FORESIGHT
Issue 4: February 2004

Marketing **British** Tourism

FORESIGHT is a monthly commentary on significant trends and issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition a spotlight is focused on a particular issue. This month we focus on prospects for the domestic market, and consider how potential changes to the structure of the school year may impact on tourism.

Market Focus – Britain

The British economy is generally considered to be in a healthier state than many other economies within the European Union, and there is widespread, if cautious, optimism that 2004 will see continued steady improvements. Economic wellbeing is a prerequisite to ensuring that spending on tourism activities can grow, but all manner of factors help to determine the nature and volume of that activity set to take place in Britain.

The Economics – only "good news" stories?

In both 2002 and 2003 disposable income per household grew by around 2% in real terms, compared to 5-6% in the preceding two years. The amount of income that is saved remains stable at an historically low level of 5%. Outstanding consumer credit in November 2003 was up by 9% on the same month a year earlier.

The housing market is flattening off, but those with property investments have seen significant increases in the value of their assets over the past few years. Stock market investors have finally got something to smile about too, with the FTSE 100 index up by 10% on six months ago, and 35% compared to the levels seen at the time of the Iraq war.

A more tangible measure of economic health is the labour market, and latest claimant count data shows that there are now less than 900,000 out of work, a rate of 3.0%, which compares very favourably with the average among Eurozone countries of 8.8% and the US at 5.7%.

In summary, people are getting a little better off, saving less, and borrowing more than in the past. Credit is cheap, despite the ¼ point rise in base rates announced by the Bank of England late last year and a similar rise announced on 5th February. Most pundits expect rates to rise by a further ½ point by the close of 2004. This would leave base rates at 4.5%.

Coming on the back of a 10% fall in the value of the US dollar against Sterling in the past three months a growing differential between base rates here and in the US could have serious consequences for the direction of tourist flows between Britain and the US. Sterling would appreciate further, encouraging Britons to holiday in the US and deter those in the US from visiting Britain. Hikes in US rates this year are by no means certain, with a relatively weak labour market and presidential elections on the economic and political agendas.

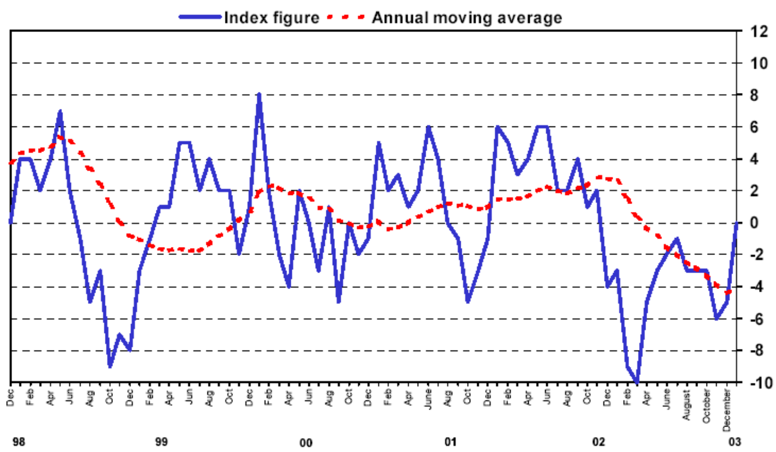
Prospects for 2004 look to be set fair, with HM Treasury's latest compilation of independent forecasts showing that GDP is expected to grow by 2.7% and private consumption by 2.5%. Inflation will remain in check, with the Consumer Price Index expected to end 2003 at 1.6%.

But some notes of caution

British consumers increasingly expect prices to fall not rise, with audio-visual products being 11% cheaper in December 2003 than a year earlier, clothing 4% cheaper and no change in the price of furniture and carpets. The price of hotel accommodation rose by 4% in the year to December and restaurant prices by 3%, a trend that may divert spending from tourism towards other household or personal goods.

