

**PPT Working Paper No. 17**



# **The UK Outbound Tour Operating Industry and Implications for Pro-Poor Tourism**

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## **PPT Working Paper Series**

- 9 Strengths and Weaknesses of a Pro-Poor Tourism Approach, Results of a Survey to Follow-Up Pro-Poor Tourism Research Carried Out in 2000-2001**, by Dorothea Meyer
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- 11 Strategies, Impacts and Costs of Pro-Poor Tourism Approaches in South Africa** by Anna Spenceley and Jennifer Seif
- 12 Tourism in Poor Rural Areas: Diversifying the Product and Expanding the Benefits in Rural Uganda and The Czech Republic**, by Jenny Holland, Louise Dixey and Michael Burian
- 13 Coping with Declining Tourism, Examples from Communities in Kenya**, by Samuel Kareithi
- 14 Addressing Poverty Issues in Tourism Standards**, by Dilys Roe, Catherine Harris and Julio de Andrade
- 15 Improving Access for the Informal Sector to Tourism in The Gambia**, by Adama Bah and Harold Goodwin
- 16 Tourism to Developing Countries: Statistics and Trends**, by Dilys Roe, and Caroline Ashley (forthcoming)
- 17 Outbound UK Tour Operator Industry and Implications for PPT in Developing Countries**, by Dorothea Meyer

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## Acronyms

ABTA	Association of British Travel Agents
AG	Aktiengesellschaft
AITO	Association of Independent Tour Operators
ATOL	Air Travel Operators' Licence
BA	British Airways
B&B	Bed and breakfast
CAA	Civil Aviation Authority
CEE	Central and Eastern Europe
CNTA	China National Tourism Administration
CRS	Computerised Reservation Systems
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DFID	Department for International Development
ECPAT	End Child Prostitution and Trafficking
EU	European Union
FTO	Federation of Tour Operators
GDP	Gross domestic product
GDS	Global Distribution Systems
IDS	Institute of Development Studies
IHEI	International Hotels' Environment Initiative
IPS	International Passenger Survey
MMC	Monopolies and Merges Commission
MNE	Multi-National Enterprise
MORI	Market & Opinion Research International
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PDR	People Democratic Rep
PPT	Pro-Poor Tourism
PR	Public Relations
SARS	Severe Acute Respiratory Syndrome
STEP	Sustainable Tourism for Poverty Elimination
STI	Sustainable Tourism Initiative
TNC	TransNational Corporations
TOI	Tour Operator Initiative
TUI	Touristik Union International
UAE	United Arabs Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNRISD	United Nations Research Institute for Social Development
US	United States
USP	Unique Selling Proposition
VFR	Visiting friends and relatives
WAP	Wireless Application Protocol
WTO	World Tourism Organisation
WTTC	World Travel and Tourism Council

# Table of Contents

<b>Acronyms</b>	<b>3</b>
<b>1 Introduction</b>	<b>6</b>
<b>2 Key definitions: What is a tour operator? What are destinations in the developing world?</b>	<b>8</b>
2.1 <i>Key trends in travel to developing countries</i>	8
2.2 <i>What is a tour operator?</i>	8
2.2.1 <i>Different types of tour-operators</i>	9
2.3 <i>Mainstream destinations and their common characteristics</i>	11
2.4 <i>The main trends</i>	14
<b>3 UK outbound travel to developing countries</b>	<b>16</b>
3.1 <i>Travel flows: destinations and products sought</i>	16
3.1.1 <i>The growth of long-haul travel</i>	16
3.1.2 <i>Major destinations and products</i>	18
3.1.3 <i>Regional Overview</i>	19
3.2 <i>Package travel versus independent travel</i>	20
3.3 <i>Distribution channels</i>	22
3.4 <i>Consumers of ethical travel products</i>	24
3.5 <i>Summary of key trends in the UK outbound long-haul market</i>	26
<b>4 The tour operating industry: operating principles, structures and trends</b>	<b>28</b>
4.1 <i>Industry structure</i>	28
4.1.1 <i>Horizontal Integration</i>	29
4.1.2 <i>Vertical Integration</i>	32
4.1.3 <i>Other forms of integration</i>	34
4.1.4 <i>Specialisation</i>	34
4.2 <i>Operating principles</i>	36
4.2.1 <i>Revenue generation – profit maximisation</i>	36
4.2.2 <i>Pricing strategies</i>	38
4.2.3 <i>Image creation and product distribution</i>	39
4.2.4 <i>Overview: characteristics affecting developing countries</i>	40
<b>5 Tour operators' influence over tourism development in developing countries</b>	<b>42</b>
5.1 <i>The macro level – tour operators' influence over tourism development in destinations.</i>	42
5.1.1 <i>Size, path and type of tourism</i>	42
5.1.2 <i>Leakages</i>	44
5.1.3 <i>Government strategies and decisions</i>	45
5.2 <i>The micro-level</i>	46
5.2.1 <i>Local suppliers</i>	46
<b>6 Tour operators and Pro-Poor Tourism</b>	<b>49</b>
6.1 <i>Adoption of PPT by tour operators themselves</i>	49
6.2 <i>Relevance of specific PPT strategies to tour operators</i>	51
6.2.1 <i>Increased economic impacts</i>	51
6.2.2 <i>Enhancing non-financial benefits</i>	53
6.2.3 <i>Enhancing participation, partnerships, and pro-poor policies</i>	54
6.3 <i>Potential for implementation by tour operators</i>	55
<b>7 Summary and conclusion</b>	<b>58</b>

<b>Appendix 1 Overview of Pro-Poor Tourism Strategies</b>	<b>62</b>
<b>Appendix 2: World Bank country classifications of developing countries</b>	<b>64</b>
<b>Appendix 3 Some key terms for international tourist flows</b>	<b>66</b>
<b>Appendix 4 Tourism Statistics</b>	<b>68</b>
<b>Bibliography</b>	<b>70</b>
<b>List of Boxes</b>	
Box 1 The scale of international tourism to developing countries – some key figures	8
Box 2 Ethical consumers of tourism products	25
Box 3 TOI and STI	50
<b>List of Figures</b>	
Figure 1 The place of a tour operator in the tourism system	9
Figure 2 The main package tour destination areas	11
Figure 3 Developing countries with high arrival numbers	12
Figure 4 The main emerging destinations in the developing world	13
Figure 5 Top twenty long-haul destinations for UK residents	17
Figure 6 Holidays to developing countries by UK residents (in million)	18
Figure 7 UK residents' independent and inclusive long-haul holidays by region visited in 1999	22
Figure 8 Market share of top 4 UK tour operators in 2000	28
Figure 9 ATOL holders 1992-2002	29
Figure 10 Forward and backward vertical integration of the top four UK tour operators	33
Figure 11 Relationship between low price and high load factors	42
<b>List of Tables</b>	
Table 1 Examples of destinations in developing countries featured in the 'mainstream' beach holiday programmes sold by the four largest tour-operators in the UK in 2003/4	10
Table 2 The top 20 DAC countries in terms of international arrivals	12
Table 3 The 20 fastest growing DAC countries in terms of international arrivals	13
Table 4 Short-haul and long-haul holidays by UK residents, 1995-2001	16
Table 5 UK residents' holiday visits abroad, by organisation of holiday, 1995-2001	21
Table 6 Passenger volumes licensed by ATOL of the 10 largest ATOL holders	30
Table 7 Characteristics of the 'big four' tour operators in the UK	31
Table 8 Expenditure on and number of trips bought from independent and chain travel agents	35
Table 9 The main characteristics of mainstream and independent tour operators	41
Table 10 Types of PPT strategies (see Appendix 1 for details)	51
Table 11 Types of PPT strategies	63
Table 12 The top 50 DAC countries in terms of international arrivals	68
Table 13 The fastest growing DAC countries in terms of international arrivals	69

# 1 Introduction

*‘Underdeveloped countries promote tourism as a means of generating foreign exchange, increasing employment opportunities, attracting development capital, and enhancing economic independence. The structural characteristics of Third World economies, however, can detract from achieving several of these goals. But equally problematic is the organisation of the international tourist industry itself’* (Britton 1982:336; emphasis added).

Tourism is an increasingly important global industry. International arrivals are expected to more than double by 2020 (reaching 1.6 billion arrivals) while tourism expenditure will more than quadruple to reach US\$ 2 trillion (WTO 1998). From the perspective of this global tourism industry, tourism to and in developing countries may seem of minor significance – 42% of international travel takes place to the vast number of today’s developing countries. Travel to developing countries, however, is growing disproportionately fast. Between 1990 and 2000 the growth rate of international travel to developing countries was 94.4%, this compares to a growth rate of only 29.3% of international arrivals in OECD countries and 38.4% in EU countries (WTO 2002).

From the perspective of poverty reduction in the developing world, international tourism, however, can assume great significance. The characteristics of the tourism sector<sup>1</sup> provide strong potential to implement Pro-Poor Tourism (PPT) strategies, strategies that increase the net benefits to the poor (see appendix 1 for PPT strategies).

Previous work on pro-poor tourism has emphasised that implementation and real change happens at the destination level through the coordinated effort of all stakeholders (Ashley, Roe and Goodwin 2001). However, destinations are also subject to external influences. The type of tourism developed and consequently the visitors attracted, and with them the companies that organise and arrange these trips, will impact strongly on the opportunities that tourism can offer for poor stakeholders in a tourism destination. Tour operators based in the developed world do affect the nature of tourism development and the impacts that this development has on the poor.

It is therefore essential to understand the role of tour operators and the changing structure of the tourism industry in the North. This will help to improve our knowledge of how pro-poor tourism strategies can be successfully implemented in developing countries.

This paper aims to provide trends in tourism flows from the UK to developing countries and an overview of the tour operating sector in the UK in order to identify implications for implementing PPT. It is aimed predominantly at practitioners in development, those who are not necessarily acquainted with the tourism industry. It is hoped that by outlining the structures, the workings of the industry and the key trends, a better picture can be formed about the global tourism industry. As such this paper does not report on ‘new’ case study research but it provides a hopefully informative and useful analysis of the tourism industry.

The main emphasis is here clearly on tour-operators based in the North, in so-called generating countries. The assumption is, and it is hoped that this will be clearly illustrated in this paper, that

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<sup>1</sup> Tourism is generally described as having the following characteristics: labour intensive, high female employment, opportunities for linkages with traditional sectors such as agriculture, providing a multitude of entry ways (from small scale B&B to international hotel chains) and low capital requirements.

northern tour-operators yield considerable influence over tourism development in destinations in the South. As will be shown, there are several reasons for the continuous importance of tour-operators in the North and they include:

- The preferred arrangement for international travel, in particular leisure travel, continues to be the inclusive tour organised by tour operators based in the home country of the traveller.
- Arrangements made through tour-operators are particularly important for unfamiliar destinations, such as newly emerging destinations, many of which are now developing countries.
- While developing countries have always dealt with tour operators in the North, there seems to have been a shift by which mainstream, mass market tour operators increasingly feature destinations that were previously the domain of special interest operators.
- Very different to only a decade ago, a large number of 'exotic' beach destinations are now being sold by mainstream tour operators to price conscious customers. These 'new' destinations are highly concentrated in South East Asia. The product that is being sold is predominantly a beach holiday, i.e. the sea, sun, sand and sex (4S).

Given its focus, the paper is of interest to destinations that are increasingly reliant on international package travel from Europe. It aims to link what is known about the tour operating sector, to what is known so far about implementing pro-poor tourism. This inevitably requires generalisations that mask important country and company specifics, which are essential in practice. This paper is not about specifics, but about trends and as such generalisations are not only inevitable but also necessary.

This paper purposely seeks to combine different perspectives. It recognises the commercial realities that tour operators face, and the operating practices that emerge as a consequence. The aim of the paper is to recognise the different perspectives, and to draw on these to look at what can be done in terms of Pro-Poor Tourism.

The paper is structured as follows: Section 2 will very briefly introduce the key issues and key terms by a) explaining the role of tour operators and by b) looking at what is meant by developing countries as tourism destinations. Section 3 describes the travel flows between the UK and destinations in developing countries. The significance of certain travel arrangements (i.e. package holidays versus independently organised holidays) will be discussed, as well as UK consumer preferences and holiday distribution channels. The UK market is chosen because it is one of the main long-haul<sup>2</sup> generating areas in the world and thus an important client base for developing countries. Section 4 explores the role and operating practices of tour operators, the market structure and important market trends that will have implications for destinations in the developing world. Section 5 examines the possible impacts of tour operator involvement for developing countries, while section 6 discusses the role that tour operators can play in implementing Pro-Poor Tourism strategies. The final section summarises the main points made in the paper.

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<sup>2</sup> Long-haul for this paper is defined as UK outbound travel to destinations outside Europe. The definitions of long-haul vary of course depending on the geographical focus of the analysis.

## 2 Key definitions: What is a tour operator? What are destinations in the developing world?

This introductory section will briefly discuss the key issues, terminology and a brief summary of the main trends among destinations in the developing world.

### 2.1 Key trends in travel to developing countries

Box 1 summarises some key trends in terms of international tourism to developing countries.

#### **Box 1 The scale of international tourism to developing countries – some key figures**

- Tourism is a principal export earner for 83% of developing countries and it is the principal export for one-third of them.
- Developing countries had 292.6million arrivals in 2000, an increase since 1990 of nearly 95%. The 49 Least Developed Countries (LDCs) had 5.1million international arrivals in 2000 and achieved an increase of nearly 75% in the decade.
- 80% of the world's poor, those living on less than 1US\$ per day, live in 12 countries. In 11 of these countries, tourism is significant and growing.
- Developing countries are attracting an increasing share of global international tourist arrivals up from 20.8% in 1973 to 42% in 2000. Domestic tourism is a significant market and growing rapidly in some developing countries, although generally not in the poorest countries.
- Developing countries and particularly LDCs secured a larger increase in the income per international arrival between 1990 and 2000 than did the OECD or the European Union countries. LDCs secured an increase of 45% between 1990 and 2000 and developing countries nearly 20%. This compares with 18% for OECD countries and 7.8% for the EU.
- In 2000 tourism ranked third among the major merchandise export sectors for both developing countries and LDCs. If petroleum industry exports are discounted, tourism is the primary source of foreign exchange earnings in the 49 LDCs.

