

CENTRAL EUROPEAN OFFICE

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MARKET INTELLIGENCE / TRENDS

Cruises Drive First Sales Growth in Months

German travel agents generated their first positive growth in months in September, with cruises appearing to be the main driver, according to sales surveys. After countless weeks of lower sales, travel agents increased revenues by 2% last month as Germans booked late summer holidays, according to the latest monthly analysis of bookings by 1,500 travel agencies by market researchers GfK.

Although there was no last-minute boom, sales of summer holidays with departures in September and October grew by 4%. However, the accumulated decrease in summer 2016 revenues remained at -7% as the overall volumes were relatively low last month. Winter bookings remain disappointing with a 5% fall compared to 12 months ago. This was the fourth month in a row with lower sales.

In contrast, there was a surge in early bookings for summer 2017 holidays as families sought to secure their preferred destinations at discounted prices. Sales for next summer accounted for nearly 22% of revenues last month, which is six percentage points more compared to the same time last year.

One clear trend is the continued strong demand for cruise holidays, with bookings surging by 23% in September according to the monthly sales survey of some 2,500 travel agencies by IT services company TATS. This demand helped overall leisure travel sales to a 6.6% increase last month. Overall advance bookings for the coming 2016/17 tourism year, running from November through to next October, are now showing a 5.2% increase, according to its figures.

FTI: A New Flying Dutchman?

Germany's FTI Group is poised to enter the Dutch market with a special program for summer 2017 holidays. Germany's fourth-largest tour operator, which will officially present its program for next summer on November 4, will unveil a move into the neighboring market, according to Dutch travel trade magazine Travmagazine. This would make FTI the latest major German tour operator to establish itself in the Netherlands after market leaders TUI and Thomas Cook as well as Alltours.

FTI Group Managing Director Ralph Schiller told fvw that the company will offer Dutch consumers its program for the German market "complemented by offers specially produced

for the Dutch market”. Up until now, Dutch customers living close to the German border were only able to book from FTI’s German program.

The Munich-based group, which declined to give any target booking figures for the first year, will use Transavia for short-haul flights and KLM for long-haul destinations. Explaining the marketing approach, Schiller said: “We will release several brochures focused on inspiration rather than price information.” In contrast to the German market, where traditional brochures are still widespread, most Dutch consumers either book holidays through travel agency reservation systems or directly on the internet.

FTI will cooperate especially closely with the travel agency group D-RT Group Netherlands, which operates the D-Reizen and Vakantie-Xperts chains. The Dutch company is a subsidiary of the Raiffeisen Touristik Group (RT Group), which is 75% owned by Egyptian hotelier Samih Sawiris, who also holds a 30% stake in FTI.

Above all, FTI wants to offer the right kind of products for the Dutch market. “We will enter the market with a thought-out strategy that makes us attractive for travel agents,” he underlined. FTI will extend its ‘Vitality’ product line by 46 more hotels in Central European and Mediterranean destinations to a total of 52 next summer. The Vitality packages, launched in winter 2016/17, offer ‘sustainable’ holidays focusing on healthy gastronomy and environmentally-managed hotels.

TUIfly | Air Berlin: Merger Would Create New ‘European Leisure Airline Group’

TUI is set for a controversial strategic re-think in the aviation business by merging its German airline with Air Berlin's 'touristic' fleet in a new 'European leisure airline group'. Europe’s largest tourism group would transfer in-house carrier TUIfly to an Austrian-owned ‘airline group’ which would also incorporate Air Berlin’s leisure fleet. This new ‘TUI-Air Berlin’ group would mainly compete with Thomas Cook’s German airline Condor, but also with Lufthansa’s budget airline Eurowings, Ryanair and Easyjet, which are all expanding inexpensive flights to holiday destinations.

The move has quickly generated protests by the TUIfly workforce, raising questions about how the new airline would provide capacity both to TUI’s tour operating business and to other tour operators in future. The strategic shake-up follows a restructuring announcement by Air Berlin under which Germany’s second-largest airline will wet-lease 40 jets to Lufthansa for low-cost flights and split off 30 others into a separate ‘leisure travel’ unit, leaving it with a core fleet of 75 jets for European city routes and long-haul flights from summer 2017 onwards.