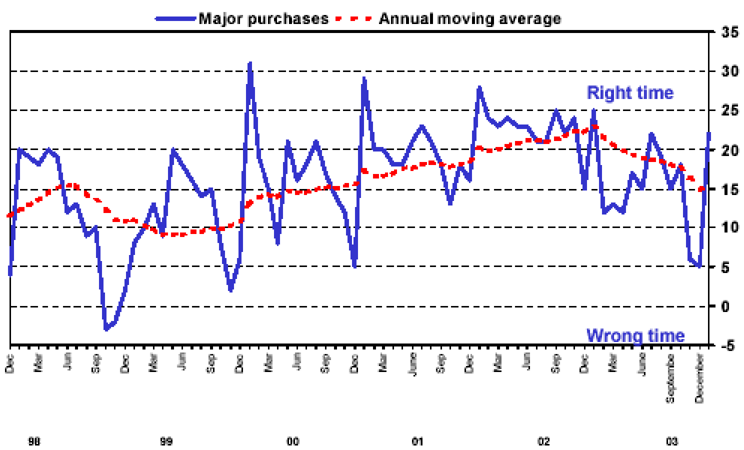
Considering the above discussion it would be reasonable to expect a healthy "feel good factor", but in reality consumer confidence in Britain only started emerging from the doldrums in January, as shown by the latest data released by Martin Hamblin GfK and the European Commission.

Consumer Confidence Index Figure



A good proxy for consumer attitudes to purchasing holidays can be found by looking at whether or not they consider "now" a good time to make a major purchase. Again using data published by Martin Hamblin GfK and the EC it can be seen that consumers expressed a burst of optimism in January after being very cautious about major financial outlays throughout 2003.

Climate for Major Purchases



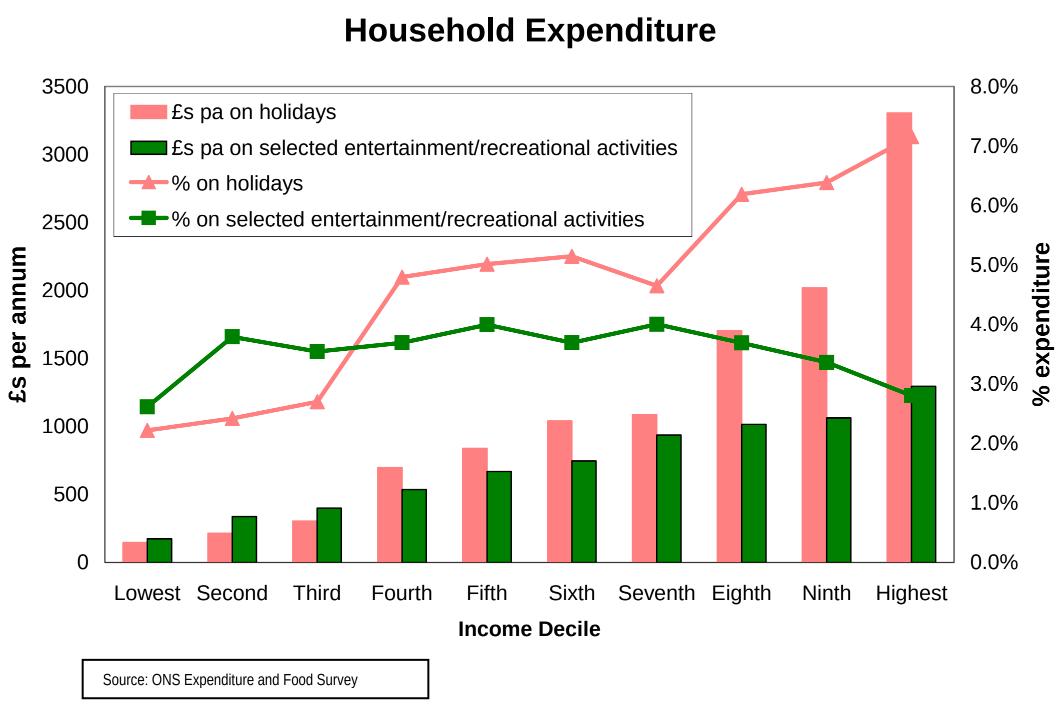
Question used:

Q8 In view of the general economic situation, do you think now is the right time for people to make major purchases such as furniture or electrical goods?

What do British consumers spend their money on?

An analysis of the recent Expenditure and Food Survey reveals that a typical household in England spends £406 a week, with Scottish households spending £360 and those in Wales only £340. The survey provides the possibility to analyse household expenditure by category. In England the average annual spend on holidays (excluding travel to and from the destination) is £1,416 a year, whereas in Wales the figure is £1,130 and in Scotland only £940 a year.

