

CENTRAL EUROPEAN OFFICE

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MARKET INTELLIGENCE / TRENDS

Tour Operators Target Late Bookings After Early World Cup Exit

Tour operators are hoping to score with special offers for disappointed football fans who delayed booking their summer holidays during the World Cup, but can now travel earlier than expected after Germany's surprise exit.

Thomas Cook's main brand Neckermann Reisen said consumers who had either wanted to watch the Germany matches or were just undecided will now find "attractive last-minute offers for relaxing holidays in many destinations". It highlighted the Balearics, Greek islands, northern Italian lakes and the Caribbean as destinations with a good choice of first-class accommodations.

TUI said it still has "plenty of space" in Croatia thanks to expanding capacity there, especially for families, this summer. Istria, northern Dalmatia and central Dalmatia are all selling well this year, but the market leader still sees "great potential" for the Kvarner Bay and central Dalmatia.

In parallel, TUIfly has expanded seat capacity for the autumn season by adding 14,000 more seats on routes to Egypt, Spain and Turkey between September 29 and November 1. "This gives our guests the chance for a spontaneous trip to the Mediterranean or Red Sea even after the main summer season," said CEO Roland Keppler. Most of this 4% increase in seat capacity will be created by stationing a sixth plane at Hanover Airport this fall. TUIfly will fly 11 times a week to Antalya, eight times to Palma, six times to Gran Canaria and weekly to Hurghada and Marsa Alam from the northern German airport. In addition, TUIfly will increase capacity from Cologne/Bonn, Berlin-Tegel and Hamburg in the fall.

Flight Chaos Hits German Holidaymakers and Travel Industry

The German travel industry is suffering from flight chaos this year due to a mix of delays, cancellations and operational problems, and tour operators are demanding improvements from airlines for summer 2019. The number of flight delays (of over 3 hours) soared by 67% and flight cancellations by 76% in the first half of this year, according to recent statistics. Eurowings has been blamed for many of these problems, but other carriers have also been affected.

A complex mix of problems has caused this flight chaos the first summer after the insolvencies of Air Berlin and Niki. Other airlines, led by Eurowings, were quick to try to fill the gap, but the plans were over-ambitious, as Eurowings CEO Thorsten Dirks has admitted. The Lufthansa budget carrier lacked planes, crew and slots to operate its massive expansion of scheduled flights. In addition, many airlines were impacted by slow airport security checks, air traffic control strikes, extreme weather conditions and technical issues.

Countless passengers have been affected and many have been quick to complain officially. The number of complaints by airline passengers to the official German public transport arbitration body soared by 45% to 7,745 in the first half of 2018. And that is only the tip of the iceberg, according to experts. Passenger rights portal Airhelp has calculated that German passengers are entitled to €417 million in compensation, three times more than in the first half of 2017.

Moreover, travel agents have been swamped with customer complaints and requests to change flights, generating substantial unpaid additional work. Many complained about a lack of information from Eurowings and a group of 150 agents threatened to invoice the airline €50 per flight change in future, if nothing was done to improve the situation.

The German Travel Industry Association (DRV) held a top-level meeting with Eurowings where it strongly criticized “the unacceptable conditions for travel agents in connection with the massive flight problems, cancellations and delays, as well as the resulting behavior of the airline with travel agents”. The high number of cancellations and flight changes had reached a level “that is absolutely no longer bearable” for agents and also tour operators, it declared. Eurowings promised to present solutions for its future cooperation with travel agents at a second meeting in the near future, according to the association.

Meanwhile, tour operators are demanding improvements for summer 2019 as they go into capacity and pricing negotiations with airlines. Gerald Kassner, boss of Schauinsland-Reisen, for example, said: “The chaos of the last few weeks and months has cost a lot of money. It cannot be repeated in 2019.” Achim Schneider, head of dynamic packages specialist Vtours, urged carriers to ensure reliable, punctual and flexible flights for next year. Airline consultant Armin Bovenspiegen warned: “In 2019 capacity will be 20-25% higher than in 2017 to some destinations such as Majorca and the Canaries. Tour operators will not need to secure capacity too early, but will still be able to get attractive prices later in the season.” He predicted: “An additional price war in the leisure airline market looks likely due to high seat capacity. That will bring some airlines into turbulence into 2020.”

Thomas Cook Group: Airline Speculation Dismissed as Bookings Melt Away in the Heat

Thomas Cook CEO Peter Fankhauser has again ruled out a sale of the airline business and warned about the impact of Brexit on business as the current heatwave hits summer bookings. The heatwave in top European source markets is having a direct impact on Thomas Cook’s business as many customers delay their summer holiday bookings and enjoy local beaches instead of flying to Mediterranean destinations or elsewhere.

Overall, summer 2018 bookings for Europe’s second-largest tourism group are 11% ahead of last year (as of July 21), driven by stronger demand for Turkey, Egypt and Greece. But this growth is largely due to a 15% rise in airline bookings following capacity expansion,

especially at Condor. “This has helped to offset a slowdown in package holiday bookings in recent weeks with customers across our European markets delaying decisions about their summer holidays as they enjoy the record temperatures at home,” Fankhauser commented.