TUI, Etihad Airways and Air Berlin confirmed that they are “in discussions to create a strong European leisure airline group, focused on point-to-point flying to connect key tourist markets”. TUI’s supervisory board is due to decide on this new airline group during an upcoming meeting, but the three companies stressed that any agreement will need regulatory approval.

The new ‘leisure airline group’ would comprise TUIfly, which operates a fleet of 41 jets, together with the 14 planes wet-leased by TUI to Air Berlin under a lucrative long-term contract and Air Berlin’s low-cost Austrian unit Fly Niki, which operates 17 planes. This would come to a total fleet of 62 planes which would serve a broad network of destinations from Germany, Austria and Switzerland.

Under the proposed deal, TUI and Air Berlin's core shareholder Etihad Airways would each hold a strategic 24.9% stake in the new company, which would be majority-owned (51%) by an Austrian foundation in order to protect traffic rights. For TUI, the main benefit from the airline deal would be to remove financially weak TUIfly from its books by turning it into a minority holding. For Air Berlin, the deal would end the expensive long-term contract with TUI under which it wet-leases 14 jets, including crew, at above-market rates, and would effectively terminate its hybrid business model of leisure and business travel flights.

However, it is unclear whether the new group would operate as a single airline or as a holding company with separate operational fleets, using the AOC licenses of TUIfly and Fly Niki. In particular, Fly Niki, which operates at lower costs than TUIfly, could prove a critical issue for the TUIfly staff, who are reportedly relatively well-paid compared to rivals.

TUIfly's crews have already made their fears very clear over the last few days as many of them called in sick, forcing the airline to cancel numerous flights and delay others. The German carrier's works council is demanding a guarantee that it will remain a separate unit and that Hanover will remain its home base in future. In response, TUIfly managing director Jochen Büntgen reassured staff that the airline would remain a separate Hanover-based unit within the new airline group and existing contracts would be protected. In addition, TUI Germany "will commit itself to contracting flight capacity for several years and will thus be an important long-term client and partner for the new group", the airline emphasized.

Turbulence Hits Eurowings, Sun Express and Air Berlin

Eurowings, Sun Express and Air Berlin are facing disruption from a strike and a possible partner loss. Lufthansa's budget flights in Germany and Europe have been seriously disrupted by a one-day strike by cabin crew after lengthy talks over salaries broke down. The Ufo union declared that there was "no alternative to a strike" after talks over a new pay agreement and other issues at Eurowings failed to reach an agreement, while it declared that talks over part-time work at Germanwings have also broken down.

Some 400 out of 550 scheduled flights were cancelled, impacting tens of thousands of passengers. This includes Eurowings flights from Düsseldorf and Hamburg, along with Germanwings flights from Cologne, Dortmund, Hanover, Stuttgart and Berlin, which effectively amount to most of the group's budget flights within Germany and to European destinations.

Eurowings Düsseldorf operates 23 planes, while Germanwings, now also operating under the Eurowings brand, has a fleet of 58 jets. However, the strike did not affect other Eurowings-branded flights such as those operated by 11 planes of the small Eurowings Austria unit and Sun Express, which operates the Eurowings long-haul flights.

Sun Express has a total fleet of 65 B737-800s and four A330s in total. Most of them operate for Sun Express on routes to Turkey and other Mediterranean destinations, but some operate for the Turkish budget airline Anadolujet while the A330s operate the Eurowings long-haul routes. Air Berlin could see its six-year-old code-share agreement with American Airlines terminated within the next few months, according to German media reports. Code-share flights between the two Oneworld alliance member airlines between Germany and the USA could end next March. One reason could be that American only flies to Frankfurt, where Air Berlin is reducing flights and thus offers fewer connections for US passengers. An end to

code-share flights to the USA would be a major blow to Air Berlin which wants to reinvent itself as a network carrier with more transatlantic flights from Berlin and Düsseldorf that would generate up to half of its revenues in future. In particular, it could no longer offer connecting flights on American's extensive domestic network.

Consumer Climate: Confidence Slides Below the Ten-Point Mark

Consumer sentiment has not followed a uniform trend in October. While economic prospects are improving again after three successive falls, both income expectations and propensity to buy have declined; hence, consumer sentiment is currently rather mixed. While their view of overall economic prospects has become more positive for the first time in four months, consumers have become less optimistic in terms of both income prospects and propensity to buy. Consequently, consumer confidence has deteriorated, falling below the ten-point mark.