A fascinating picture emerges when studying the data broken down by how money is spent and the households' overall income level. The following chart examines household spending in absolute and relative terms on holidays[1] versus selected other entertainment and recreational activities[2]. Among the poorest households in the lowest, second and third income decile, the amount spent on holidays is lower than that spent on the other recreational activities. In the fourth to seventh income decile the amount spent on holidays is slightly higher than that spent on the other activities, but the most marked differences appear among the spending habits of households in the top three income bands. The share of total household expenditure on holidays increases to some 6%-7%, whereas the share of expenditure on the other recreational activities declines in relative importance and becomes stable in absolute terms.



A changing society

The old adage of every household containing mum, dad and 2.2 children is decidedly out of date. The following chart reveals that since 1971 there have been fundamental changes in household structure in Britain, with the number of households rising, and the number of people living in each falling.

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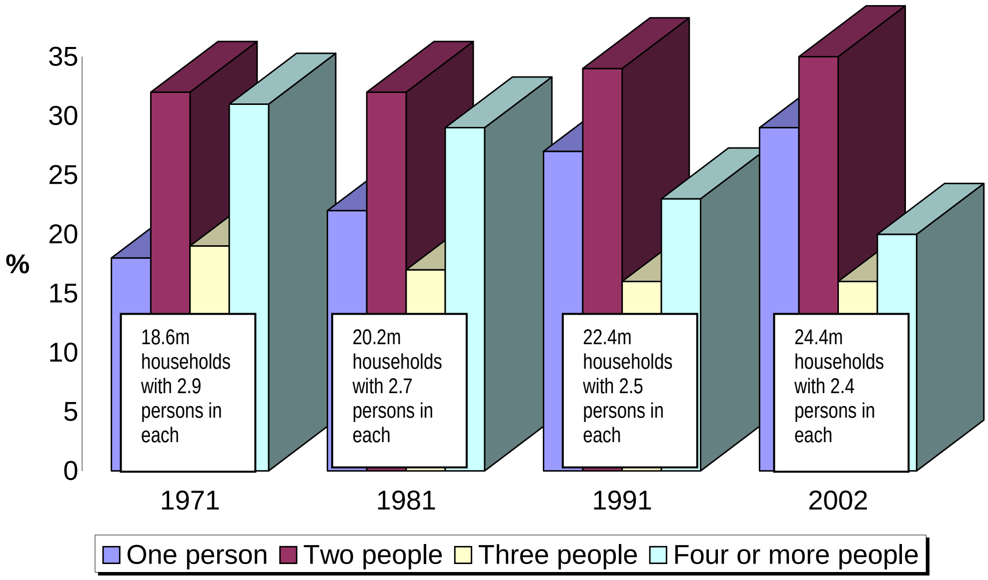
[1] Includes package holidays, holiday accommodation and holiday spending money

[2] Purchase or rental of audio equipment, TVs, CDs, videos and computers, Internet, cable or satellite subscriptions and gambling payments

The proportion of households containing just one person has doubled in the past thirty years, to reach more than 7 million today. The holiday habits of a person living alone, or with another adult, are different to those of the "family unit". For one thing the absence of children will mean it is possible to go away outside of school holiday periods, and an individual will be more inclined to do his or her "own thing", possibly with a group of like-minded friends.

The average age at which a woman has her first child in Britain continues to rise, and is now around 27, this despite a continued increase in the number of teenage mums. The time during which someone is (or a couple are) childless will see the greatest amount of self-indulgence in the holiday decisions they take. This does not necessarily mean luxury or pampering, but doing the sort of thing with leisure time that provides the greatest "reward". The challenge for the tourism industry in Britain is to engage those without family ties to see Britain as having the potential to offer this reward, through the sale of innovative and stimulating products.

Trends in Household Size



So what does it all mean for domestic tourism in 2004?

On the plus side memories of a long fine summer in 2003 should provide a fillip, in 1997 domestic tourism overnight trips to England rose by 7% after a particularly dry and sunny 1996.