*Source: WTO 2002b:10*

While still the majority of travel takes place within the relatively small number of developed countries, developing countries have increased their share considerably since the early 1970s. However, international tourist arrivals are spread very unequally among developing countries. The main reasons for this are the varying degrees of safety, accessibility and availability, standard of tourism infrastructure, tour operator links and connections, and historical and political links to the main generating areas. While tourism to developing countries is growing more rapidly than global tourism, there are large differences between regions and countries<sup>3</sup>.

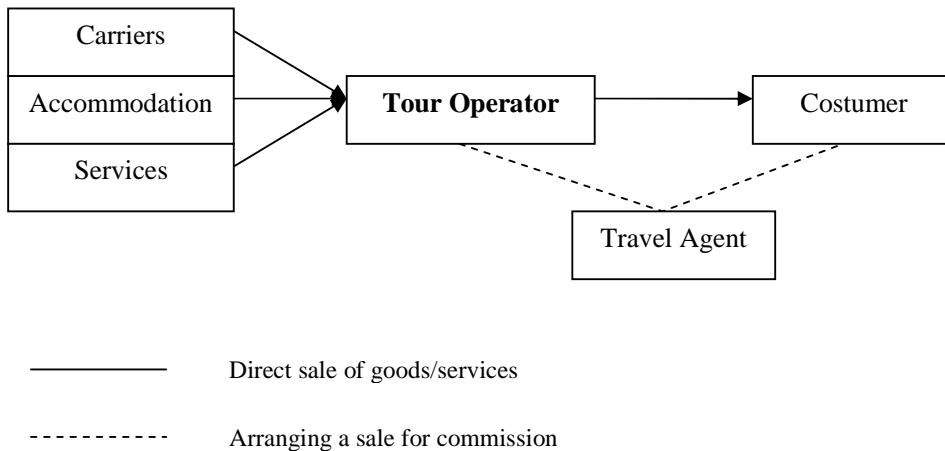
### 2.2 What is a tour operator?

Tour operators are businesses that combine two or more travel services (e.g. transport, accommodation, catering, entertainment, sightseeing) and sell them through travel agencies or directly to final consumers as a single product (called a package tour). The components of a package tour might be pre-established, or can result from an 'a la carte' procedure, where the visitor decides the combination of services s/he wishes to acquire.

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<sup>3</sup> These are explored in more depth in Ashley and Roe (forthcoming).

**Figure 1 The place of a tour operator in the tourism system**



Source: Holloway (1998:192)

A tour operator is often described as an intermediary (Burns and Holden 1995; Cooper et al. 1998; and Holloway 1998). As Cooper et al. (1998) have said:

*‘The principal role of intermediaries is to bring buyers and sellers together, either to create markets where they previously did not exist, or to make existing markets work more efficiently and thereby to expand market size... In all industries the task of intermediaries is to transform goods and services which consumers do not want, to a product that they do want.’* (Cooper et al. 1998:189)

Tour operators are the crucial link in the distribution chain, representing the central connection between customers and providers of services and therefore having the power to influence both sides, the demand and the supply, according to their interests.

The product that a tour operator offers to the customer is the ‘inclusive tour’, i.e. the packaged combination of transport, accommodation and services. Due to bulk-buying the tour operator is able to offer this package at a cheaper price than the customer would have been able to achieve dealing directly with suppliers. This package is distributed to the customer either directly (e.g. direct sell, internet) or via a ‘middleman’, the travel agent, who arranges the sale of the package for commission, usually 10% of the retail price. Tour operators and travel agents thus have very different roles.

### 2.2.1 Different types of tour-operators

A common distinction is generally made between a) mainstream or mass-market tour-operators and b) niche or specialist tour-operators. The distinction is also used in this paper for the simple reason that it allows to explain commonalities among the members of the two groups and marked distinctions between the two types. The author is very aware of the dangers of generalisations, the more so as the market is rapidly changing, as will be shown in this paper, i.e. the boundaries become blurred with mass-market tour-operators increasingly buying off or establishing specialist programmes to meet consumer demand. This does however not change the fact that generally very different products are offered by the two types, each with considerably different implications for the implementation of PPT.

Mainstream or mass-market tour operators are in a very broad sense of the word tour-operators that generate a large percentage of their turnover by selling a mainstream product (i.e. generally the sea, sand, sun and sex (4S product)) to a large customer base. Niche market tour operators (often also

called specialist or independent operators) on the other hand serve a very much smaller customer base with often highly specialised products, i.e. not a standard beach holiday or not a standard and mainstream destinations. In an attempt to survive in an increasingly competitive tourism marketplace, operators (in particular the small independent ones) are continuously looking for niche markets to exploit, where there is little or no competition. This has spawned a host of small highly specialised companies.

A link is also generally made between mainstream operators (such as the ‘big four in the UK: TUI UK, My Travel, Thomas Cook and First Choice), the mainstream product that they are selling (i.e. beach holidays) and the mainstream destinations in developing countries that they offer (i.e. the Caribbean, the North African and increasingly the South-East Asian destinations such as Thailand, Malaysia).

Table 1 shows the destinations in developing countries that are currently being sold by the ‘big four’ UK operators as part of their beach-holiday product. These tour-operators all operate a great variety of programmes and their specialist long-haul programmes such as for example weddings, cultural breaks, safaris etc. are not shown here. The ones that have been included in this table are mainstream beach holiday destinations that are sold at very competitive prices and large capacities.

**Table 1 Examples of destinations in developing countries featured in the ‘mainstream’ beach holiday programmes sold by the four largest tour-operators in the UK in 2003/4**

<b>Tour operator</b>	<b>Developing countries included in the mainstream summer sun/winter sun 2003/4 programme</b>	<b>Other developing countries that are featured but in specialised programmes</b>
<b>TUI UK</b> Examples from: Thomson Holidays (summer and winter programmes, 2003/4), Portland Holidays (summer and winter programmes, 2003/4), Tropical Places (summer and winter programmes, 2003/4), Thomson World Wide (summer and winter, 2003/4)	Antigua and Barbuda, Bahamas, Barbados, Borneo, British Virgin Islands, China, Cuba, Dominican Republic, Dubai, Egypt, Gambia, Grenada, Grenadines, India, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Peru, Seychelles, South Africa, Sri Lanka, St Kitts and Nevis, St Lucia, Vietnam, Tanzania and Zanzibar, Thailand, Tobago, Tunisia, Turkey, Turks and Caicos, Vietnam	Botswana, Cambodia, Cook Islands, French Polynesia, Myanmar, Namibia, Nepal, Reunion, Samoa, Zambia, Zimbabwe
<b>My Travel</b> Examples from Direct Holidays summer sun 2003, and Tradewinds 2003/4	Antigua, Bahamas, Barbados, Brazil, China, Cuba, Dominican Republic, Dubai, Egypt, Gambia, Grenada, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Seychelles, South Africa, Sri Lanka, St Lucia, Tanzania, Thailand, Tobago, Tunisia, Turkey, Vietnam	Cambodia, Costa Rica, India, Myanmar, Oceania, UAE
<b>First Choice</b> Examples taken from: Main summer sun / winter sun brochure 2003/4	Antigua, Aruba, Bahamas, Barbados, Cuba, Dominican Republic, Egypt, Gambia, India, Jamaica, Kenya, Malaysia, Maldives, Mexico, Morocco, South Africa, Sri Lanka, Thailand, Tunisia, Turkey	Belize, Bhutan, Bolivia, Borneo, Botswana, Cambodia, China, Costa Rica, Ecuador, Eritrea, Ethiopia, Ghana, Guatemala, Indonesia, Iran, Jordan, Ladakh, Madagascar, Malawi, Mali, Mozambique, Namibia, Nepal, Pakistan, Peru, Sudan, Syria, Tanzania, Tibet, Zimbabwe
<b>Thomas Cook</b> Examples taken from beach holiday selection, main programme 2003/4	Brazil, Barbados, Cuba, Jamaica, St. Lucia, China, Dominican Republic, Dubai, Egypt, India, Sri Lanka, Jordan, Kenya, Malaysia, Maldives, Mauritius, Morocco, Mexico, Polynesia, Seychelles, South Africa, Thailand, Tunisia, UAE, Zanzibar	Costa Rica, Indonesia, Nepal, Peru, Tanzania, Tunisia, Vietnam

Source: company websites accessed 28. May 2003

## 2.3 Mainstream destinations and their common characteristics

While travel to developing countries has in the past often been the domain of independent travellers or niche operators<sup>4</sup>, a slight shift seems to have occurred by which 'off-the-beaten track' destinations are becoming of interest to a wider range of tour operators, and travellers. In the past two decades, several areas and destinations moved from receiving relatively small numbers of international arrivals to becoming large volume, mainstream package tour destinations, in particular destinations in South East Asia such as Thailand. Other destinations have started to specialise in alternative forms of tourism, in particular eco-tourism, which is sold by niche operators. Destinations in Central America, such as Costa Rica and Belize, are the prime examples here. Others have newly entered the European tourism circuit, for example the sun and sea destinations in South America (i.e. Brazil). The overall majority of these new destinations are developing countries. At the same time, these destinations are accessible to tourists via tour operators based in generating countries such as the UK. Figure 2 shows the main package tour destination areas in developing countries.

**Figure 2 The main package tour destination areas**



Table 2 below shows the top 20 developing countries in terms of international arrivals. A number of key features characterise these destinations:

- All are middle-income countries (either upper or lower middle income)
- Several are large and often highly populated countries (e.g. China, Russian Federation, Brazil, Argentina, Indonesia);
- The majority are located in, or adjacent to, the main generating areas of Europe, North America, Japan;
- The majority are featured by European, American and Asian tour-operators in flight-inclusive programmes (e.g. Mexico, Turkey, Thailand, Malaysia, Tunisia, Morocco, Egypt, Brazil, Indonesia, India (Goa), Vietnam, Dominican Republic). These are the typical sun-sea-sand (3S) destinations for visitors from northern countries;
- However, high volumes of arrivals also take place in destinations that are less likely to be featured in the main summer brochures (e.g. the CEE countries). Here a high percentage of arrivals are independent travellers, business travellers and VFR.

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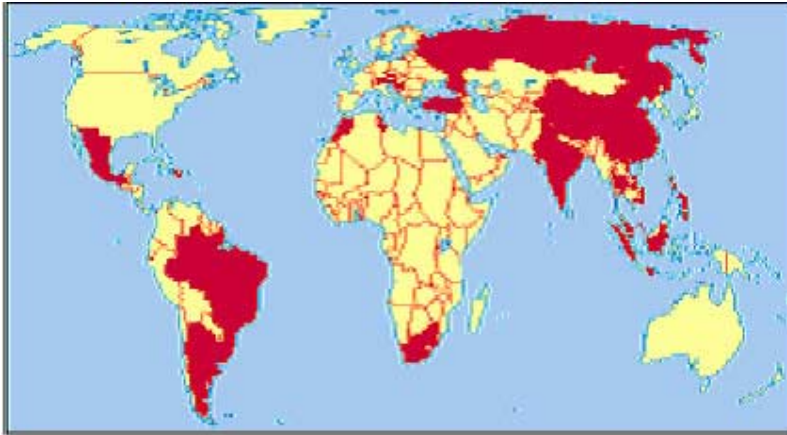
<sup>4</sup> The main exceptions to this are the traditional beach destinations in Northern Africa and the Caribbean.

**Table 2 The top 20 DAC countries in terms of international arrivals**

Position	DAC country	Arrivals in '000 in 2000
1	China	31,229
2	Russian Federation	21,169
3	Mexico	20,643
4	Malaysia	10,222
5	Turkey	9,587
6	Thailand	9,509
7	South Africa	6,001
8	Croatia	5,831
9	Brazil	5,313
10	Indonesia	5,064
11	Tunisia	5,057
12	Egypt	4,489
13	Morocco	4,113
14	Argentina	2,991
15	Dominican Rep	2,977
16	India	2,641
17	Philippines	2,171
18	Vietnam	2,140
19	Bahrain	1,991
20	Uruguay	1,968

Source: WTO 2002

**Figure 3 Developing countries with high arrival numbers**

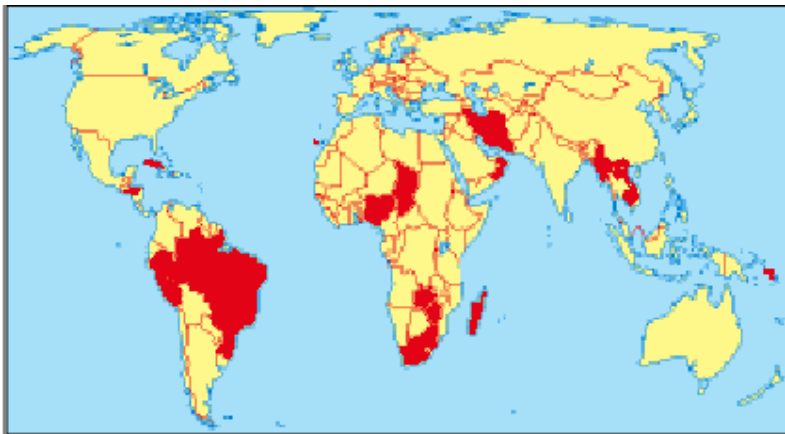


**Table 3 The 20 fastest growing DAC countries in terms of international arrivals**

	Country	Arrivals in 1990 (in '000)	Arrivals in 2000 (in '000)	Growth rate 1990 to 2000 (%)
1	Cambodia	17	466	2641.18
2	Lao PDR	14	300	2042.86
3	Iran	154	1,700	1003.90
4	Myanmar	21	208	890.48
5	Vietnam	250	2,140	756.00
6	Cape Verde	24	143	495.83
7	South Africa	1,029	6,001	483.19
8	Cuba	327	1,700	419.88
9	Chad	9	44	388.89
10	Brazil	1,091	5,313	386.98
11	Nicaragua	106	486	358.49
12	Nigeria	190	813	327.89
13	Micronesia Fed.Sts.	8	33	312.50
14	El Salvador	194	795	309.79
15	Zambia	141	574	307.09
16	Bhutan	2	7	250.00
17	Oman	149	502	236.91
18	Peru	317	1,027	223.97
19	Zimbabwe	605	1,868	208.76
20	Madagascar	53	160	201.89

Source: WTO database

**Figure 4 The main emerging destinations in the developing world**



Again, the majority of these fast growing destinations have several key characteristics in common:

- The majority are low-income developing countries, as opposed to middle-income countries.
- The fastest growing destinations start from a relatively small base – they are clearly newcomers to tourism. Many of these are located in South East Asia. This is partly due to increased outbound travel activities by countries such as Japan and China, but also because many of these destinations are featured by mainstream tour-operators in the developed world as exotic beach destinations.
- Several other emerging destinations are located in the Americas (Central or South America and the Caribbean). Growth rates in Africa are generally lower.