Tour operator bookings are stagnant at last year’s levels, although average prices are up by 4%. Bookings in Northern Europe (+2%) and the UK (+1%) are slightly outperforming Continental Europe (-1%), where higher bookings in Germany, France, Belgium and Russia contrast with a drop in the Netherlands and hotel-only sales. The latest figures indicate a significant slowdown in bookings over the last three months. In early May, Cook said that tour operator bookings for summer 2018 were up by 7% in Northern Europe, 4% in the UK and 2% in Continental Europe, including 4% in Germany.

The heatwave is also likely to impact business for the whole business year (ending September), since last-minute prices will come under pressure the longer bookings are delayed. “Based on our current view, we now expect growth in full year underlying operating profit to be at the lower end of market expectations,” Fankhauser said.

Meanwhile, Fankhauser made clear that the group has no current plans to sell off its airline business, responding to a Sunday Times report speculating about a possible disposal. “There were these reports a year ago and they have not become any more correct this year,” he declared on a Q3 results call.

The Cook CEO also had clear words about the potential impact of Brexit on the British company. “The clock is ticking and we are concerned about the many uncertainties.” His message to politicians was: “A sensible agreement is necessary for everyone. Think about the British and other holidaymakers who want to enjoy their holidays.” Cook is preparing for all possible kinds of Brexit and has ensured that Condor and the Scandinavian airlines are EU-owned in order to protect their intra-EU and international air traffic rights.

Thomas Cook has also made headlines this week with its decision to drop two animal attractions featuring live orcas – SeaWorld in Orlando and Loro Parque on Tenerife – in response to changing customer views and criticism by animal rights campaigners about such shows.

Austrian Cancels Miami Service for Winter 2018

Austrian Airlines announced cancellation of its Vienna-Miami route (4x/wk) for the winter 2018/19 season effective 10/28 due to poor profitability / booking activity. Service is expected to resume, however, for the summer 2019 season. Hong Kong, Havana and Colombo have been stricken from the flight schedule completely as of winter 2018.

The reason Austrian Airlines has given for these route network changes is a realignment of their portfolio. For the U.S., starting winter 2018 there will be a daily connection from Vienna to Chicago and six weekly connections to Newark. That's two flights per week more than during the same period last year. New York's JFK will be served up to six times a week, increasing frequency by up to three flights.

Consumer Climate Shows Slight Fall

The mood of German consumers developed in mixed ways in July. Income expectations and propensity to buy were able to maintain their very good levels, while economic expectations continue their clear downward trend.

Consumers expect a weakening of economic growth: The economic expectations of German citizens in July remain on the same downward trend that has been in evidence since the beginning of the year. The economic expectation indicator loses another 7.6 points, falling to 15.7. The last time a lower value was recorded was almost eighteen months ago in February 2017, when it fell to 9.7 points. Compared with last year, the current figure represents a drop of almost 29 points. The impression among consumers is growing ever stronger that the international crisis will cause the German economy to slow down. Above all, the escalating trade conflict with the USA may have a negative impact on Germany as an export nation. Alongside Germany, other major export nations like China are also involved, so this is likely to cast a shadow over global economic prospects. As a result the growth forecasts for this year and next are currently being revised downwards. This means that the German economy will also shift down a gear in 2018.

Income expectations fly in the face of economic downturn: In contrast to the economic expectations, the income expectations of German consumers remained stable this month. With a minimal drop of 0.1 points, the indicator is practically unchanged compared to the previous month. It is currently at an excellent level of 57.5 points. Germans have good reason to be optimistic with regard to their expected financial situation. The labor market continues to boom, the employment rate is enjoying steady growth and the number of registered unemployed is decreasing. As a result they don't consider their income to be at risk. Quite the reverse – the good labor market situation continues to provide plenty of leeway for income growth. The positive wage trend is also ensuring that even pensions are showing considerable growth.

Propensity to buy at the same pace as income expectations: The propensity to buy and the income expectations are currently developing at the same pace, while the propensity to buy is currently only experiencing minimum losses of around 0.1 points. At 56.2 points it is showing a similar level to the income indicator. Despite the uncertain times in terms of world politics, German citizens are still keen to keep on buying. The reasons for this positive development are similar to those affecting the trend of income expectations. The key factor is the huge stability of the labor market, which is enabling Germans to enter into greater financial commitments and, if necessary, to accumulate debt, as the vast majority of consumers have secure jobs and therefore planning security. The low interest rate is another important factor here.