Aggressive marketing by low cost airlines and Internet booking agencies present a major challenge for those endeavouring to persuade the British to holiday in Britain, and the US$/£ exchange rate makes the States seem especially affordable at present. On top of this, intense competition among package holiday companies is leading to hefty discounts on overseas holidays, the price of package holidays was 2.6% lower in December 2003 than a year earlier.

However, for the first time in many years there is a concerted effort to counter the string of advertisements promoting foreign climes - the enjoyEngland campaign broke on 1st January and 100 page England Holiday Planners are landing on doormats across Britain. Taking all these factors into consideration, VisitBritain expect the value of domestic overnight tourism in England to grow by £900m in 2004 to reach £22.1bn, up 4.1% on 2003, with overnight trips up by more than one million to 133 million. Short breaks are likely to make up much of this growth.

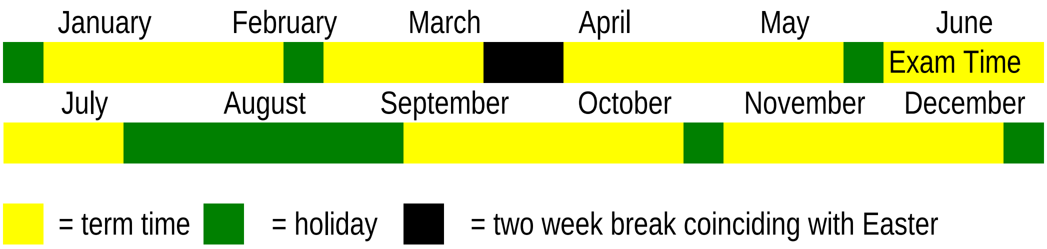
Issue of the Month – The School Year

The traditional school year in Britain was devised 125 years ago, in a time when religion and the agricultural calendar played a far more significant role in everyday life than is the case today. There is little consistency across Britain, with many Local Education Authorities (LEAs) choosing different half term dates, summer holiday dates and so on.

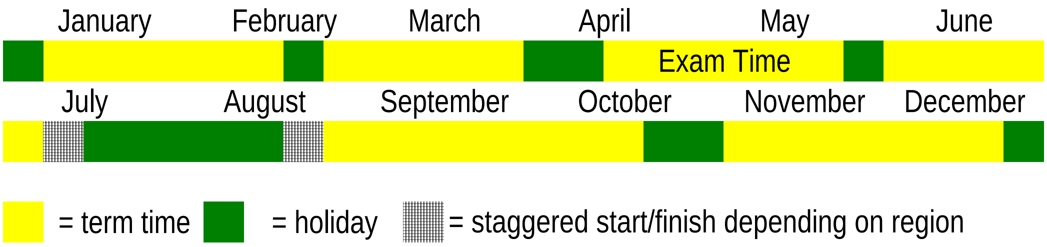
An Independent Commission established by the English Local Government Association has recommended fixing term dates to a standard "six term year" format. So far at least 25 out of the 170 LEAs in England have made "in-principle" decisions to implement a Standard School Year. The only central Government stipulation is that pupils receive a minimum of 190 days (equivalent to 38 weeks) schooling a year, LEAs are the bodies that have the power to set exact school term dates.

The following illustrative chart shows how the "Standard School Year" differs from the "Traditional School Year".

The Traditional School Year



The Standard School Year



Implications for tourism

For the tourism industry key recommendations made by the Commission included

- a two-week break during October
- a fixed two-week break in April that would not necessarily coincide with Easter
- the summer break would be slightly shorter than now, at around five or six weeks
- the summer break would start early in July and finish by mid August, brining it into line with the situation in Scotland, but with the possibility of regionally staggered start and end dates
- exams would take place in the April to May term, earlier than at present

Speculation

Starting with the October two-week break, days are starting to shorten, British Summer Time ends and the weather is considered less clement than in springtime. So with one of the two weeks having been found by reducing the length of the summer holiday it is easy to see why elements of the tourism industry in Britain are concerned that this change would lead to a fall in visits and revenue. Furthermore, the longer break may encourage families to opt for a holiday abroad where the weather is more reliable, rather than risking an autumn break in Britain.

At first glance fixing the dates of a two-week break in April that may or may not coincide with Easter might seem less of a concern, but there are issues to ponder. Parents may find it trickier to get annual leave when the school holiday does not coincide with Easter, and families with children of exam age will be less inclined to go away if exams are scheduled for April and May rather than the traditional examination month of June.