A major caveat is needed here. While this data and this paper focus on international tourism, it is extremely important to recognise the significance of domestic tourism. This kind of travel is

dominant in regions of the developing world such as South Asia, Southern Africa and South America. Thus further analysis of the role of tourism in developing economies should take this sector into account<sup>5</sup>.

## 2.4 The main trends

Looking beyond the statistical data, it is important to identify the distinct travel patterns that have developed since the arrival of mass travel, some of which have seen considerable changes, all of which are important for developing countries<sup>6</sup>.

1. Developed to developed: The majority of international tourism still takes place within the developed world. In 2000 seven of the top ten destinations were also among the top ten tourism spenders, China being the sole representative of a developing country in both groups. Harrison (2001) argues that there has been remarkable consistency in these tables, which is not surprising given the volume of international visitors attracted by the top ten destinations. Changes in recent years have occurred predominately due to political reasons, in particular the opening up of several countries to international visitors. These include China, Poland, Hungary and the Russian Federation as relative newcomers to the top 15 destinations.
2. Most travel is intra-regional: The vast majority of international travel takes place within regions. Mill and Morrison (1992) describe this as the 'distance decay factor'. The sun belt for Northern Europeans being for example the Mediterranean shores, similarly the Caribbean and Mexico have been 'host' to the North American and Canadian snowbirds. This is hardly surprising given financial and temporal restrictions on travel for most people. However, this is slowly changing whereby long-haul travel is used increasingly as the main annual holiday option due to decreasing real cost of flights, greater travel experience, and new destination coming onto the market.
3. International tourism to developing countries is significant and increasing: Over 40% of global tourism arrivals take place in the developing world. While the vast majority of well established destinations are middle-income countries, the fastest growers are low-income countries.
4. Very distinct differences between developing countries: While some developing countries are highly successful as destinations and have been able to attract large numbers of visitors, others have so far not entered the international tourism scene. The reasons for this vary greatly, they are linked to physical characteristics and climate; government commitment to tourism; security issues; accessibility; distribution channels; image and marketing; to name but a few. Very simplified, those offering a safe and secure 3S environment are favoured greatly over the less secure off-the-beaten-track destinations. Destinations that have been adopted by mainstream tour-operators (especially in East Asia, North Africa and the Americas) show very high arrival numbers due to the capacities carried by the larger tour operators.
5. International tourists to developing countries are from developed countries: A strong North-South movement still prevails whereby residents of the Northern industrialised countries visit developing countries in the South – the centre travels to the periphery or semi-periphery. The main generating countries are still located in Europe, North America and industrialised Asia. This is however expected to change with increased economic development in the South.
6. Dependency on tourism is greater for islands and small states: Generally, many islands are ready-made tourism destinations. This is strongly related to the perceptions of holidays as escapism. 'Getting away from it all', the physical distancing from the mundane working environment seems to be achieved in the remoteness of small, palm fringed islands, however misleading this might be in a jet-age. Many small islands possess very few natural resources,

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<sup>5</sup> Detailed analysis of the importance of domestic tourism is provided in Ghimire (2001).

<sup>6</sup> As analysed by several writers: see Harrison 2001, Mill and Morrison 1992.

their economies are non-diversified, and they have high import needs. The physical distance from manufacturing centres increases the need to concentrate on primary and tertiary industrial sectors. All of the 25 countries with the highest tourism contribution to their GDP, as cited in Harrison (2001), are islands, from the Maldives (83% contribution to GDP) to Cyprus (21%).

7. Access to generating markets: Generally, the top tourism countries among the developing world are relatively easily accessible via physical infrastructure as well as information, marketing and purchasing channels, often organised by mainstream tour-operators. This accessibility strongly influences the strength and importance of the tourism industry. Inaccessibility, especially in terms of land transport networks have led in the past to the high physical concentration of tourism infrastructure and creation of enclave development close to major gateways, reducing significantly the distributive potential of tourism. Furthermore, the inaccessibility for developing countries to Global Distribution Systems (GDS) and Computerised Reservation Systems (CRS) due to insufficient telecommunication networks and anti-competitive strategies among the global operators have hampered the success of many developing countries to capture the global tourism market.

### 3 UK outbound travel to developing countries

This section reviews UK outbound travel to developing countries, by looking at the destinations and products chosen, the patterns of package versus independent travel, the use of distribution channels, and recent research on consumer buying behaviour and ethical tourism products. Unless otherwise stated the figures are taken from the International Passenger Survey, UK<sup>7</sup> (ONS 2000 and 2001) detailing travel behaviour from and to the UK for the year 1999. The data used here cover holiday movements and excludes travel for all other purposes (e.g. business travel). This section of the paper will thus look solely at UK holiday outbound travel behaviour to developing countries.

#### 3.1 Travel flows: destinations and products sought

##### 3.1.1 The growth of long-haul travel

The overall majority of travel out of the UK takes the form of short-haul holidays, i.e. within Europe (see table 4). Only 20% of holidays taken by UK residents in 2000 went to places outside Europe. Long-haul travel, however, is increasing at a faster rate than short-haul travel.

**Table 4 Short-haul and long-haul holidays by UK residents, 1995-2001**

	Short-haul			Long-haul			Total	
	Million	Index	%	Million	Index	%	Million	Index
1995	23.7	100	85	4.1	100	15	27.8	100
1996	22.1	93	83	4.7	115	17	26.8	96
1997	24.2	102	83	4.9	120	17	29.1	104
1998	26.6	112	82	5.7	139	18	32.3	116
1999	27.2	115	81	6.3	154	19	35.0	126
2000 (est)	28.0	118	80	7.3	178	20	35.0	126
2001 (fore)	28.3	119	82	6.2	151	18	34.5	124

Source: ONS 2001

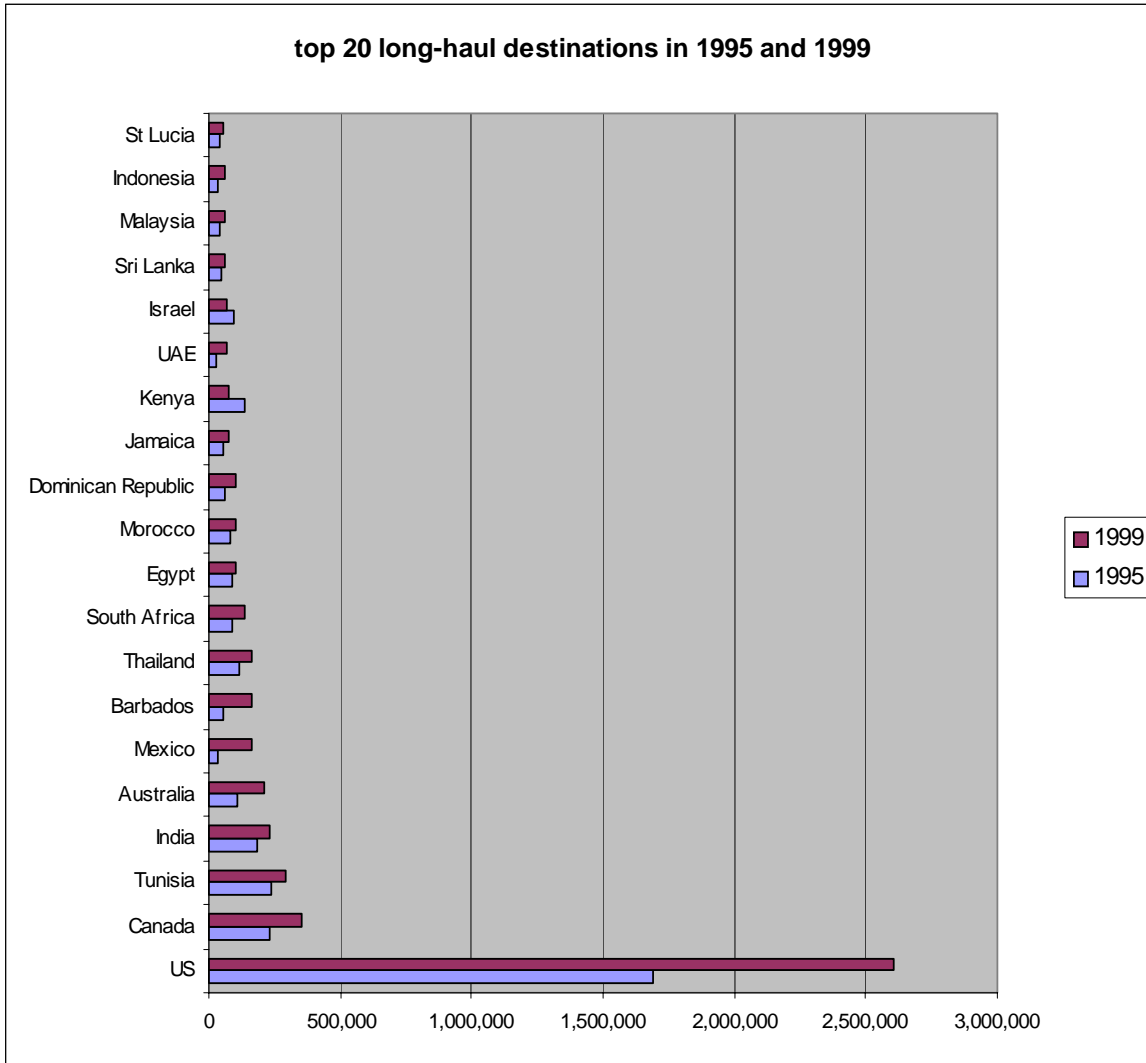
The UK is the fourth most important generating market in the world for holidays after the US, Germany and Japan. Throughout the last decades, growth of the British travel market has consistently out-paced that of the rest of the developed world, both in terms of the numbers of travellers and expenditure. It is a particularly important originating market for long-haul travel. Although the majority of travel continues to be within Europe, Britons are twice as likely to visit long-haul destinations (in particular the Middle East and South Asia) compared to German, American and Japanese travellers. The 1990s saw a continued growth in the demand for long-haul holidays, with the percentage of holidays taken to long-haul destinations rising from 15% in 1995 to 20% in 2000 (compared to a European average of approximately 12.5%). The percentage of air-inclusive tours taken to long-haul destinations is even higher, standing at 28% in 2000 (Mintel 2001c). This indicates that British holidaymakers are more likely to use tour operators when travelling long-haul than they are when travelling to short-haul destinations, i.e. within Europe.

UK residents took 7.3 million long-haul holidays in 2000. While the US is by far the dominant destination, fourteen of the top 20 long-haul destinations (shown in Figure 5) are developing countries. It is estimated that 11% of the outbound market visited developing countries in 2001, a

<sup>7</sup> IPS is a survey carried annually in the UK Office for National Statistics (ONS). Over a quarter of million random, face-to-face interviews are carried out each year with passengers entering and leaving the UK.

total of 4.3 million UK holiday makers<sup>8</sup> (see figure 6). As figure 5 also shows, a number of developing countries experienced sharp increases in UK visits between 1995 and 1999 (e.g. Mexico, Barbados, Thailand, South Africa, Indonesia and the Dominican Republic).

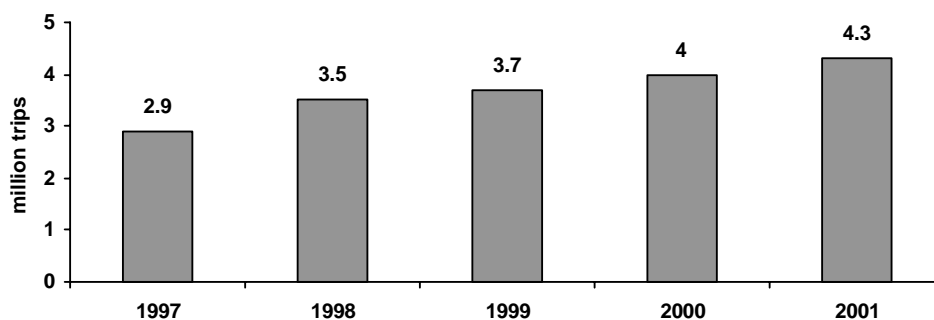
**Figure 5 Top twenty long-haul destinations for UK residents**



Source: ONS 2001

<sup>8</sup> Key Note, 2001.

**Figure 6 Holidays to developing countries by UK residents (in million)**



Source: Tearfund 2001

Once the domain of independent travellers or specialist tour operators, long-haul travel is now increasingly becoming mainstream with UK tour operators all extending their long-haul programmes. The strong growth of long-haul travel has encouraged many destinations to develop a tourism product which will appeal to the tourism-generating markets in Europe and North America, leading to a wider range of destinations and greater competition among them than ever before. Although long-haul travel from the UK has been hit by September 11th in 2001, and more recently the wars in Afghanistan (2002) and Iraq (2003) and the outbreak of SARS (2003), it is expected that long-haul travel will continue to grow strongly, although with regional variations.

### *3.1.2 Major destinations and products*

The top 20 long-haul destinations for UK holidaymakers are shown in figure 5. In total they accounted for 85% of all long-haul holidays in 1999. Only the US, Canada, Australia, the United Arab Emirates, Israel and Barbados are not classified as developing countries by the World Bank. While the US clearly dominates in terms of numbers, Mexico shows the highest growth rate with 48.5% annual increases between 1995 and 1999.

