest as a platform to build key relationships. We participated as co-hosts for a select group of German, Swiss and Austrian tour operators and airline representatives.

The event commenced at 3:00 p.m. with a Meet-and-Greet Reception in the Anna Hotel in downtown Munich followed by an evening at Munich's "Wiesn", the Oktoberfest grounds, in the classy atmosphere of the Marstall Oktoberfest tent. The event program concluded the following morning with a traditional Bavarian breakfast (Weißwurstfrühstück = White Sausage Breakfast).

Schauinsland Reisen North America Training Seminar (September 22nd, 2016):

Since the beginning of 2016, this German tour operator has become increasingly active in placing and promoting Florida product and inasmuch staged an exclusive Florida travel agent training workshop at their Schauinsland "Loft" facility in Duisburg. We held a series of comprehensive training sessions to over 80 top selling agents together with our partners Visit Orlando and SeaWorld Parks & Entertainment. Currently, 5 VSPC properties are featured in the tour operator's summer 2016 program with the tour operator aiming to double VSPC product placement for the 2017 season!

Lufthansa-Sponsored TUI Travel Agent German FAM (October 1st – 4th, 2016):

Lufthansa's Frankfurt-based regional sales office will be bringing a select group of 7 TUI Travel agents to our area, all of which will be pre-qualified as sellers of the leisure market segment to Florida and North America. This is an exclusive VSPC destination Fam which will not include a sojourn in Tampa, as TUI does not feature any Tampa accommodations in their product portfolio – so we have a clear advantage here!

We continued to liaise closely with our Leisure Travel Department this month providing final details such as rooming list, release & waiver documents, group leader contact information, etc.

VSPC Sales Visit (October 17th – 21st, 2016):

Planning for our upcoming visit to the county commenced this month. Correspondence with several industry partners regarding appointment requests and confirmations was conducted; travel and accommodations arrangements were finalized. Our TDC PowerPoint presentation is in the development stages in preparation for the transmission to HQ next month.

Visit USA Germany Seminar & Halloween Event 2016 (October 28th – 30th, 2016):

For the seventh consecutive year, we will participate in the annual Visit USA Germany Seminar & Halloween Event. This year's seminar weekend will take place at the Hilton Garden Inn Frankfurt Airport.

VSPC will share a seminar training session with Visit Orlando and SeaWorld Parks & Entertainment, jointly conducting ten intensive training sessions throughout the course of a full day. An evening Halloween extravaganza is planned as the highlight of the weekend.

This month we provided the Visit USA Committee with comprehensive destination information, logo and imagery for inclusion in an electronic training booklet. We also worked closely with our partners this month in developing an intriguing and interactive training session concept.

USA-Canada Experience Netherlands (November 3rd – 4th, 2016):

Now in its 3rd year, this relatively new 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 80 agents from all over The Netherlands. The event will culminate in an exciting contest and travel prize raffle.

This month an opportunity blast was deployed to our industry partners for sponsorship of accommodations to present during the exciting travel prize raffle. Once again, we are most grateful to our industry for the generous responses!

Tenzing Travel Fam Tour (November 17th-18th, 2016):

Formerly known as Kuoni Netherlands, Tenzing Travel is planning a whirlwind tour through Florida this fall with 15 select travel agents. Due to our excellent relationship with the tour operator, a visit to St. Pete/Clearwater will be included. The tour will start in Miami, proceed to Kissimmee, then to our area, on to Naples and back to Miami. The co-sponsoring carrier is KLM, which will launch a new flight into MIA starting October 30th.

We liaised closely with our Leisure Travel Department this month providing a program brief, schedule details, itinerary input and particulars for purposes of industry solicitation.

ITB (March 8th – 12th, 2017):

Known as the “world’s largest tourism fair” held annually in Berlin, Germany, we again plan to exhibit within the Visit Florida Pavilion. Registration information was received from Visit Florida this month prompting deployment of a participation opportunity blast to our industry partners. We are pleased to have received a favorable response from one accommodations partner!

Other initial planning items are underway, i.e. a hotel room block has been secured and an applicable reservations form for the VSPC delegation has been deployed. Updates to be forthcoming.

Additional Activity:

- We assisted **Reisebüro Ahrens** in Marburg, Germany with comprehensive destination information, insider tips and provision of our Gulf to Bay destination magazines for use in point-of-sale.
- Ms. Liebig of **Reisebüro Bühler Lufthansa City Center** in Reutlingen, Germany was provided with comprehensive destination information, insider tips and brochures in preparation for her upcoming personal visit to our area next month.
- After having attended the Visit USA Roadshow in Zurich, we were contacted by Ms. Jaeger of **Kuoni Reisen**, Mr. Boschung of **Rons Travel** and Ms. Hutmacher of **Twerenbold Reisewelt** for provision of additional material for use in point-of-sale.