Economic prospects: After three successive falls, economic expectations improved again in October. The indicator gained 6.2 points, thus climbing to a figure of 13.0 points. This represents an increase of 15.9 points compared with the corresponding time last year. For the first time, consumers seem to have digested the British people's decision to leave the European Union. After the Brexit decision, the indicator fell three times in succession. In addition, in its fall forecast in early October, the German government assumed that the German economy would achieve marginally stronger growth this year than had been forecast earlier in the year. Despite the difficult external trade environment, the government based this assumption on the low oil price and the efforts to manage the refugee crisis, among other things. Moreover, the labor market appears to be in excellent shape, and private household income has continued to follow a very positive trend. As a result, the German government recently increased its growth forecast for this year from 1.7% to 1.8%. For the forthcoming year, it assumes that gross domestic product will increase by 1.4%.

Income expectations: The regular fluctuations of income expectations observed since November last year finally come to a halt this month – at least temporarily. The indicator fell for the second time in succession, declining by 7.8 points to its current figure of 44.8 points, and thus sliding well below the 50-point mark. This is its lowest value since November 2015, when it was calculated as 44.4 points. Despite the decline, there is still very marked optimism regarding income. Nevertheless, consumers assume that the price-curbing effects of low oil prices, which have kept the inflation rate near 0% so far, will now cease to apply. Thus, the real income gains for private households that have resulted from low energy prices will disappear. Hence, the inflation rate in September this year increased to 0.7%. In July and August it was still 0.4%.

Propensity to buy: The decline in income expectations is obviously one reason why propensity to buy has fallen. However, the loss of 3.4 points constitutes only a moderate decline. At 49.9 points, the indicator fell just under the 50-point mark, reaching its lowest value since December 2015, when it was calculated as 49.0 points. Along with the decline in income expectations, another reason for the reduced propensity to buy is the fact that its opposite, propensity to save, increased noticeably. Nevertheless, it would be misguided to consider this a deathblow for propensity to buy. An indicator figure around the 50-point mark still attests to a marked propensity to buy. In light of an extremely stable labor market and solid incomes, the chances are good that domestic demand will continue to be an important pillar of economic development in Germany in the future.

SALES ACTIVITIES

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

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

Upon the group's return, we received word from our LH contact praising the warm welcome exuded by our industry partners, the professionalism and of our VSPC tour escort as well as the well thought-out itinerary providing a snapshot of the diversity our area has to offer program. A big 'thank you' to everyone contributing to the success of this tour!

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

Planning for our visit to the county was finalized early this month. Correspondence with several industry partners regarding appointment requests and confirmations was completed; travel and accommodations arrangements were finalized. We presented a 2015/16 FY recap and market overview at the TDC Meeting on 10/19, conducted several site inspections and meetings with a number of industry partners, all of which were most productive.

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

For the seventh consecutive year, we participated in the annual Visit USA Germany Seminar & Halloween Event, which took place at the Hilton Garden Inn Frankfurt Airport.

VSPC shared 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 was the highlight of the weekend seminar.

Our innovative training presentation received very positive responses from the participants. Thanks to our generous accommodation sponsors, VSPC was featured with a top travel prize.

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.

Visit USA BENELUX Road Show (November 15th-16th, 2016):

The first Visit USA BENELUX Roadshow will take place in three important cities of Belgium, i.e. Ghent, Liege and Brussels. In a new, dynamic program combining training sessions and workshops, the travel agents are trained for half day in each city. The road show will culminate in a knowledge test and presentation of a travel prize. A minimum of 150 agents are expected to participate in the three cities.

Road show registration was completed this month. An industry opportunity soliciting interest in sponsoring the travel prize was deployed – and once again we are most grateful to our generous industry partners for their generous donations!

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 continued to liaise closely with our Leisure Travel Department this month on the final itinerary and provided further detail including the rooming list.

Visit USA Seminar Austria (January 26th – 27th, 2017):

Known as Austria's premier travel trade event, the Visit USA Seminar Austria will be held in Vienna next year and is expected to attract up to 140 agents. The format will comprise an afternoon seminar with an ensuing evening 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.