The main destinations in developing countries generally show the following characteristics:

1. Sun and sea product: The vast majority of the top 20 long-haul destinations offer a sea-sun-sand (3S) product. While they of course also offer niche products, they are essentially beach destinations appealing to a wide range of UK customers. Generally, resort based beach holidays account for the largest group of UK holidaymakers by some margin. In 2000 over 12 million travellers from the UK have taken a beach-based holiday. 76% of the UK population has taken a beach holiday at some point, compared to 27% that have chosen a city break, 10% that went skiing and 4% that went on a safari (Mintel 2001c). The three trends in sun and beach tourism are: above average growth in long-haul destinations; increase in speciality market segments such as boutique resorts, all-inclusive resorts, weddings and honeymoons; and combination holidays, where the beach is one component along with a tourism or special interest element (Mintel 2001c). The majority of the brochures of the major UK operators are aimed at the beach segment.
2. Destinations are featured by mainstream operators: The overall majority of these destinations are included in the brochures of the top four UK tour operators indicating the link between accessibility (in terms of price; physical accessibility; and distribution and marketing) and high arrival numbers. These include the North African package tour destinations such as Tunisia and Morocco, which have competed extensively on price with other Mediterranean destinations. It also includes destinations in Latin America and South East Asia (i.e. Thailand). A main reason for these destinations becoming more affordable is their use by mainstream tour operators and the reduction in flight costs due to high load factors and charter travel.

The top 20 destinations are offering a 3S product that is sold by mainstream operators at a price that is lower than customers could have achieved putting the package together independently. However, there are also large variations between countries and regions in terms of the reliance of holidaymakers on tour operators, as discussed below.

### *3.1.3 Regional Overview*

After North America, the three most popular long-haul destinations for UK visitors are Asia, the Caribbean and North Africa.

In 1999 over 821,000 Britons took their holidays in **Asia**. The region experienced an 8.5% annual growth rate between 1995 and 1999.

India is the top Asian destination for British holidaymakers and in fourth place overall, attracting 233,000 UK visitors in 1999. The annual growth rate for India has been modest over recent years (6.3% per annum between 1995 and 1999, half that of long-haul travel in general). Thailand is the next most popular in Asia, and eighth in the overall top 20. There were 160,000 UK holiday arrivals in Thailand in 1999, and the destination has experienced an average annual growth rate of 9.1%. Sri Lanka and Malaysia both attracted around 64,000 UK visitors, with annual growth rates of 12% and 7.4% respectively. 58,000 British tourists travelled to Indonesia in 1999, and despite the political problems the country was experiencing, arrivals have grown by over 13% per annum.

Three trends have been particularly important for UK holidaymakers to the area in recent years. Firstly, there is a growing trend for alternative forms of tourism (e.g. nature-based holidays, eco-tourism, cultural holidays). Many destinations in Asia have adopted eco-tourism policies such as for example China with its Ecotour China promotion in 1999. Secondly, Asia has also seen an above-average growth in cultural tourism to religious sites, such as Angkor Wat in Cambodia. Thirdly, scuba diving was one of the fastest growing sectors of the tourism trade with a strong concentration in South East Asia.

With almost 638,000 visitors in 1999, the **Caribbean** was the third most visited region for UK holidaymakers. Growth over the past few years has been particularly strong (approximately 19% per annum). Several Caribbean destinations have shown very strong growth rates such as Barbados (33% annual growth rate), which is the seventh most popular long-haul destination for British holidaymakers. Jamaica on the other hand has maintained arrival figures but lost market share due to increased competition from rival destinations such as resorts in Florida and Mexico.

The value of **North African** destinations (e.g. Morocco, Tunisia and Egypt) is their ability to promote themselves as both summer and winter destinations. They further benefit from their proximity to the main European generating markets and flight times more akin to short-haul travel. In 1999 just over half a million Britons travelled to North Africa. Arrival growth rates have been steady between 1995 and 1999 (5.6% annually). Tunisia, with nearly 300,000 UK visitors, was the third most popular long-haul destination for British travellers in 1999. Egypt and Morocco attracted just over 100,000 British tourists each. Although the massacre of tourists in Luxor in November 1997 almost completely destroyed the tourism industry in Egypt, by 1999 this had recovered due to considerable efforts from the public and private sectors. The Moroccan National Tourist Office on the other hand was eager to promote the country as a more up-market destination, and to lose its cheap bucket-and-spade image.

Over 360,000 holidaymakers visited **other African countries** and although there was an increase in independent travel, the growth in arrivals from the UK has been very unspectacular (approximately 3% annually between 1995 and 1999). However, some countries, in particular South Africa have

seen annual growth rates of 11.4% between 1995 and 1999 (136,000 UK holidaymakers in 1999) and it was the ninth most popular destination for UK long-haul holidaymakers in 1999. This is strongly linked to an increase in the number of flights and carriers servicing the country, combined with fare reductions (i.e. South African Airlines, Virgin Atlantic and British Airways all increased capacity on UK routes considerably), as well as a focus on tourism development since the overturn of the apartheid regime.

In contrast, Kenya lost its attractiveness to UK visitors in the last few years. While the country attracted over 150,000 UK visitors in 1995, this has halved by 1999 (74,000 UK visitors). Other destinations for UK residents, although on a much smaller scale, have traditionally been Botswana and Zimbabwe. Although in 1999 the UK still remained the most important generating country for tourists to Zimbabwe, it is estimated that the figures have fallen considerably since due to the political problems rocking the country.

**Mexico, Central and South America** have in recent years been discovered by tour-operators and as a consequence have shown the highest growth rates for British holidaymakers between 1995-1999 (annual growth rate: 37.1%; 273,000 UK holiday makers in 1999). Over his period, the number of UK residents visiting Mexico showed an annual growth rate of 48.5% (34,000 UK visitors in 1995; 166,000 visitors in 1999). Within a few years Mexico has become the sixth most visited long-haul destinations for the UK market. The main Mexican destination is Cancun which itself generates approximately 40% of all tourism for the country. Similarly, Brazil entered the UK market by being featured by mainstream operators as a 3S destination. Chile, on the other hand, was enjoying a boom as an exotic soft-adventure destination, while Costa Rica remained a very popular eco-tourism destination.

The **Pacific region** was the second least visited region with 272,000 UK holidaymakers in 1999. The lion-share of this were Britons visiting Australia (211,000 visitors), while only 60,000 visited New Zealand and the Pacific Islands combined.

The **Middle East** was the least visited region for UK holidaymakers with only 161,000 UK holidaymakers in 1999. The United Arab Emirates (in particular Dubai) received 67,000 UK arrivals in 1999 with an average annual growth rate of 25%. Israel attracted 66,000 holidaymakers in 1999, however, along with Kenya it was the only destination in the top 20 to decline in popularity over the period. At present the political problems in Israel have brought the tourism industry to a halt.

### **3.2 Package travel versus independent travel**

The main package tour destinations were in the Caribbean and North Africa. The vast majority of British holidaymakers to the Caribbean (over 70%) used package tours, and the share of package tours has further increased in the last few years. The Caribbean has become an alternative to the Mediterranean, providing a similar product and being organised in a similar manner. While high arrival figures in the Caribbean are a direct result of its 3S product and a strong involvement of mainstream tour-operators, the Caribbean Tourism Organisation has been eager to move away from its bucket-and-spade image by stressing a number of specialised holiday products (i.e. diving, trekking and wildlife). The Cuban government, on the other hand, adopted eco-tourism as an economic development strategy. Tour operators to the Caribbean increasingly offer soft-adventure products, i.e. excursions added to the traditional beach holiday package. This indicates a move away from the standardised package to more tailor-made holidays.

Another main package tour region is North Africa. Independent travel accounted for only 18% of all arrivals. Tunisia, Morocco and Egypt are well-established and important destinations for UK residents. All three are featured in the package holiday brochures of the largest tour operators in the UK.

Package tours to Latin America from the UK increased strongly in recent years and consequently the share of independently organised holidays declined markedly (from 55% in 1995 to 36% in 1999). Tour operators have included countries such as Peru, Brazil, Chile and Costa Rica in their mainstream brochures. The UK operator Cox and Kings stated in 1999 that Peru was its most popular Latin American destination. In May 2001 Brazil entered the mainstream tourism circuit by being featured in Airtours' and Unijet's brochures. Airtours' initial annual capacity was 9,000 passengers, using weekly charter flights from Gatwick to Salvador. Similar to the two-centre developments in Africa, some tour-operators sell Latin America by combining a Mexican beach holiday with 'soft-adventure' excursions to the rainforests of Costa Rica or Belize.

Asian and African countries on the other hand are mainly visited by independent UK travellers. Travel to Asia has traditionally been independent, certainly influenced by strong VFR movements to the Indian subcontinent from the UK. Inclusive tours have, however, increased significantly in recent years with new mainstream packages coming onto the market such as for example Thailand and Malaysia.

Very similar to Asia, the largest share of holidays to Africa was organised independently. A large part of this independent holiday segment is estimated to head for South Africa, with an increasing number of short breaks and VFR trips, and as such taking primarily advantage of the availability of inexpensive flights. Kenya on the other hand has long been a package tour destination offering beach vacations. Tour operators are now promoting two-centre destinations particularly in East Africa by tying other destinations (e.g. Tanzania, Uganda and the Seychelles) to Kenya.

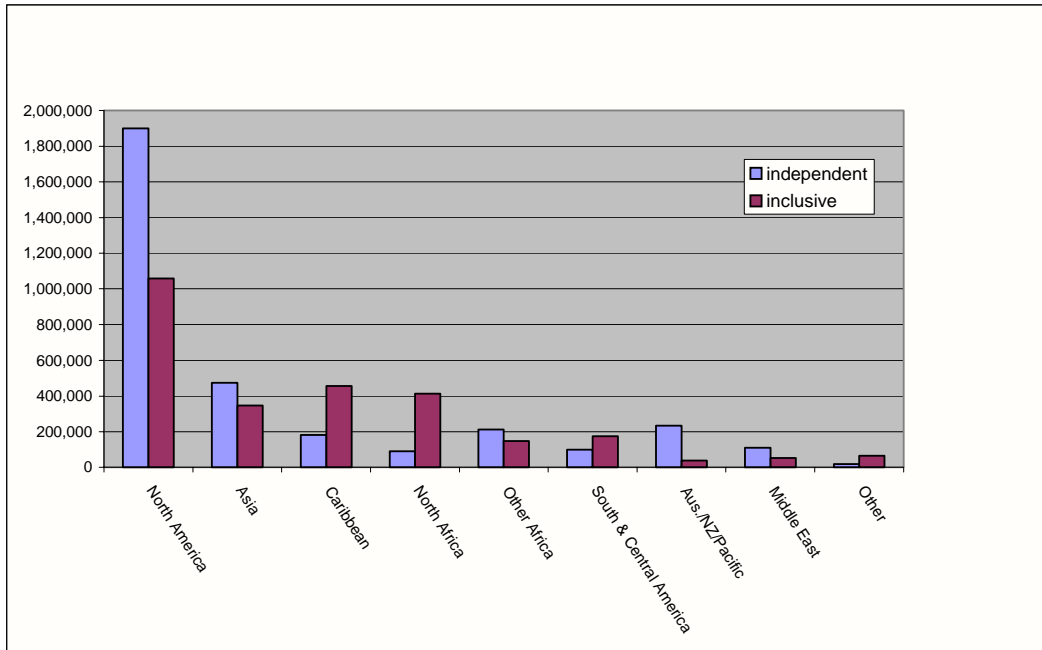
While overall the majority of UK long-haul travel continues to be organised independently (see figure 7), there has been a strong increase in package travel to developing countries. UK outbound package holidays, to both short-haul and long-haul destinations, have increased by 5 million (or 36%) between 1996 and 2001. Overall, package holidays remain the preferred travel arrangement for UK residents. At the same time, evidence points to a growing preference for some British travellers to take independent holidays.

**Table 5 UK residents' holiday visits abroad, by organisation of holiday, 1995-2001**

	Inclusive tours		Independent Holidays		Total
	Million	%	Million	%	Million
1995	15.2	55	12.6	45	27.8
1996	13.9	52	12.9	48	26.8
1997	15.4	53	13.7	47	29.1
1998	17.4	54	14.9	46	32.3
1999	18.6	53	16.4	47	35.0
2000 (est)	18.9	54	16.1	46	35.0
2001 (fore)	19.0	55	15.5	45	34.5

Source: ONS 2002

**Figure 7 UK residents' independent and inclusive long-haul holidays by region visited in 1999**



Source: Mintel 2001c

Independent travel increased by 2.6 million between 1996 and 2001 to a total of 15.5 million. Figure 7 shows the distribution of independent and inclusive travel by region. There has been considerable growth in independent travel to the Middle East, and to a lesser extent to sub-Saharan Africa – largely boosted by independent travel to South Africa, a destination many consumers feel the most comfortable with in Africa. This is not confined to backpackers as there has been an increase in independent travel from an older and more affluent breed of traveller (Mintel 2001a). Independent travel arrangements have been boosted by a more sophisticated travel market with a strong inclination for ‘exotic’ destinations, increasingly efficient global communication networks and, most importantly, a growing familiarity and confidence in buying travel products online.

This growth of independent travel offers considerable potential for implementing pro-poor tourism. Independent travellers may more easily be attracted to a wider array of destinations and products, and be more amenable to less standardised and price-competitive products. While the analysis of independent versus inclusive travel behaviour is highly important when discussing PPT strategies within a destination, this paper takes further the issues arising in relation to package holidays mediated through UK outbound tour operators.

### 3.3 Distribution channels

While travel agents have traditionally played an important intermediary role in the UK tourism industry, it is now argued that the development of call centres, digital TV, the Internet and teletext are changing the ways in which tour operators communicate with consumers. New technologies are also influencing the way in which consumers deal directly with suppliers and consequently the consumers’ reliance on intermediaries such as tour operators and travel agents.

**Travel agents:** Travel agents have traditionally been the main distribution channel for package holiday. As explained at the beginning of this paper, the role of a travel agent is to sell the product put together by a tour operator against commission, generally 10% of the sales price. To the consumer, travel agents offer convenient sales outlets in high street locations, travel advice and

information. The vast majority of package holidays in the UK are distributed using either integrated or independent travel agents. Integrated chain travel agents (such as Lunn Poly in the UK) are owned by the largest tour operators. The purpose of this ownership and integration is for the tour operator to sell its products, that is: a Lunn Poly travel agent sells predominantly TUI UK package holidays (see section 4 for a detailed discussion of integration). Independent travel agents on the other hand are not tied to a particular tour operator, but operate according to agreed commission rates.

