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**Meeting the needs of the tourism industry:
Evaluating leisure time travel source
markets and measuring the
economic impact of tourism**

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Preface

Tourism policy is dominated by 2 main crucial points:

- ◆ the optimal allocation of marketing budgets and the related future market performance of the particular country
- ◆ the prevention of the industry from being dismissed as a minor economic player



Part 1

Evaluating leisure time travel source markets



Introduction

- ◆ Evaluating source markets for optimizing budget allocation and tourism growth is an important activity for NTOs.
- ◆ Tight budgets
- ◆ Systematic evaluation procedures as a management decision-making tool provide a framework for monitoring competitiveness and allow to assess future market opportunities.



The state of the art (1)

- ◆ Structurizing the evaluation delivers a base for objective and traceable decisions.
- ◆ The evaluation of source markets is basically concentrated on more or less complicated models based on tourism specific variables such as overnight stays in terms of absolute figures, growth rates or market shares.



The state of the art (2)

- ◆ A typical evaluation scheme is based on
 - * indices of market share and
 - * change in market share in terms of overnight stays
- ◆ 2 statistical indicators are used to derive various tourism market typologies:
 - (1) market share of country of origin (CO) in the destination country (DC) is above/below the total market share of the destination country
 - (2) gain/loss in the specific market share

The state of the art (3)

4 tourism market typologies:

- Performing markets
- Emerging markets
- Declining markets
- Loss markets

2 Indicators

Market share *CO* in *DC* is above/below total market sh. *DC*

Gain/Loss in specific market share





The state of the art (4)

- ◆ The described evaluation scheme is a closed system; therefore it does not permit inferences regarding the overall growth of a particular origin country or its future growth perspectives.
- ◆ Considering the facts above the Austrian National Tourist Organisation (ANTO) decided to analyse source markets in a broader context, and
- ◆ developed a new approach for evaluating source markets and optimising budget allocation.



The new evaluation model (1)

- ◆ Because of the solid theoretical foundations the source market analysis may be applied to every destination country/province/region.
- ◆ Tourist and economic indicators of 25 source markets have been analysed to find the optimal budget allocation.
- ◆ The method developed does not analyse overnight stays or arrivals; rather, it deals with the aspect of spending and value added in the different source markets.



The new evaluation model (2)

- ◆ The underlying theoretical model is based on international demand theory which tells us that the demand in a country j to travel to the destination i depends mainly on factors like income, relative prices, exchange rates, marketing activities, tastes, relative attractiveness of the supply, etc. as well as growth and future aspects.
- ◆ The around 50 indicators calculated for each source market can be consolidated in 9 main indicators. These are:



The new evaluation model (3)

9 main indicators:

- ◆ The traditional view
 - (1) Market size
 - (2) Market share
 - (3) Percentage change in the market share
 - (4) Percentage change in the relative market position



The new evaluation model (4)

◆ The extended view

- (5) Percentage change in price competitiveness
- (6) Percentage change of the relative per capita spending power for outbound travel at constant prices and exchange rates
- (7) Percentage change of the overall per capita purchasing power at constant prices and exchange rates
- (8) Future growth of the spending for outbound travel at constant prices and exchange rates in percent (forecast model)
- (9) Future growth of the overall economy (GDP) in percent



The new evaluation model (5)

- ◆ After calculating the values of the indicators each source market is evaluated by all indicators.
- ◆ As a result of this procedure, 9 rank orders are obtained so that the source market with the biggest market volume or the strongest improvement in price competitiveness of the destination in relation to the generating country ranks as number 1.
- ◆ Adding up the ranks for each source market results in a new rank order, so that from the point of view of the relevant destination country, markets with low totals are better for a NTO to concentrate marketing activities on than source markets with high totals.

The new evaluation model (6)

Rank order of the position of a destination country in source markets considered

Indicators	Source markets, $j = 1 \dots m$			
	1	2	...	m
	Rank order, $j = 1 \dots m$			
Tourism imports				
Market share				
Percentage change of market share				
relative market share				
relative price				
real relative per capita tourism imports				
real relative per capita consumer expenditures				
real tourism imports (forecast)				
GDP (forecast)				
Total				



The new evaluation model (7)

- ◆ By introducing different weighting structures, the outcomes of various strategic perspectives can be simulated.