Visit USA Seminar Switzerland (January 31st – February 1st, 2017):

This program is Switzerland's premier travel agent training seminar held annually in Zurich. The seminar's main goal is to provide the local trade with more insider knowledge as well as the needed contacts and sources of information. An estimated 400 travel agents are expected to attend this important Swiss event. Our 'early-bird' registration has been submitted thereby securing a discounted participation fee.

Per the organizer's request, we have delivered several items including destination-oriented questions for an online knowledge test which went live this month, query contributions to a questionnaire to be distributed during the event, imagery for development of new stand backdrops, etc.

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 last 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! Registration was thus completed this month. Other initial planning items are underway. Updates to be forthcoming.

Swiss Tour Operator Appreciation Event (March 13th, 2017):

We will again orchestrate an upscale appreciation event for Switzerland's most influential and productive tour operators, with 2017 marking our 5th consecutive year. The venue has been selected and applicable paperwork processed. Visit Tampa Bay has agreed to co-host this event.

In the works are menu selection, guest list identification, invitation creative, function room needs, hotel room block, reservations form development, hospitality gift selection, etc. Updates to be forthcoming.

Additional Activity:

- We finalized the trip logistics for the winner of last year's **Lufthansa 360° Travel Agent Training Series**, who contacted us for assistance in making plans for his upcoming visit to our area.
- We updated our entry to the **Visit USA Germany** website.
- Karin Bachmann of **Knecht Reisen** in Switzerland was provided with support in securing accommodations and planning excursions for her personal visit to our area next month.

- Katja Wagner of **DER Touristik** in Germany was provided with support in planning her visit to our area following Florida Huddle in January.

MARKETING INITIATIVES

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

Tour Operators:

- Hotelplan Suisse (Switzerland)
 - **Catalog Destination Page**
 VSPC will be featured with additional destination imagery on the St. Pete/Clearwater intro-page of the new annual catalog which will be valid April 2017-March 2018. Print run is 85,000. This comes to us on a complimentary basis, which is largely due to our excellent relationship with the tour operator.
 We provided a selection of enticing imagery this month. The catalog will be in-market come January 2017.
- Jan Doets (Netherlands)
 - **Inspirational Sensory Promotion “Thanksgiving Sunday”** – November 20th, 2016
 VSPC is partnering with tour operator Jan Doets on a second unique B2C inspirational “sensory promotion” being held at Jan Doets’ completely renovated offices in Heerhugoward. Beyond comprehensive presentations on several U.S. and Canadian vacation destinations, the full-day event 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 this events, where travel can be booked on the spot.
 We provided the tour operator with all necessary material for their November event this month.
- 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 to be particularly successful among the travel trade and trade press due to its consistency and longevity in the marketplace, making it the “talk of the trade”.

The first initiative to launch:

 - **B2B eLearning** – November 2016-January 2017
 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. The tour operator has been provided with comprehensive content and creative. We are awaiting final layouts for approval. The eLearning is scheduled to launch 11/15 and will run through 1/11/2017.

- TUI (Switzerland)

- **B2B Incentive Promo** – October & November 2016

In an effort to push new bookings to our area, we've developed a B2B incentive promotion including a sweepstakes element in cooperation with this important Swiss tour operator. The challenge: Generate as many new bookings as possible between 11/14/2016 and 02/28/2017 (for travel between 6/01-30/2017 and 09/01-11/15/2017) to become eligible to win a one-week stay in St. Pete/Clearwater + air for two.

Communication channels include:

B2B eNewsBlast – October:

Special deals and information on travel and hotels are deployed weekly via the TUI eNewsletter. Our incentive promo was promoted in an eNews blast to 700 agencies deployed on 10/13.

B2B Incentive Flyer – November:

A flyer was produced promoting the incentive program and will be distributed among the 100+ top-selling travel agents attending this year's TUI Suisse World eXperience in Las Vegas (11/02-07).

- **Catalog Advertorial Page**

We were offered placement of a full-page advertorial in the tour operator's new annual catalog which will be valid April 2017-March 2018 with a print run of 95,000. This comes to us on a complimentary basis, which is largely due to our excellent relationship with the tour operator.

We provided applicable content and creative for development of the page layout. The catalog will be in-market come January 2017.

We are following up with several vendors regarding their submissions of marketing proposals for our 2016/17 initiatives in order to move forward with our strategic planning.

Public Relations:

Kaus Media Services - VSPC's German PR Agency

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

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

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