Travel agents can have two main motives for channelling a customer towards a certain product. Firstly, they are eager to sell a product because they have agreed favourable commission rates with the tour operators. Secondly, they are keen to attract repeat business, which they can achieve by steering the customer in the direction of an operator that offers the best value for money and satisfies the needs expressed by the customer. These two goals do not necessarily contradict each other but can work very well together. Because the main summer sun products offered by the main tour operators show little differentiation, it is relatively easy for a travel agent to direct the customer to a certain product, one that also offers benefits to the agent. This directional selling is widely practised in the industry and is a reflection of the industry structure and the standardisation of the product, leaving relatively little choice to the consumer.

Travel agents are the traditional outlet through which customers purchase their holidays. However, of the approximately 1,500 tour operators in the UK, only a fraction will be able to display their brochures in one of the integrated travel agencies. It is estimated that a integrated multiple<sup>9</sup> travel agent has commission contracts with on average between 120 and 150 tour operators. These 120 to 150 operators generally produce in total about 500 brochures per year, making it an intense fight for racking space. Being racked by a high street travel agent is of course a fundamental requirement for attracting attention from potential customers. Going Places (now renamed MyTravel) estimated in 1997 that the brochures that were racked brought in about 85% of total sales (see Monopolies and Mergers Commission 1997). The travel agent's racking policy is a clear example of a competitive strategy, where a denial of access is seriously restricting product exposure. In order to negotiate favourable commission terms, integrated agents frequently use the threat of de-racking, where brochures are taken off the shelf.

Due to intense integration between travel agents and tour operators, and the difficulties for small operators to use high street agents as sales outlets, many of the smaller niche operators resort to selling their products directly to customers. Customers on the other hand are said to have become more sophisticated and knowledgeable about tourism products on offer and increasingly use these direct-sell opportunities. Many industry analysts estimate that these trends coupled with new technologies will diminish the role that travel agents have traditionally played in the distribution of travel products. This would also offer great potential for small niche operators. The main technologies used for the distribution of travel products are described here.

**On-line sales:** The UK stands out from the rest of Europe in terms of online bookings. The UK held 30% of the European online market for travel products in 2000. It was the largest share among all European countries and it is estimated that this position will be held even ahead of Germany with over 50% more potential customers. The value of online travel bookings in the UK was approximately £455m in 2000. Two of the main reasons for the high percentage of online bookings in the UK are the high level of internet penetration among UK consumers, and the rapid development of low-cost scheduled airlines in the UK which focus on online bookings. While online travel sales is still a very small share of the total travel market (market-share in 2000 was 1.2%) it is expected to increase rapidly year by year in the near future (annual increases in the next few years of around 80%) (Marcussen 2001). Of these sales, 60% were for air travel, 18% for

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<sup>9</sup> Multiples – classified as a travel agent belonging to a chain with more than 200 outlets, such as Lunn Poly or MyTravel in the UK.

package tours, 17% for hotels and 5% for other services. The bulk of online sales are thus made in the airline industry, package tours only take a relatively small percentage. While this does not seem substantial currently, it is already the second largest item bought online, ahead of accommodation.

Two ABTA surveys conducted by MORI in 1998 and 2000 showed that the percentage of package holidays booked over the Internet had increased from 1% to 3%. 55% of those surveyed had access to the internet at home or work. 17% of the adult population had booked some travel arrangement (e.g. flight, car hire or ferry crossings) over the Internet at some time. Where the internet, however, plays an important role is the dissemination of information. 39% of the adults surveyed by ABTA used the internet as a source of travel information. With the number of internet access points increasing, and the cost of personal computers decreasing, the use of the internet for travel purchase and information is set to increase. While travel is globally one of the main items purchased via the internet, the sales of holiday packages and accommodation have not taken off to the same extent as flight sales. The low cost/no-frills airlines all have successfully designed their distribution around the web, Ryanair for instance is currently selling 95% of its flights via the internet.

**Teletext:** The travel market is greatly influenced by the presence and availability of teletext. Teletext has traditionally been used to increase package tour purchases, in particular late deals and last minute offers. The success of teletext shows the potential of accessible, easy-to-use technology. It is estimated that currently 65% of UK households have access to teletext, and this is certain to increase, as most TV sets are now manufactured with teletext access installed. All the large tour operators use teletext extensively.

**Digital TV:** According to a recent Key Note (2001) report the UK is the most wired-up country in Europe. While this could provide a good opportunity for travel sales, the costs involved makes it no more advantageous than distribution through agents. Nevertheless, both MyTravel and Thomas Cook are experimenting with the medium (MyTravel uses Open...; Thomas Cook uses Telewest, Open... and Onnet).

Digital TV promises great potential as it seems to be easier to envisage a family sitting around the TV to choose their holiday than around a home computer. The general enthusiasm for digital TV is at the moment, however, not shared by tour-operators. The majority of tour-operators perceive the web to be the distribution channel of the future.

**WAP mobile phones:** WAP (wireless application protocol) phones may have a big future in travel, however, their use for the purchasing of holidays is likely to be limited. The lack of visual capabilities, at least for now, makes it a difficult competitor to the usually high gloss imagery used to sell travel. However, Thomas Cook used WAP with Orange, BT Genie and Vodaphone.

Overall, alternatives to the usual distribution channels via the travel agents are increasing and changing drastically. On-line travel consumers offer major potential for niche operators and independent travellers. Furthermore, it provides access to consumers for producers in the South, whereas this was extremely limited previously and mediated through integrated agents and tour operators. This can give a major boost to suppliers in the South to access markets directly.

### 3.4 Consumers of ethical travel products

Research in the UK indicates an increasing demand from consumers for more corporate responsibility and ethical standards in business in general. In a recent survey, 73% of all shoppers expressed concern over issues of conscience when buying products (Cleverdon and Kalish 2000). A Mintel study in 1999 indicated that consumers increasingly seek products that they feel have an

ethical value. Over 25% of all consumers declared that they were 'strongly ethical', which is a 5% increase to the same question nine years earlier (Mintel 1999).

More relevant to tourism are two other studies. The first one undertaken by Tearfund found that 27% of respondents thought that a tourism company's ethical standing was of high importance when choosing a holiday, and that they were willing to pay on average 5% more for a holiday that fulfils ethical criteria (Tearfund 2000). Recent Mintel research on ethical consumers among tourists strongly confirms an increase in demand for ethical tourism products but highlights that, while growing, it remains a minority concern among tourists. The majority of respondents were concerned with standards of accommodation and the weather while on holiday. Only 7% had ever sought a holiday with an ethical code of practice, and 4% had changed their plans due to responsible tourism issues (Mintel 2001b – see Box 2 for details). Thus, although many still regard holidays as an opportunity to totally escape from the worries and issues of everyday life, there is a growing interest in ethical holiday products.

### **Box 2 Ethical consumers of tourism products**

- For holiday-makers, the main priorities were fairly self-indulgent factors: i.e. high standard of accommodation (64%), nice weather (60%), convenient transport (35%), un-crowded beaches (34%), reasonable priced drinks (30%), good representatives (29%). 40% of holidaymakers stated that when on holiday they just wanted to relax and not be bothered with ethical issues.
- 28% of holidaymakers had an understanding that tourism can have negative impacts on local cultures. 37% of holidaymakers tried to learn about the local culture before they travelled. 11% of consumers were concerned that the economic impacts of tourism for the destination's economy were not as great as expected; while half believed that the money they spent in their home country on tourism products would benefit the destination economy in any way.
- 27% of holidaymakers cited that 'not being part of a crowd and 'getting off the beaten track'' was an important factor for enjoying a holiday. Just under 40% of holidaymakers in the survey cited that experiencing 'local cultures' is an important enjoyment factor for their holiday.
- Only 7% had ever sought a holiday with an ethical code of practice. Some 4% had changed their plans due to responsible tourism issues.

Those that are concerned with ethical issues tend to be more affluent and educated. According to Mintel's clustering:

- The 'apathetic' (48% of the sample) were generally not bothered with environmental or ethical issues in relation to holidays, and they did not want to be bothered with them. They were either very young (15-20 years of age), or old (over 65), and less affluent (socio-economic groups C2, D, E).
- The 'unconcerned' (22%), similar to the apathetic, felt that tourism already helps the local economy and they saw no need for concern. This group was predominantly male, aged 25-44, and in socio-economic group C1.
- The 'researchers' (20%) were likely to try to learn about local culture and they were concerned about environmental impacts; they also may have sought a holiday with an ethical code. They tended to be from a wide variety of age groups (20-64), but predominantly from pre-family and empty-nester life-stages; more affluent from socio-economic groups A, B, and C1.
- The 'ethically aware' (11%) were mainly concerned with environmental impacts of tourism, but also aware of socio-cultural issues and the risk of negative impacts. They were predominantly young (25-44 y.o.a.), affluent, and from socio-economic groups A, B, C1.

*Source: Mintel 2001b*

The survey shows sharp distinctions between social classes. As with environmental issues, ethical considerations are a domain of the middle classes. This suggests that ethical concerns may become increasingly important to some segments of the market (the more affluent). For specialist operators not wanting to compete on price but on quality, an ethical dimension might be seen as an added value to customers. However, the typical 3S package tourist might not be interested in these issues, let alone in purchasing often more expensive, ethical products. Thus there would be little incentive

for mainstream tour-operators to introduce ethical considerations to their mainstream products if it would induce extra costs that could not be recovered from customers.

For tour operators trying to survive in a highly competitive industry ethical issues have so far not been high on the agenda and they are frequently seen as a luxury and cost, rather than long term investment (Krippendorff 1991). Weeden (2001) argues that the majority of tour operators she surveyed did not believe that consumer demand has changed and that consumers were more interested in ethical issues (2001:149). The tour operators she surveyed were very critical about research stating that consumers are willing to pay extra for ethical tourism products. Weeden argues that although customers might show an attitude change, this does not necessarily mean that they will actually pay higher prices<sup>10</sup>. Altruistic ideas about ethical issues are often not translated into action when making buying decisions. Weeden even suggests that the specialist holiday market is moving to increased price sensitivity. Her survey found that far from a move away from price-based competitive strategies, these remain highly important.

Thus the overall message is one of small, but significant, changes in reported attitudes of a small segment. There are a number of reasons why some tourists are becoming more aware of the impacts of tourism, such as the consumers' own experiences while on holiday, codes of conduct provided by tourism suppliers as well as the campaigning of many organisations, such as Tourism Concern and VSO. The significant increase in ethical concern forecasted within the ABC1 population bodes well for ethical tourism. The strong emergence of environmental consideration in the last decade indicates that consumers do not necessarily all buy on price but that a segment, although very small, can be a captive audience for ethical products. This in turn can influence tour operator practices and products in the long term. However, ethical consumerism is unlikely to affect the mainstream operators and products for some time to come.

### **3.5 Summary of key trends in the UK outbound long-haul market**

- *Mainstreaming of exotic destinations.* Due to reduced travel costs and the incorporation of a wide variety of affordable long-haul destinations into mainstream programs, long-haul travel is set to increase further in the near future. What once was the domain of independent travellers and up-market consumers has become an integral part of consumer choices. A large variety of formerly 'exotic' destinations are available, as the rise of Thailand and Mexico has shown. The top long-haul destinations offer the traditional 3S product in developing countries and there is no sign that the sun-lust is going to fade.
- *Strong potential for independent and adventure tourism.* However, there is also an increasing trend towards 'soft-adventure' add-ons to mainstream beach products. This indicates that there is increasing interest in 'off-the-beaten-track' holidays. While certain areas are dominated by package tours, others are still favoured by independent travellers (i.e. Asia and Africa). This, coupled with increased internet buying behaviour, offers good potential for producers in the South to capture markets. The markets have become far more accessible and the success of small producers in the South will depend on their ability to make their presence felt more strongly. This is beginning to emerge through initiatives such as the Community Guide by Tourism Concern; through concerted marketing efforts and collaboration among producers; or through close collaborations with respective tourists boards. Here initiatives and codes of conduct such as the Fair Trade Network offers great potential.

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<sup>10</sup> Others also caution that words are not necessarily translated into action. This has been researched by a number of authors in the field of consumer psychology (see Balooni, 1997). Forsyth (1997) has argued for example that the reasons for buying ethical products are not always based on altruism and political correctness but that consumers actually expect to find a high quality product that is smaller in size, and less standardised and predictable than the average package tour.

- *Price remains paramount for the majority of consumers.* The bottom end of the long-haul market remains price sensitive and any price increases due to rises in fuel prices or increased security expenditure will affect this segment considerably more than the up-market end. Consumers looking through the long-haul brochures of the big four operators are likely to be searching for a value-for-money break rather than specific destinations, and so will travel to those countries that offer the best deal. This puts enormous pressure on tour-operators to achieve best prices, and on destinations to compete with other destination offering comparable products. Up-market operators are less likely to be affected, as their clients tend to be less price sensitive.
- *A wider variety of segments travel long-haul.* The growth of the 55+ age group market will continue to impact on long-haul sales. Up-market operators such as Cox & Kings are reporting growing numbers of this age group booking tours. Increasingly, long-haul tours will adapt to cater for the needs of these consumers. Similarly, the growth of the high spending cash-rich/time-poor market segment means that long-haul destinations will increasingly be visited on short-breaks. Cape Town is the classical example with a large European short break segment, due to the availability of numerous inexpensive flight connections. Short-breaks to Cairo and Dubai have also increased considerably in popularity. Long-haul travel is not reserved anymore for just the affluent.
- *Gradual change in ethical consumerism.* Consumers of tourism products have shown greater interest in purchasing products that they feel fulfil an ethical code of conduct. Although the majority of holidaymakers purchase a holiday to ‘get away from it all’ a small, but growing, segment is concerned about the ethics in the holiday market. It is expected that the growth in ethical considerations by tourists will continue to increase in the next years.