Examples are:

- * The traditional neutral perspective
- * The extended neutral perspective
- * The extended cautious perspective
- * The extended expansive perspective

The new evaluation model (8)

Weighting as a tool for simulating different strategic perspectives

Indicators	Weighting variants			
	1	2	3	4
	In percent			
Tourism imports	25	11.1	17	8
Market share	25	11.1	17	8
Percentage change of				
market share	25	11.1	17	8
relative market share	25	11.1	17	8
relative price		11.1	7	8
real relative per capita tourism imports		11.1	7	15
real relative per capita consumer expenditures		11.1	5.5	15
real tourism imports (forecast)		11.1	7	15
GDP (forecast)		11.1	5.5	15



Budget allocation (1)

- ◆ In order to solve the question of budget allocation, one has to transfer the rank orders resulting from the source market analysis into a system of cardinal figures.
- ◆ By applying a points scheme (the best rank gets the highest number of points) to the rank order resulting from the source market analysis and weighting according to the different strategic perspectives, number structures – interpretable as budget structures – can be derived.
- ◆ In order to avoid too drastic changes, the results of the source market analysis should be seen as signals for a more effective marketing strategy and should be corrected by the last year's budget structure (without source market analysis).

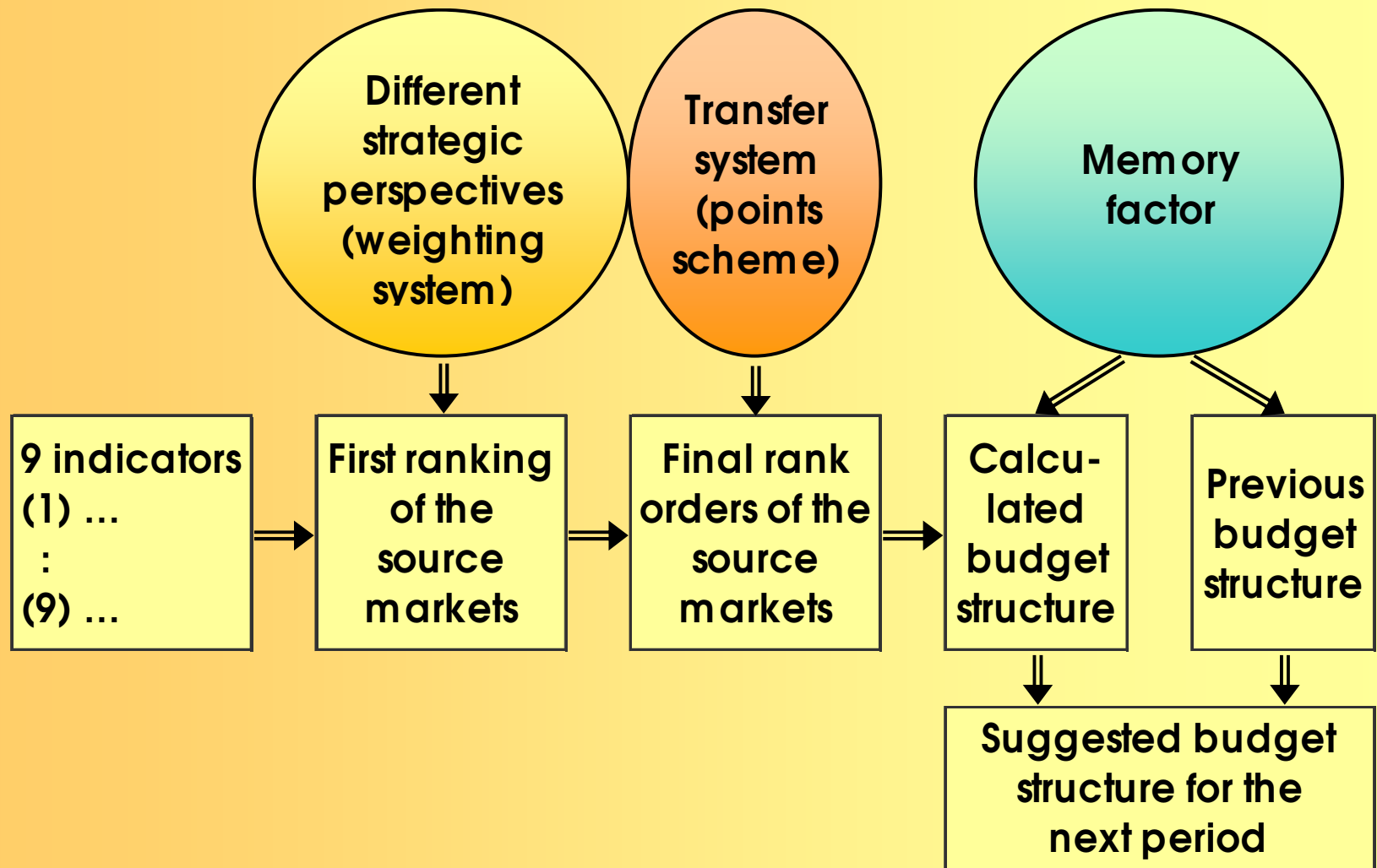


Budget allocation (2)

- ◆ The risk taking behaviour of the management will determine the weights that last year's budget structure and the new structure suggested will get.
- ◆ The size of the weight for the new information will determine how long it will take until the gap between last year's budget structure and calculated structure will narrow.

Budget allocation (3)

Modelling source market analysis and budget allocation





Conclusion (1)

- ◆ The approach developed is a method of how NTOs could in future evaluate their source markets in a systematic way and optimise budget allocation.