- We assisted Ms. Fahl of **Fahl Holidays** in Velten, Germany with comprehensive destination information, insider tips and brochures in preparation for her own personal visit to our area the end of the year.
- The German translation of a VSPC advertorial for the **German Brand USA Multi-Channel Fall Campaign** was proofread and corrected upon request by our Media & Interactive Director.
- Having received word from HQ that 2017's **Gulf to Bay** destination magazines will not reach us prior to ITB, we initiated restocking of our magazine inventory to take us through the end of March 2017.

MARKETING INITIATIVES

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

Airlines:

- Lufthansa German Airlines (Germany)
 - **B2B2C Direct Mail Promotion** – September 2016

We have been working with Ms. Heike Schmitt, Key Account Manager of Deutsche Lufthansa North Rhine-Westphalia, whom we met at the Lufthansa training sessions last year, on a special promotion in cooperation with several regional Lufthansa City Center travel agencies to push Lufthansa's service to Tampa Bay. These agencies have identified 2,500 top leisure customers to be targeted with a direct mail piece, which included VSPC content highlights along with a small VSPC giveaway. VSPC was featured as an exclusive destination partner on a free-of-charge basis! Destination content for the mailing piece and giveaways were provided last month. The mailing was deployed this month.

Tour Operators:

- American Vacations (Netherlands)
 - **B2C Glossy Magazine** – September

VSPC was featured on four pages of the 74-page piece with logo, imagery and comprehensive destination content. The magazine is distributed at consumer travel shows, to repeat customers and can be ordered via the tour operator's website. An initial print run of 2,500 pieces has been produced and is in the distribution pipeline.
- FTI Touristik (Switzerland)
 - **B2C Newsletter & Online Teaser** – September 2016

A newsletter containing VSPC logo, imagery, text and special offer will be sent out to 4,000 subscribers in combination with a 4-week online teaser placement (online platform boasts 280,000 page views/month). Both newsletter and teaser will be linked to FTI's booking engine.
 - **B2B Banner on travelnews.ch** – September 2016

For 4 weeks VSPC banners will be placed on travelnews.ch – an online trade platform with 120,000 page views/month. These banners will be linked to a dedicated destination page including and a flyer to download (in German and French).

- FTI Touristik (Switzerland)
 - **B2B2C Info-Flyer Mailing** – September 2016

A special A3 flyer folded to A4 size will be distributed to 800 travel agencies for use in point-of-sale. The info-flyer will include VSPC logo, images, text and travel offers. 3,000 German and 1,000 French versions will be printed. All initiatives were launched this month.

- Jan Doets (Netherlands)
 - **Inspirational Sensory Promotions “Thanksgiving Sundays”**
 - September 25th & November 20th, 2016

VSPC is partnering with tour operator Jan Doets on two unique B2C inspirational “sensory promotions” being held at Jan Doets’ completely renovated offices in Heerhugoward. Beyond comprehensive presentations on several U.S. and Canadian vacation destinations, the full-day events will include American wine/beer tastings, a Thanksgiving turkey grilled in an authentic Green Egg, several games stations, musical ‘discovery’ stations for kids, a dance floor with DJ for adults and last, but not least, a “treasure digging” (Florida) sand pit for young and old. We’ve provided the tour operator with our popular Reef Safe sunscreen as a giveaway for the ‘treasure digging’ as well as our brightly colored eco tote bags packed with our collateral material. Over 1,000 customers are expected at each of these events, where travel can be booked on the spot.

The first of the two Sunday-events took place this month and was an overwhelming success!

- TUI (Germany)

The **TUI Experience Tour (TET)** familiarization tour is among the most important programs TUI Germany orchestrates annually for its top 120 travel agents. Inasmuch, we are exceedingly proud to be part of the 2017 TET to Florida in April.

For 8 months leading up to the TET fam, B2B multi-channel communication initiatives are deployed inspiring curiosity, building awareness and generating bookings. Past TETs have shown that this strategy has proven particularly successful among the travel trade and trade press due to its consistency and longevity in the marketplace, making it the “talk of the town”.

The first initiative to launch:

 - **B2B eLearning** – October/November 2016 - ongoing

This is an exclusive, destination-dedicated eLearning program for placement on TUI’s travel agent website within the North America platform, which is utilized continuously by 30,000 travel agents. Our content will comprise comprehensive VSPC unique selling points such as award-winning beaches, culture, events, dining, nature, excursions and attractions. A test element will also be included, which participants must complete with a minimum test score of 85% in order to be eligible to attend the tour.

We provided the tour operator with comprehensive content and requested creative this month.

We are following up with all vendors regarding their submissions of applicable invoices and proof-of-performance materials in conjunction with the conclusion of this FY’s initiatives.

Public Relations:

Kaus Media Services - VSPC's German PR Agency

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

- **Press Release September:** Proofread and corrected.
- **Newsletter September:** Proofread and corrected.

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