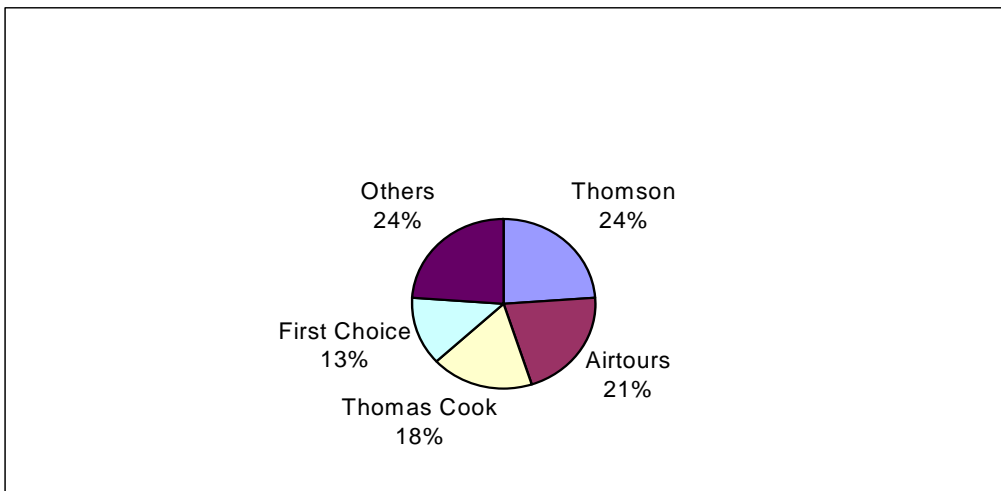
## 4 The tour operating industry: operating principles, structures and trends

This section will briefly explain the structures and trends in the tour operating sector in the UK, and the operating principles of tour operators. The UK tour operating sector has seen in recent years a number of important mergers, acquisitions and take-overs, making it difficult to describe the structure – it simply changes rapidly. However, an attempt is made here by identifying the main players and the main trends, and by providing an overview of the conditions in which they operate and the strategies that they employ to achieve commercial success.

### 4.1 Industry structure

The tour operating sector is characterised by a very small number of large tour operators (in terms of volume carried) and a large number of very small and specialised niche operators. This means for the UK that in 2000 four tour operators (Thomson Holidays, Airtours, Thomas Cook and First Choice) controlled over 75% of all outbound package tours. In fact, the 12 companies that are members of the FTO (Federation of Tour Operators) controlled over 90% of the market, while the remaining 10% was controlled by over 1,500 niche operators (Middleton 1998). This is a common situation in the main European generating countries. In Germany, for example, three large operators (TUI, Thomas Cook and Rewe) controlled 83.5% of the market in 2001 (Fremdenverkehrswirtschaft 2002). In 2000, the four UK tour operators with the highest volume of passengers were in order of their market-share: Thomson Holidays (now: TUI UK), Airtours (now: MyTravel), Thomas Cook and First Choice (Keynote 2001).

**Figure 8 Market share of top 4 UK tour operators in 2000**



Source: Keynote 2001

The nature of the tourism product, i.e. the integration of various sectors of the tourism industry (transport, accommodation, catering and entertainment), make this industry an obvious target for corporate concentration (Lafferty and van Fossen 2001). The main trends in the industry are economies of scale and vertical integration. Through these strategies tour-operators can achieve enormous buying power and considerable control over the supply and distribution of their products. Integration refers to long-run decision-making by a producer, which is likely to concentrate on three

main areas. Firstly, the opportunity for economies of scale (from horizontal integration); secondly, the ability to control and develop inputs and markets more closely (from vertical integration); and thirdly, the chance to use existing differential advantages to operate profitably in related fields (diagonal integration). The two main forms of integration, horizontal and vertical integration, practised in the tourism industry will be discussed here.

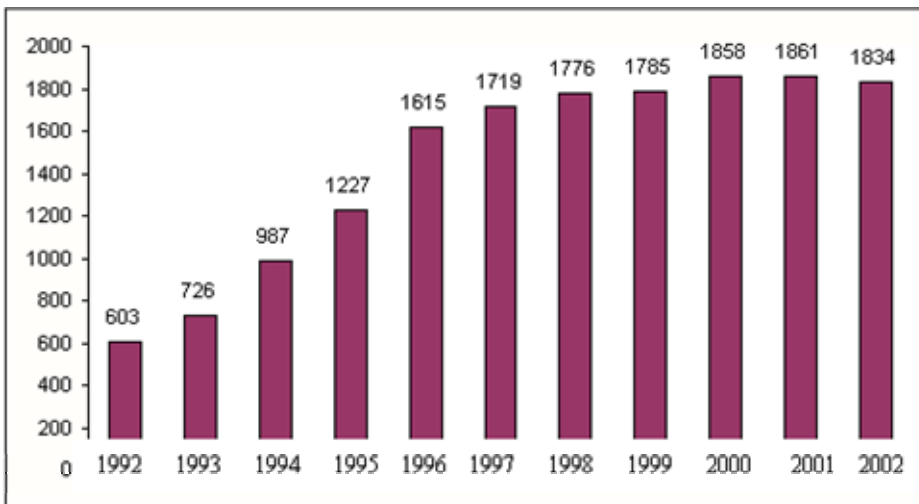
Integration and consolidation among the large players have also strongly influenced the way in which niche operators design and market their products. With increased control over the market by the four large tour operators, smaller ones have resorted to specialisation in order to stay out of the highly competitive mainstream territory.

#### 4.1.1 Horizontal Integration

Horizontal integration refers to a situation when producers join with the aim to remove competition, to increase economies of scale, and to increase purchasing power. Horizontal integration comprises mergers at one level in the tourism distribution or supply chain, i.e. mergers between different tour operating companies. Horizontal integration is particularly relevant for intermediaries (tour-operators and travel agents) due to generally lower capital requirements for complete take-overs or mergers. Airlines on the other hand use code sharing agreements and alliances due to restrictive ownership regulations and the high costs of full financial take-overs.

Horizontal integration in the tour operating sector has increased significantly since 1995 when five companies (Thomson, Airtours, First Choice, Cosmos/Avro, Sunworld) controlled 61.5% of the UK package tour market. Since 1995 Thomas Cook emerged as a major player having taken over Sunworld. 1998 was the year of mergers and takeover when Unijet and Hayes & Jarvis were bought by First Choice; Direct Holidays was purchased by Airtours; Crystal Holidays was bought by Thomson; and Carlson and Thomas Cook announced their merger. Integration strategies have led to increased concentration among tour operators which is shown in the number of ATOL<sup>11</sup> registrations during the past years (see figure 9). Between 1996 and 2000 the number of passengers carried by ATOL holders increased by 32.9%, to 27.5 million, while the number of ABTA-registered tour operators increased by only 7.9% (Mintel 2001a). That is: a strongly increasing number of customers are flying out using a proportionally decreasing number of tour operators.

**Figure 9 ATOL holders 1992-2002**



Source: CAA 2002

<sup>11</sup> ATOL – Air Travel Operators’ Licence issues by the Civil Aviation Authority (CAA). The ATOL holder is the tour operator who is granted by the CAA to carry a licensed number of passengers. In 2000 27.5million UK passengers were carried by 1858 licence holders.

Since 1998 the number of ATOL holders has remained relatively stable. The passenger volumes licensed to be carried by the top ten companies in 2002 are shown in table 6.

**Table 6 Passenger volumes licensed by ATOL of the 10 largest ATOL holders**

Company name	Passengers 2002	Change 2001/2 (%)
TUI UK Ltd	3,925,198	+2
MyTravel Group plc	3,784,811	+4
Thomas Cook Tour Operations Ltd	2,834,895	0
First Choice Holidays and Flights Ltd	1,918,424	0
Unijet Travel Ltd	996,107	+1
Avro plc	689,534	+8
Direct Holidays plc	650,259	+47
Trailfinder Ltd	481,430	+4
Gold Medal Travel Group plc	457,094	+8
Cosmosair plc	449,065	+1

Source: CAA 2002

While this concentration due to horizontal integration has been a traditional feature of the industry at national level, this has in the past two years extended to pan-European ownership. The driving force behind this move is the German Preussag AG, originally a steel and utility company that diversified into the tourism sector only a few years ago when in 1998 it acquired the Hapag-Lloyd AG and TUI in Germany, and in 2000 the UK's Thomson Holidays. Today, Preussag owns Thomson Holidays (the largest UK tour-operator – renamed TUI UK in 2002), TUI (the largest German operator), Fritidresort (the second largest tour-operator in Scandinavia) and it has a 30% stake in Nouvelles Frontières (the largest French Operator). Preussag is thus operative in the main European generating countries and it is globally the largest tourism company. Worldwide, TUI owns 3,700 travel agencies, 81 tour-operators, 88 aircraft, 32 incoming agencies in 70 countries and 285 hotels with a bed capacity of over 150,000 (see table 7). TUI has a turnover of approximately €2 billion, serving 22million customers through its 70,000 employees (see table 7 for details).

Despite close scrutiny from the European authorities, the 34.4% acquisition by Preussag of French company Nouvelles Frontières during October 2000 was cleared. While the competitive authorities in the UK tended to block any further consolidation in the past (i.e. Airtours and First Choice merger in 1999 which was overturned by the EU in 2002) consolidation at a European level may well deliver further economies of scale. It is estimated that further consolidation among the top four will reduce the main market players to three or even two in the very near future. At the moment a merger between Airtours (renamed Mytravel in 2002) and First Choice is the topic of discussion.

Another example of pan-European integration is the German C&N Touristik, a company jointly owned by Lufthansa and the department store Karstadt/Quelle. It is the second largest European travel company and owns the Thomas Cook group.

**Table 7 Characteristics of the ‘big four’ tour operators in the UK**

<b>Holding company</b>	<b>TUI AG</b>	<b>MyTravel PLC</b>	<b>Thomas Cook AG</b>	<b>First Choice</b>
<b>Country of registered ownership</b>	Germany	UK	Germany	UK
<b>Annual turnover</b>	23.8 billion €	8.2 billion €(UK only)	8 billion €	3.8 billion €
<b>Employees</b>	70,000	27,968	28,000	14,000
<b>Customers</b>	22 million	15 million	14 million	5 million
<b>Out-bound tour operating divisions in the following countries</b>	15 European Countries	Areas: UK/Ireland, Northern Europe, Germany/Austria/S witzerland, North America	Germany, UK, Ireland, France, BeNeLux, Austria, Hungary, Poland, Slovakia, Slovenia, Egypt, India, Canada	France, Spain, Italy, Portugal, Germany, Belgium, The Netherlands, Austria, Switzerland, UK, Ireland, Canada
<b>Selected destinations in developing countries in 2002/3 featured by tour operators belonging to the group</b>	Barbados, Botswana, Cambodia, China, Cook Islands, Cuba, Dominican Republic, Egypt, French Polynesia, Gambia, India, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Myanmar, Namibia, Nepal, Reunion, Samoa, Seychelles, South Africa, Sri Lanka, St. Lucia, Tanzania, Thailand, Tunisia, Zambia, Zimbabwe	Antigua, Barbados, Brazil, Cambodia, China, Costa Rica, Cuba, Dominican Republic, Egypt, Gambia, India, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Myanmar, Oceania, St. Lucia, Seychelles, South Africa, Sri Lanka, Tanzania, Thailand, Tobago, Tunisia, UAE, Vietnam	Barbados, China, Costa Rica, Cuba, Dominican Republic, Egypt, India, Indonesia, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Nepal, Peru, South Africa, Sri Lanka, St. Lucia, Seychelles, Thailand, Tunisia, UAE, Vietnam, Zanzibar,	Barbados, Belize, Bhutan, Bolivia, Borneo, Botswana, Brazil, Cambodia, China, Costa Rica, Cuba, Dominican Republic, Egypt, Ecuador, Eritrea, Ethiopia, Ghana, Guatemala, India, Indonesia, Iran, Jamaica, Jordan, Kenya, Ladhak, Madagascar, Malawi, Malaysia, Maldives, Mali, Mexico, Morocco, Mozambique, Namibia, Nepal, Pakistan, Peru, South Africa, Sri Lanka, Sudan, Syria, Tanzania, Thailand, Tibet, Tunisia, Zimbabwe
<b>Ownership of:</b>				
<b>Tour operators</b>	81 tour operators	39 tour operators	30 tour operators	28 tour operators
<b>Travel agents</b>	3,700 travel agents	2,001 travel agents	3,600 travel agents	300 agents plus 37 Hypermarkets (UK only)
<b>Aviation</b>	88 aircraft	49 aircraft	86 aircraft	26 aircraft
<b>Other</b>	<ul style="list-style-type: none"> <li>• 32 incoming agencies</li> <li>• 150,000 beds in 285 hotels</li> <li>• business travel division</li> </ul>	<ul style="list-style-type: none"> <li>• 4 cruise ships</li> <li>• 125 resort properties</li> <li>• incoming agencies</li> </ul>	<ul style="list-style-type: none"> <li>• 73,000 beds</li> <li>• incoming agencies</li> </ul>	<ul style="list-style-type: none"> <li>• joint venture with Royal Caribbean Cruise Lines</li> <li>• 1,200 yachts</li> <li>• incoming agencies</li> </ul>