- ◆ The decision-making model is based on 9 indicators and considers not only tourism market facts, but also, following demand theory, the relevant economic variables as well as future growth aspects of the countries taken into account.



Conclusion (2)

- ◆ The use of systematic evaluation procedures as a management decision-making tool provides a framework for analysing present and future market potentials.
- ◆ The introduction of alternative strategic perspectives, the use of different points schemes to derive budget structures and the application of "memory" factors for closing the gap between the last period's budget structure and calculated budget structures deliver a wide range of solutions that will help customise the NTO's specific strategy.



Conclusion (3)

- ◆ Because of the solid theoretical foundations, the source market analysis is applicable for each destination country (provided that the requisite data is available).



Part 2

Measuring the economic impact of tourism




Why Tourism Satellite Accounts

- ◆ The TSA offers a way to prevent the tourism industry from being dismissed as a minor economic player.
- ◆ For that reason, experts proposed the implementation of Tourism Satellite Accounts.
- ◆ It took many years of efforts by numerous institutions and individuals to find a methodological framework for building and implementing a TSA accepted by all players.



Types of tourism value added

- ◆ **Direct value added:** It is generated where the tourist spends his money (e.g. hotel, restaurant, cable cars, travel agency, retail trade).
- ◆ **Indirect value added:** Value added generated through suppliers of the producer selling to the tourist (e.g. agriculture, construction industry, food industry, business activities).



In the TSA-concept the production can be split up into following categories:

- "tourism characteristic",
- "tourismus related" and
- "non-tourism characteristic" production.

In consequence, tourism consumption covers:

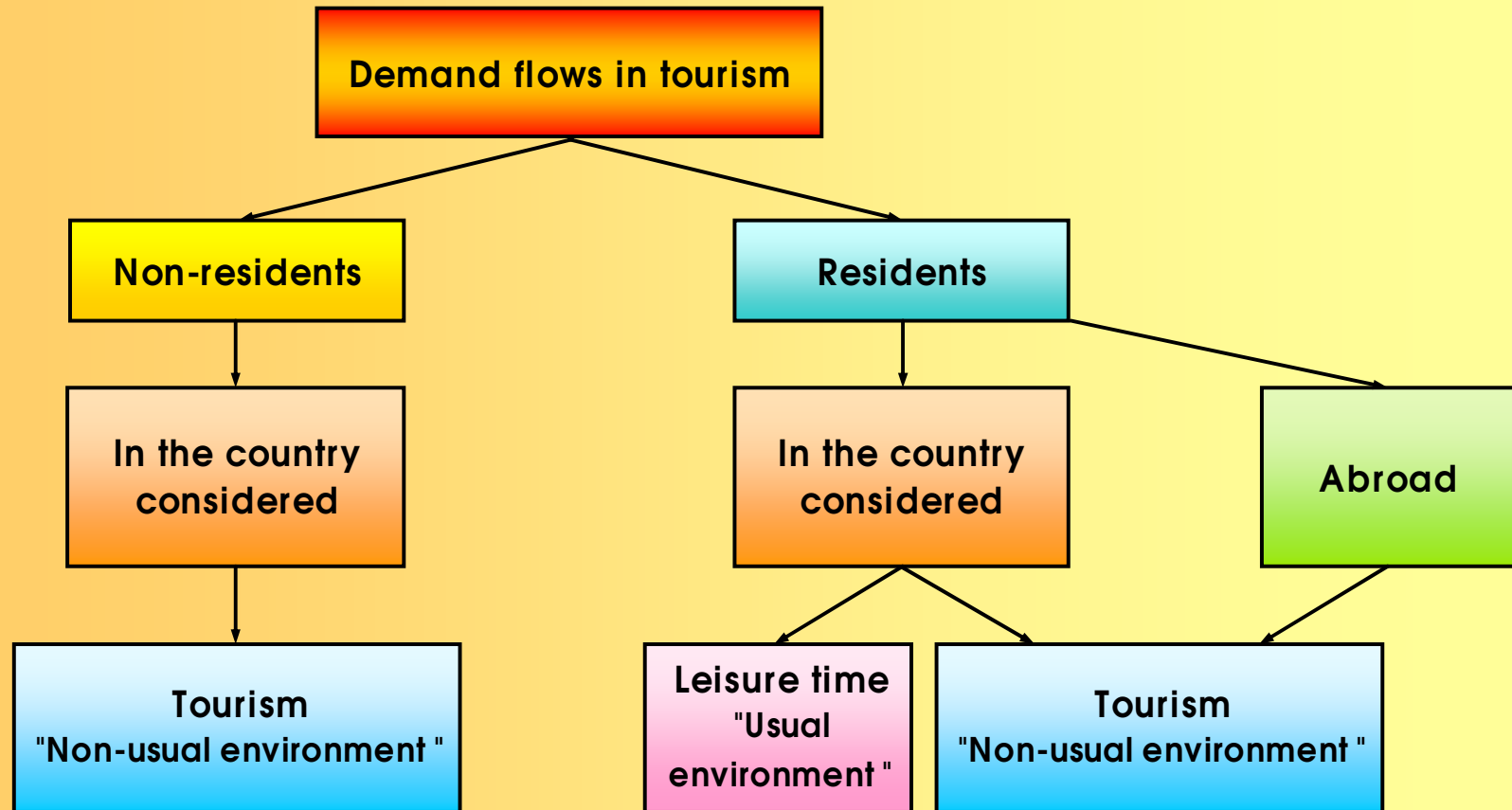
- "tourism characteristic" (i.e. accommodation, travel services, cable cars, etc.),
- "tourismus related" (restaurants) and
- "non-tourism characteristic" goods and services (e.g. retail trade).



Basic for identifying tourism on the base of a demand concept are the terms

- ◆ visitor,
- ◆ main purpose of the trip,
- ◆ usual and non-usual environment and
- ◆ visitor consumption.

Demand flows in tourism




Source: WIFO.




Restrictions:

The TSA considers **only direct tourist demand**.

- ◆ Direct tourist demand represents the purchases of goods and services by, or on behalf of visitors, i.e. expenditures incurred before, during and after a trip and expenditures which are related to the trip itself.
- ◆ Given this **narrow tourism definition**, based on the direct physical and economical relationship between visitor and producer, the TSA approach does not consider the different indirect effects of tourist demand triggered by the delivery linkages (food industry, construction industry, agriculture and forestry, banks, tax consultants) in the economy.