Consumer climate stagnates: GfK forecasts a slight decrease in consumer climate for August 2018 compared to the previous month of 0.1 points, taking it to 10.6 points. The recent small rise in the propensity to save has contributed to the slight decline of the indicator. The consumer climate is therefore currently stagnating at a level that is still good. Overall, the prospects for a good consumer year in 2018 are still present. GfK confirms its prognosis that real private consumer spending will rise in Germany by around 1.5 percent this year. This is dependent on the fact that the domestic situation – particularly the development of the labor market – continues to be as favorable as it has been to date. This looks likely from today's perspective. There is some uncertainty on the price front, given that the inflation rate in Germany has exceeded the two percent mark in the two previous months. If this trend

takes hold, it would have a negative effect on consumption. However, the biggest risk for the domestic economy continues to come from the global political situation, and in particular the strengthening trade conflict of the USA with the EU and China. If this were to have a significant adverse effect on export performance, then the fear of job losses in export-oriented industries and their suppliers would presumably rise. This would not be without its consequences for consumption in Germany.

SALES ACTIVITIES

Airtours – Travel Trade Group Visit (July 13th, 2018):

German tour operator Airtours (belonging to TUI Germany - the largest producer to our area), brought a group of 12 agents on a whirlwind tour of Florida, which was to include Miami and Orlando only initially. Due to our excellent relationship with the tour operator, we were successful in convincing the group to include a stop in our area to get a glimpse of America's #1 beach. We are most grateful to the Palm Pavilion for accommodating the group with a lunch reservation and to our Leisure Sales Department for taking the time to join the group, giving them an excellent overview of our area and several insider tips.

DERTour Reiseland Webinar (August 21st, 2018):

We will join forces with DERTour on their special Florida webinar for Reiseland travel agencies (over 300 in Germany). The many features, benefits and myriad experiences in VSPC will be the focus of the session. We delivered our input for the webinar presentation this month.

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

We will participate in the Visit USA Germany’s new ‘cinema’ road show this fall. This exciting concept entails projection of our destination presentation on big movie screens, i.e. each partner will be holding a 15-minute presentation in the cinema hall for all participating travel agents. In addition, partners will each have a table during the travel market for one-on-one discussions with the participants before the presentations and during the breaks. We expect to train up to 80 agents in both Stuttgart (CinemaxX Stuttgart SI-Centrum) and Frankfurt (CineStar Metropolis). After the presentations, an American dinner buffet will be offered followed by viewing the 45-minute Brand USA movie “America Wild” as the grand finale of the evening. In addition, travel agencies will have the opportunity to invite their best customers to join us for the Brand USA movie, whereby all partners will also have the chance to engage with these hand-picked consumers before and after the movie. We compiled applicable material for this program and secured travel arrangements this month.

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

Scheduled to be held in St. Gallen, Zurich, Basel and Bern, the road show is expected to attract over 200 travel agents. Both morning and evening training sessions are being scheduled during which we will have the opportunity to present our area in the more intimate roundtable format. By virtue of conducting trainings in four Swiss cities in short order, we will cover a broad catchment area just ahead of the upcoming important fall booking season. Space was limited for these training events allowing for only 10 suppliers; thus, we are pleased to have secured this excellent exposure and engagement opportunity by means of our early registration. We are in the early stages of compiling the applicable material for this program.

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

For the first time, the Visit USA Netherlands will organize a 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 have networking opportunities in Amsterdam with tour operator product managers and the trade media. As space was limited, we registered early to secure our participation. We are in the early stages of compiling the applicable material for this program.

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 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. As our area will be included in the new Florida program, we were quick to register. Initial input has been provided. Further arrangements are in the process.

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 handpicked 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 and we continued to liaise closely with our Leisure Travel Department this month regarding itinerary development. We also assisted the WSF with development of their online registration platform, providing additional exciting content suggestions and enticing imagery.

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. Registration has been completed with our securing an early-bird reduced rate. Initial organizational information was distributed to all suppliers this month. We are in the early stages of compiling the applicable material for this program.

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 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.

Additional Activity:

- We provided Beatrice Affolter of **Hotelplan Switzerland** with comprehensive information and insider tips on our area in preparation for her own visit to our area in November.
- Marieke van der Weijden, Account Manager **Icelandair** Netherlands and Belgium, asked for special travel industry rates for her own trip to our area with her family. The request form was completed and forwarded to HQ as directed.
- **CANUSA Touristik**, requested a larger amount of collateral material for inclusion in their clients' travel documentation. We provided 500 destination magazines and area maps each.
- Our long and active tour operator partner, **America Unlimited**, has developed a new booking platform called **feinreisen.de** with high-end travel offers. Our area will be included whereby we assisted the tour operator with accommodations information, imagery and destination content.
- **Touristiktreff**, with whom we conducted many travel agency round table trainings in previous years, are celebrating their 250th round table seminar with a special event in September including a prize raffle. We provided a premium giveaway and will in turn be featured in their partner listing with our logo.

MARKETING INITIATIVES

With the summer break currently in session, we utilized the time to follow-up with our vendors regarding development and submission of final billing and proof-of-performance documentation in preparation for year-end.

Public Relations:

Kaus Media Services - VSPC's German PR Agency

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

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

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