Source: company websites visited on 25.07.2002

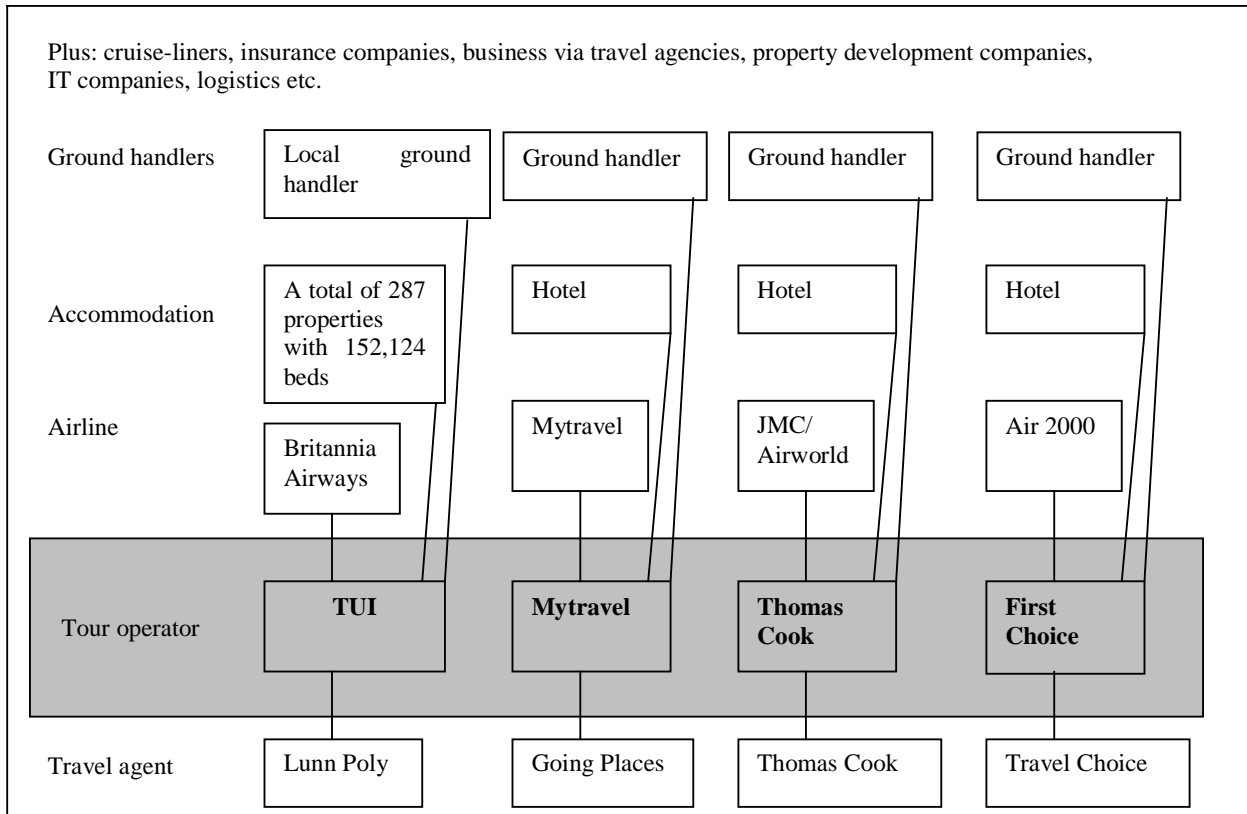
#### *4.1.2 Vertical Integration*

Vertical integration implies the take over or formation of businesses at different levels of the supply or distribution chain. For a tour operator this means investment into either suppliers (through backward integration e.g. accommodation, transport) or distributors (through forward integration i.e. travel agents). The main advantages are control over supplies in terms of quality, availability, access and price, and the ability to reach consumers.

Vertical integration is a significant feature among the leading tour operators and has drastically increased in recent years. Prior to the late 1980s only the Thomson Travel Group among today's leading companies had been fully vertically integrated with the purchase of its airline Britannia in 1965 and the travel agent chain Lunn Poly in 1972. Today, the four main operators are all vertically integrated (see figure 10 below).

The initial step in vertical integration is usually to acquire a ground handling agent in order to gain from operating their own 'production plant' in destinations (Caves 1971), and thus partly to limit the growth of new competition (Bywater 1992). If demand for the destination increases and becomes sufficient the operator might invest in the accommodation sector. Charter airlines are often set up when the necessary volume (normally a minimum of 400,000 passengers) is reached. Airlines are filled by either including the transport element in the package, by selling seat-only tickets, or by selling seats to other tour operators. Seat only tickets have seen a strong increase in demand due to increased independent travel often induced by rising second home and time-share ownership in southern European destinations. Charter airlines, however, have seen very strong competition since the introduction of the EU airline deregulation due to the start-up of no-frills airlines, and new strategies are now being devised to combat this (i.e. major tour-operators are considering entering the no-frills airline industry).

**Figure 10 Forward and backward vertical integration of the top four UK tour operators**



Vertical integration is particularly relevant when looking at the linkages between the main UK travel agents and the four main tour operators. The travel agent Lunn Poly (800 shops in 2000) is owned by TUI UK; Going Places (740 shops) is owned by MyTravel; Thomas Cook has 700 travel agents; and First Choice owns Travel Choice and related brands (361 shops). In total these four travel agency chains sold 69% of all package tours in 2000. This increased vertical integration has led the Monopolies and Mergers Commission (MMC now Competition Commission) to take an increased interest in the industry. It was feared that customers might not necessarily be aware that when they enter a Lunn Poly shop they are likely to be sold a Thomson holiday, and thus potentially deprived of choice. In its 1997 report the MMC stated that there is no evidence of anti-competitive practices caused by vertical integration. However, the MMC ordered that all tour operators and travel agents with more than 5% market share must provide notice of ownership links on the outside of their shops, in brochures, on business stationery and in advertisements so as to make customers aware of these relationships (Monopolies and Mergers Commission 1997).

Some of the main steps in the recent progress of vertical integration have been:

- First Choice's acquisition (as Owners Abroad) of a 76% shareholding in Air 2000 in 1987;
- Airtours' start of operations for its airline, Airtours International, in 1991;
- Airtours' acquisition of Pickford (1992) and Hogg Robinson (1993) to form Going Places;
- Inspirations' acquisition of Caledonian in 1995;
- Thomas Cook's purchase of Sunworld and its airline, Airworld, in June 1996 and Time Off in September 1996; and
- Following Carlson's bid in July 1997, Inspirations' take over by the Carlson group which also owns AT Mays. (Monopolies and Mergers Commission 1997)

### 4.1.3 *Other forms of integration*

Other forms of integration such as diagonal integration or diversification are now very common in tourism (especially in Germany) due to generally limited barriers of entry, low capital requirements, perceptions of the industry as a growth sector and the opportunities for alternative investment. The Preussag AG, for example, was the leading German steel and utility company before diversifying extensively into tourism as recently as 1998. Unlike the situation in the UK, tour-operators in Germany were traditionally controlled by banks (Westdeutsche Landesbank, Commerzbank) and/or department and mail order stores (Karstadt/Quelle, Neckermann), while three of the four biggest tour-operators in the UK are solely active in the tourism sector. The only exception was Thomson Holidays. The Canadian Thomson Corporation, an international publishing company and owner of several US newspapers, owned Thomson Holidays prior to the take-over by Preussag.

Complementary integration, the main examples being in the accommodation sector and the airline industry, aims to achieve mutual benefits for distinctly different products. Formerly strong ownership linkages between airlines and hotels existed; today however, these predominantly take the form of alliances. Complementary integration was the initial diversification strategy for a large number of airlines, many of which set up today's most successful and global accommodation chains. PanAm for example formed Intercontinental Hotels in 1946 (Van Doren 1993) and today ownership linkages exist between JAL and Nikko Hotels, and KLM and Golden Tulip.

Alliances are an increasingly common form of integration. This has been the case in the hotel sector, among travel agencies and especially in the airline industry. In March 1997 AT Mays and the ARTAC organisation of 660 travel agents agreed to form an alliance which covered, among other things, arrangements for common commercial negotiations and marketing. The alliance, which created a grouping of more than 1,000 travel agent outlets, did not, however, imply a merger between AT Mays and ARTAC members. Another example in the travel agent sector is the Advantage Group, formed by independent travel agents in the 1990s.

Similarly, since deregulation of the EU airline industry in the early 1990s, global airline alliances have formed (e.g. Star Alliance, Oneworld, Wings) which currently cover over 80% of the global scheduled flight volume. These are extended code-sharing agreements, which frequently include customer loyalty schemes and extensive marketing arrangements, without direct ownership. The aim of these alliances is to indirectly overcome trade barriers put in place through bilateral agreement, cabotage<sup>12</sup> regulations and restrictions on foreign ownership. This means that a Star Alliance customer can buy a 'direct' flight from a regional airport in Austria to a regional airport in the US, and while checking-in once and collecting one single frequent flyer bonus for the whole trip, s/he will use three different airlines. All of these alliances have in common that their members are located in Europe, the US, Asia and increasingly South America, thus spanning the high volume travel routes globally.

### 4.1.4 *Specialisation*

The need for increased specialisation (i.e. offering niche products to more specific customer segments such as for example 'Cycling for Softies') results directly from integration tendencies as a way of serving the market without necessarily getting into the highly competitive mainstream territory. Many industry observers argue that today's tourism customers have matured and are demanding new experiences. This led to the establishment of very diverse and highly specialised companies. Small and medium size operators have suffered the consequences of having to compete with larger, integrated companies. Competition increased sharply for destinations world-wide, and also for customers' time and money. While integration offers large tour operators cost savings in booking facilities, hotel rates, transfers, accounting, and in marketing, it also has a fundamental

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<sup>12</sup> Cabotage: the rights of foreign airlines to fly domestic routes in other countries

impact on the way in which independent tour operators operate. The effect is that vertically integrated operators capture a large proportion of mainstream package holidays, while independent operators increasingly focus on specialisation. The tour operating sector is essentially polarised: a very small number of big companies and a very large number of small ones - the middle level of medium size companies offering the 4S product has been absorbed by the larger players.

Consolidation within the industry has also meant that independent operators have to be more creative in the development of the holidays that they provide, particularly since a few mainstream operators have entered the specialist market (First Choice's acquisition of Exodus in July 2002 for example). Independent tour operators compete by providing high quality and tailor-made services, which is responding to the trend that holidaymakers are becoming more discerning about the holidays that they take.

As can be seen from table 8, the price for a holiday organised by an independent tour operators is considerably higher than the price for a holiday provided by a vertically integrated intermediary. At the same time their market-share and thus volume is considerably lower. Independent operators do not tend to compete with integrated operators on price but rather through product differentiation by offering value for money. At the same time small operators have increasingly become organised in the form of alliances and trade sector organisations such as AITO (Association of Independent Tour Operators).

Independent tour operators generally specialise in either a specific geographic location or destination area, or in a specific activity, although a smaller number use age (Saga Holidays, Club 18-30) and/or life-cycles/styles (Singles) segmentation.

**Table 8 Expenditure on and number of trips bought from independent and chain travel agents**

	<b>Expenditure (£ bn)</b>	<b>%</b>	<b>Number of trips (million)</b>	<b>%</b>	<b>Average cost per trip (£)</b>
Chains/multiples	6.848	75	17.014	80	402
Independents	2.282	25	4.253	20	537
<b>Total</b>	<b>9.130</b>	<b>100</b>	<b>21.267</b>	<b>100</b>	<b>429</b>
Independents are					
AITO members	0.685	30	1.489	35	460
Non-AITO members	1.597	70	2.764	65	578

Source: Mintel 2001a

Those that specialised in geographical areas or destinations often have some specific linkages to the destination, i.e. many are owned and/or managed by expatriates (for example Sunvil Holidays to Cyprus, Belleair Holidays to Malta). In Europe the main destinations in volume terms covered by independent operators are Cyprus and Greece. Africa however also has a high coverage. Mintel estimates that 20% of AITO members cover Africa, which reflects the specialist nature of some of the independent operators compared to the larger, vertically integrated tour operators (Mintel 2001a). Their specialisation in such areas as Africa gives them a slight lead over larger tour operators who, through economies of scale, may have lost individualism or the ability to specialise in certain types of holidays. One of the few ways by which integrated companies can gain expertise in specialist areas is by acquiring the appropriate specialist, and this remains a danger for many tour operators trying to retain their independent status.

The strong link to a particular destination offered by many independent operators is said to provide a quality product for customers based on extensive product knowledge. It also provides benefits to the destination in that the particularity of the destination is marketed rather than the destination

being standardised to fit into the 4S catalogue. The strong linkage to a particular destination also reduces the risks for destinations to be abandoned by tour operators for less expensive or more fashionable destinations, thus providing greater continuity and security.

A large number of independent operators specialise in particular activities which can range from rather general winter sports and skiing holidays to highly specialised botanical or historical tours. The three main areas of specialisation at the moment are: ski/snow; adventure; and sailing, cruising and diving (Mintel 2001a).

By focusing on customer service and consistency of product, independent operators have in the past been able to secure a loyal customer base. Customer loyalty is of great importance in a marketing intensive industry, which the larger tour operators have not been able to achieve due to largely non-differentiated products, and extremely price-sensitive consumers of mainstream products. Through specialisation tour operators are able to provide a personal and tailor-made service to customers who are becoming more discerning and want to move away from standardisation. Independent operators can provide tailor-made itineraries that suit the individual client rather than supplying a package to suit all. Through consolidation, vertically integrated tour operators provide fierce competition to independent tour operators by controlling airline seat allocation, distribution via ownership of leading travel agents, and ownership of resorts and accommodation. At the same time consolidation has meant that independent operators are able to promote themselves as offering a personal service in niche markets which, due to their size, mainstream tour operators are unable to do (Mintel 2001a).

Specialist tour operators focus on product differentiation, rather than price competition. Products are sold on the basis that they are non-standardised, making them at the same time more expensive.

## **4.2 Operating principles**

As outlined, the specific role of tour operators is the packaging, pricing, marketing and selling (directly or indirectly) of package holiday products to customers in the North. Customers choose to use tour operators rather than organising their holidays independently because it offers a convenient, 'hassle-free', secure and most of all inexpensive way of purchasing a holiday product. Tour operators thus have considerable influence over choices made available to their customers in terms of destination image creation, product design and distribution, and price. Simply put, they can determine which products are bought in the UK at which price and how a destination is sold to customers. Consumers, not able to sample a chosen product before purchase, are strongly dependent on tour operators and their integrated travel agents for advice. This section will briefly look at the key operating principles and the role, and power, of tour operators in the UK in influencing consumer buying behaviour through image creation, product design, distribution and price.

### *4.2.1 Revenue generation – profit maximisation*

As for any company, the commercial objective of tour-operators is profit maximisation. This requires a firm to maximise the difference between long-run total revenue and total cost, and the ability to identify marginal revenues and costs. A key feature of the mainstream tour operating industry are very low profit margins per sale, and a concentration on sales increases, i.e. the volume of passengers carried.