If the summer holiday is shorter than has been the case in the past one of three things may happen; the same number of holidays will get squeezed into a shorter period, holidays will be taken at different times of the year, or the number of holidays taken will fall. Trying to squeeze the same number of holidays into a shorter space of time would not just pose a problem for the tourism industry, but also for traffic congestion and train overcrowding on summer weekends. Those heading overseas would face stiffer competition for seats on aeroplanes and airports would become more crowded. The fact that summer holidays in England would coincide with those in Scotland would further exacerbate the imbalance between demand and supply.

This situation could be ameliorated by regional staggering of summer holiday dates, as happens in some European countries. Successful implementation would see peak demand more evenly spread across the summer. However, given the number of decision-making bodies involved it is hard to see an effective system evolving without Government intervention.

Another issue to throw into the melting pot when trying to figure out what the Standard School Year might mean for the tourism industry in Britain is that of pricing structures, and the role that these play in influencing consumer behaviour.

Taking children out of school to take advantage of low costs during the off-peak season is a growing trend, especially among middle class families. The Government has hinted that it would be willing to see parents who remove their children without the Heads approval fined. However, the Head may be minded to authorise the absence, as if he does not, and the parents still remove their child from school, the absence will be recorded in the school's truancy statistics for which there are performance targets.

Initially parents may think that a two-week break in October is a very good idea as holiday costs at this time of year are lower than in summer. However, the tourism industry would, over time, adjust its rates following a significant shift in when family holidays are taken, in order to retain existing yields across the season.

Trying to second guess how consumers will change their behaviour based on their response to a hypothetical proposition is notoriously tricky. For example, they may not foresee that the existing price differential between August and October might be eroded following the introduction of the Standard School Year. The result of this is that any stated preference to holiday during the October rather than summer break would not feed through into actual behaviour if the expected price differential failed to materialise.

Evidence

Two important variables that a move to a Standard School Year will have no impact on when it comes to the nature of family holidays are disposable income and parental leave. A family on a tight budget is unlikely to take more than one foreign holiday a year, and if this holiday is during the summer the opportunity of taking a modest holiday in Britain during the October two-week break may be extremely appealing. Another scenario sees the main foreign holiday shifting from August to October when Mediterranean weather is still dependable, freeing up the summer break for a domestic holiday when the weather in Britain is more favourable.

Taking advantage of the fact that a number of schools already operate the Standard School Year the former English Tourism Council conducted surveys among parents of children in schools operating both new and traditional regimes. This was done to establish whether expectations about how the Standard School Year would effect holiday behaviour are borne out in reality. A crucial caveat is that industry pricing structures are unlikely to change unless significant proportions of schoolchildren are within the Standard School Year regime.

The analysis suggested there would be a slight fall in the share of British family tourism in April and May and an increase (from 8% to 12% of trips) taken in October. A number of those who had taken domestic holidays during the two-week October break commented on how wonderful the autumnal weather can be in Britain.

It was estimated that there would be a displacement of behaviour, not a change in behaviour – so some of the trips that formerly took place in April and May will shift to October, but the overall volume and type of trips taken across the year would remain fairly stable. According to the research it would take up to 3 years for holiday patterns to fully adjust to the new environment. The need for long term monitoring of the implications for tourism following a move to the Standard School Year is clear – declaring it a great success or huge disaster after a single year would likely prove premature.

East Sussex County Council sent out 70,000 questionnaires to schools and libraries seeking views on the new format. Of those responding, 48% favoured the change, 37% opposed it and 15% failed to express a preference. The County Council has said that it will introduce the new school year, but only if the majority of neighbouring authorities opt for the change too, ensuring that parents with children in contiguous authorities are not unduly disadvantaged.

A considered view

If the Standard School Year has a significant beneficial impact on a child's education then it has to be welcomed, regardless of any impact on tourism. As the number of LEAs adopting the structure grows it will be imperative that the tourism industry is not too hasty in delivering its verdict. The full ramifications of this change will take time to settle down. Only by careful monitoring of the implications for the timing, volume and nature of domestic family tourism will a balanced view of whether this is good or bad news for the tourism industry be formed.

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