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- ◆ Therefore comparisons of the national tourism value added based on a TSA approach could be made exclusively with value added representing the results of the tourism satellites of other countries or other sectors.
 - ◆ These direct and indirect effects of tourism on the economy of a country could be described through the use of input output analysis, which allows the calculation of the direct and indirect value added effects of tourism spending.
 - ◆ The fact that TSA covers only those tourist effects which are results of a direct relationship between the visitor and the producer, makes comparisons with the GDP of the whole economy problematic as in GDP calculations indirect effects are considered as well.



In the TSA approach business trips are considered in total tourism demand and take therefore effect on value added on the satellite level.

- ◆ When comparing TSA-value added with the value added of the whole economy it has to be adjusted – like in the case of indirect effects.
- ◆ On the macro-economic level the intermediate consumption – especially business trips of residents – is considered as input and has to be deducted from resident's tourism consumption calculated in the TSA-context.



Example:

- ◆ Business trips in the wholesale trade generate value added in the hotel and restaurant industry (costs for the wholesale trade).
- ◆ The wholesale trade supplies to the retail trade (the wholesale price/the costs for the retail trade must cover the travel expenses).
- ◆ The retail trade supplies to the consumer (the price covers the travel expenses of the wholesale trade), additional consideration of intermediate consumption would lead to double counting.
- ◆ Difference: tourists stay overnight, the hotel sector supplies directly to the consumer (final demand), intermediate consumption and double counting do not exist.

Main results of the TSA for Austria

Aggregates	2000	2004	2005 *)	2000	2004	2005 *)
Tourism demand	Mn. €			Share in %		
Expenditure by non-residents	12.288	14.886	15.481	52.4	53.2	53.4
Tourists staying overnight	11.031	13.363	13.893	47.0	47.7	47.9
Same day-visitors	1.257	1.523	1.588	5.4	5.4	5.5
Expenditure by resident visitors	10.344	12.263	12.631	44.1	43.8	43.6
Holiday travellers	8.188	9.653	9.925	34.9	34.5	34.2
Tourists staying overnight ¹⁾	4.844	6.073	6.219	20.7	21.7	21.4
Same day-visitors	3.344	3.580	3.706	14.3	12.8	12.8
Business travellers	2.156	2.610	2.706	9.2	9.3	9.3
Tourists staying overnight	835	1.152	1.190	3.6	4.1	4.1
Same day-visitors	1.321	1.458	1.516	5.6	5.2	5.2
Expenditure by residents at weekend houses and second homes	822	854	885	3.5	3.0	3.1
Total expenditure (incl. visits to relatives and friends)	23.454	28.002	28.997	100.0	100.0	100.0

Source: Statistik Austria, WIFO. Holiday and business trips. – ¹⁾ Including expenditure on health stays. – *) Estimate.

The macro-economic importance of tourism in Austria

Aggregates	2000	2004	2005 *)	2000	2004	2005 *)
	Mn. €			Share in GDP (%)		
Tourism Satellite Account – direct tourism value added						
Excl. business trips of residents	11.869	14.225	14.728	5,7	6,0	6,0
Incl. business trips of residents	12.848	15.258	15.800	6,2	6,4	6,4
TSA-adjustments – direct and indirect value added						
Tourism	17.464	20.822	21.558	8,5	8,8	8,7

Source: Statistik Austria, WIFO. – *) Estimate.

The contribution of tourism* to GDP

* Direct tourism value added incl. business trips of residents

	Year of TSA	In %		Year of TSA	In %
Austria	2004	6,4	Australia	2003	3,9
Finland	1996	2,3	Canada	2003	2,2
France	1998	7,3	Chile	1996	3,8
Germany	2000	3,2	Mexico	1996	8,2
Netherlands	1999	2,5	New Zealand	2004	4,9
Norway	2001	3,7	USA	2003	2,6
Slovenia	2000	4,8			
Spain	1996	6,7			
Sweden	2002	2,6			
Switzerland	1998	3,4			
United Kingdom	2003	3,4			

Source: Publications on the TSAs of various countries, Statistik Austria, WIFO, WTO.