The narrow profit margins of mainstream and fully-integrated tour operators in the UK generally average 2-3%<sup>13</sup> of the total revenue after all expenditures are paid. Holloway (1998) for example

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<sup>13</sup> Federation of Tour Operators website ([www.fto.co.uk](http://www.fto.co.uk))

argued that between 1986 and 1995<sup>14</sup> the profits of the 30 largest tour operators only once exceeded the 3% mark, while in three of these ten years a net loss was recorded. In the case of mainstream tour operators, 50% of this profit comes from summer holidays, 15% from winter holidays and the remainder from selling excursions, insurance deals, and, most importantly, deposits, which according to Cooper et al. (1998) can add an extra percent to overall profits.

The situation is often very different for the smaller operators who do not achieve high volumes but considerably better profit margins. Holloway (1998) argues that some specialists offering a product for which there is little competition can achieve 25% gross profit. A recent study by Mintel (2001a) supports this by showing the following results for a few of AITO's members: Kirker Travel: 28.49% pre-tax profit margin against a turnover of £4 million; Serenity Holidays: 20.62% pre-tax profit, VFB Holidays: 19.93% pre-tax profit; and Ski Peak Ltd with 19.25% pre-tax profit.

In the tour-operating sector, in particular among the large players short-term goals often prevail over a single long-term profit maximisation strategy. Baumol (1977) has argued that sales revenue maximisation often replaces profit maximisation by default. Rather than increasing the profits that are achieved per passenger, the volume of passenger is increased and consequently the competition in the tourism industry is over market leadership and market share. This has traditionally been the case in the UK tour operating industry and there are several reasons for this. Firstly, the mainstream tourism product (i.e. 4S) is predominantly sold on price in a highly competitive industry. Secondly, tourism businesses with relatively fixed capacity concentrate on revenue rather than on profit margins. It is common to apply yield management to earn the highest possible revenue from the optimum mix of customers (Bull 1995). Thirdly, it is common for new products that a series of short-term growth decisions take over from long-term profit maximisation, e.g. high expenditure on promotional activities which are central to tourism products as they cannot be inspected or tested before purchase. Finally, the success of a product is measured in terms of sales revenue and most importantly for the market leadership contenders: the market share.

In order to operate successfully in a price-sensitive and competitive market it is important to keep costs for inputs as low as possible. Mainstream tour operators practice economies of scale and therefore have enormous buying power over suppliers. Mowforth and Munt (1998) argue that TNCs operating in developing countries have considerable control in particular over the accommodation side.

Through vertical integration, a tour-operator can incorporate airline and/or accommodation facilities into their companies and can thus better manage their costs. Lower prices mean greater market share; being a top company means loyalty from suppliers, even at reduced input prices. Furthermore, suppliers are more inclined to work with larger tour-operators, since they are perceived as being less likely to face bankruptcy, but most importantly, they require high volume input.

Costs are kept low by providing only a basic product (i.e. accommodation and transport), the ingredients for which are bought in bulk. Prices for accommodation and transport are flexible, depending largely on demand and the quantity bought. The more beds are booked with a particular accommodation provider, the lower the costs to the tour operator. Mainstream tour operators rely strongly on bulk buying. A destination is included in the product portfolio if a large enough volume can be generated and sold at low costs. Mainstream operators are reluctant to feature destinations where necessary volumes cannot be reached, i.e. a destination is only viable if enough interest can be generated that will allow a tour operator to commit to large volumes thus inducing low input costs.

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<sup>14</sup> Later comparative figures are not available as the CAA stopped recording profits of the leading 30 tour operators after 1995.

#### 4.2.2 Pricing strategies

The whole aim of tour operating is to create a package that is cheaper than a package created by the customers themselves. Limited differentiation among the main operators, i.e. all selling an identical and highly standardised product, leads to very high price sensitivity among customers of mainstream products. The destination is often not of great importance, neither for the tour operator nor the customer. The 3S product that is sold could have taken place equally in Spain, Greece or the Dominican Republic.

Pricing strategies are crucial for both the mainstream market and the specialist holiday market and the price of the holiday product is the most important marketing and sales tool for holidays in the UK (Mounser 1996).

Mainstream tour operators are well aware that tourists have the liberty to make product choices, together with the possibility to renounce the entire trip if something is not convenient for them. This in turn leads to strong competition among tour-operators to attract tourists by cutting prices as low as possible. The 'sunlust' holiday originates from low price policies. Burns and Holden (1995) argue that tour operators have trained their customers to expect and respond to low prices. They state that 'the acceptance of 'allocation on arrival' holidays (i.e. where the tourist books a cheap holiday and is not allocated the actual resort and/or hotel until s/he arrives in the destination) seems to indicate a lack of discrimination on the part of the tourist.' (1995:111).

Customers, and as a consequence tour operators, are greatly influenced by pricing issues. For mainstream tour operators it is extremely important to keep a close eye on the competition as demand for package tours, especially in the off-season and shoulder-season, is extremely price elastic. Changes in the exchange rates will immediately effect tourism arrivals, often with devastating effects for the destinations. Customers might simply switch destinations if they feel that their first choice has become overpriced. The publication of so called 'what a pound buys you in XYZ this summer' by broad-sheets at the beginning of the holiday season illustrates the importance of price considerations.

Exchange rate fluctuations also bring about high potential risks for tour operators who have committed to certain capacities. To protect themselves, hedging or forward buying of currency is used. This however is an expensive process and needs a certain capacity to make it financially viable (Bull 1995). Smaller tour operators can often not afford to buy forward and are thus considerably more at risk from exchange rate fluctuations.

Discounting is a very common strategy employed by tour operators and travel agents to attract more customers and thus increase market share. Discounts are either funded by the tour operator (by raising commission or by providing specific discount funding to the travel agent) or by the travel agent (funding the discount with the commission received from tour operators). Originally, discounting was used to 'dump' seats at the last minute. Prices for holidays were reduced to far below break-even point in an attempt to sell late availability, the scenario being that tourism products are perishable and any unsold bed, flight or package tour can not be stored. Discounting strategies have however changed considerably in the past years. Consumers quickly adopted 'last minute' promotions and became 'late-bookers', with disastrous effects for the industry. Traditionally, summer holidays were booked around the Christmas and New Years period when families had the opportunity to decide together and when the greyness of winter made a few weeks in the sun even more appealing. Today, however, over 40% of all package tour holidays are booked after 1st April. Tour operators thus lost the highly important interest on deposits. As a consequence mainstream operators have introduced a variety of discounts in order to encourage customers to book early. The largest UK tour operators have since the mid-1990s used fluid pricing which means

that prices vary according to competitive pressures, short-term promotional campaigns and over/undercapacity.

Travel agents similarly have tried to encourage more customers to book through their shops with a wide variety of discounts. Lunn Poly, for example, passed on virtually all commission to customers and relied on sales of insurance policies for income. Lunn Poly's action to link the sale of package tours to the sale of insurance policies was subsequently condemned in the mid 1990s by the Monopolies and Mergers Commission. However, all the large travel agents used their overriding<sup>15</sup> commission to pass them on to customers.

Mainstream package holidays in the UK are sold on price. The strong increase in visitors to destinations in developing countries offering a mainstream product (i.e. 3S) is directly linked to them becoming financially available to an increasing number of people. Instead of getting a sun tan in Spain, one only needs to spend a few hundred pounds more to lie on a beach in the Dominican Republic or Thailand. Turkey's success as a holiday destination in Europe, for example, has been its ability to offer a less expensive holiday than Greece and consequently generated high interest by tour operators to incorporate the destination into their mainstream product portfolio. With little product differentiation, the price becomes a major element in the decision making process.

#### *4.2.3 Image creation and product distribution*

Given the fact that the tourism product depends largely on imagery, the marketing and distribution channels that bring customers and suppliers of package holidays together play a crucial role. The image of the product is created by the tour operators' promotional activity in the generating area, frequently with very limited destination input.

The traditional way in which the majority of package tours are sold is the brochure produced by the tour operators. Brochures are expensive to produce and can account for one third of the tour operator's overhead costs. Brochures are trying to sell the product by using imagery, and provide relatively little 'real' information about the individual destinations. Looking at the summer sun brochures of the main operators, for example, incredible similarities not only among the various companies but also among the destinations can be found. The product that is being sold consists of sea, sand and sun (and the occasional sex), the destination matters relatively little. The imagery used in brochures greatly shapes buying behaviour and helps little to aid differentiation between destinations.

Consumers rely strongly on tour operators and travel agents to be able to make 'informed' purchase decisions. Tour operators can determine the image of a destination simply by including it in their main summer-sun brochures. Favourite UK destinations such as Spain, Greece, Cyprus and Malta are known as 3S destinations simply because they are sold as such by tour operators. At the same time the respective governments have engaged in extensive marketing activities since the early 1990s to refocus on destination specific characteristics such as culture, nature and activities. Governments are very aware of the power of tour operators in marketing their countries/destinations and, while highly dependent on the high volumes generated, try to widen the appeal of the destination to attract a different clientele than that being targeted by mainstream tour operators (i.e. less price-sensitive customers).

Integrated tour operators have direct access to the clientele, and are thus able not only to attract bookings, but rather to influence and shape demand and buying behaviour. Although this is very simplified: size matters. Integration between travel agents and tour operators means that it has become increasingly difficult for a consumer to stumble over non-standardised tourism packages

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<sup>15</sup> Overriding commission: extra percentages added to normal commission rates as bonus for preferential agents or 'most favoured customer' if sales targets are reached.

while shopping on the high street. The bulk of package holidays is sold through high street agents belonging to one of the four vertically integrated tour operators, who undoubtedly use these outlets to sell their products. Over 70% of all package holidays bought in the UK are produced by four tour operators, and nearly 70% of these are sold through travel agencies owned by the 'big four'.

Travel agents play a key role in making the holiday products available to consumers by racking brochures of tour operators, thus influencing consumer access to products. This can have a considerable effect on destinations and niche operators. It means that consumers are often likely to be exposed to a relatively small number of operators and a product that centres on standardisation and price competitiveness. Many of the smaller tour operators do not have separate commission agreements with travel agents nor do their brochures ever reach the stage of being displayed in the main integrated travel agencies. Niche operators resort to using independent agents, who generally stock a larger amount of operators' brochures, and who receive the standard 10% commission on sale. However, integrated travel agents take many of the prime shopping locations, while smaller independent travel agents often do not have the financial power to find a location on the high street. The choice for the consumer is thus often restricted to mainstream agents selling standardised products from their parent companies.

However, direct sales of holidays are increasing, and this growth is not limited to the more specialist operators, for whom telephone and internet sales may be better suited as they lack access to consumers through travel agents. Consumers are becoming more adventurous in the types of foreign package holiday they choose and more familiar with purchasing services over the telephone and via the internet. Technological innovation, such as the Internet, is expected to accelerate the trend and may lead to brochures being accessible on-line. This would reduce overhead costs considerably and could carry more information than would be possible in hard copy. Furthermore, it would allow operators to be more flexible and to make changes to prices when needed (i.e. discounts to stimulate booking). The internet is thus a major force and influence on the way in which smaller tour operators can gain an advantageous position over the structural inequalities set by the large travel companies.

It is predicted that the role of travel agents will become far less significant with the establishment of online agents such as expedia.com and lastminute.com, and that their survival will lie in their ability to assume the role of consultants. Similarly, it is argued that tour operators might lose market share to independently made bookings, which has already been seen in the usage of no-frills airlines. For independent tour operators, who have traditionally relied strongly on direct-sell, the internet provides very favourable opportunities for reaching the customers.

#### *4.2.4 Overview: characteristics affecting developing countries*

This section has highlighted the many roles played by tour operators, the rapidly changing structure of the industry, and the considerable influence of large operators. A recurring theme has been the difference between the roles and influence of mainstream operators compared to niche operators. Table 9 therefore summarise the key characteristics of these two types of tour operators. The next section will describe how this affects the implementation of PPT in developing countries.

**Table 9 The main characteristics of mainstream and independent tour operators**

Mainstream tour operators	Independent tour operators
<ul style="list-style-type: none"> <li>• Carry high volumes of tourists.</li> <li>• Have now adopted formerly 'off the beaten track' destinations. More destinations in developing countries are available to more customers.</li> <li>• Apply their marketing powers to destinations where they operate.</li> <li>• Operate on low margins and high volumes. Any swings in consumer demand can lead to capacities being cut with devastating effects for destinations.</li> <li>• Continue to sell mainly on price. Thus loyalty to specific tour operators or to destinations is very low.</li> <li>• Serve customers that are highly price-sensitive and low spending. The bottom end of the market is the first to fall off should a price increase in the host country occur. In recent years all-inclusive developments, and thus the manageability and predictability of holiday expenditure, have become increasingly attractive to this segment.</li> <li>• Tend to channel their clients and market their destinations through travel agents that they own. High Street travel agents remain the first choice for consumers seeking package holidays.</li> <li>• Focus on a relatively standardised and basic product (3S), with little interest in destination specific products and attributes.</li> <li>• Carry large volumes and have thus considerable power of tourism destinations dependent on them for visitors.</li> <li>• Are now introducing less standardised and more tailor-made holiday options, reflecting changing consumer demands and offering possibilities for local suppliers.</li> <li>• Are in full control over their demand and supply structures due to vertical integration, leaving little influence to destinations themselves.</li> <li>• Are frequently preferred trading partners for local suppliers because of the volumes they provide.</li> </ul>	<ul style="list-style-type: none"> <li>• Carry very small volumes (i.e. 10% of the total package tour market).</li> <li>• Often serve 'off-the-beaten-track' destinations to a fast growing consumer segment that desires tailor-made and high quality tourism products.</li> <li>• Have increased their specialisation in recent years and adopted niche products in order to distinguish themselves from inexpensive mainstream operators.</li> <li>• Serve consumers that are less price-sensitive, and higher spending customers. Interest in ethical products is growing and customers interested in ethical tourism are the better-off, sophisticated travellers, using independent and niche tour operators rather than mainstream.</li> <li>• Generally do not use integrated High Street travel agents, but independent agents and direct-sell. Technological advances, in particular the internet, are expected to have largely advantageous impacts on niche operators.</li> <li>• Are highly dependent on local supplies, to the point that this is often their unique selling proposition. They provide a more complex and less standardised product, one that goes beyond simply providing accommodation and transport, by focusing on destination characteristics and inputs.</li> <li>• Generally pay higher prices to local suppliers due to the low volumes they purchase.</li> </ul>

## 5 Tour operators' influence over tourism development in developing countries

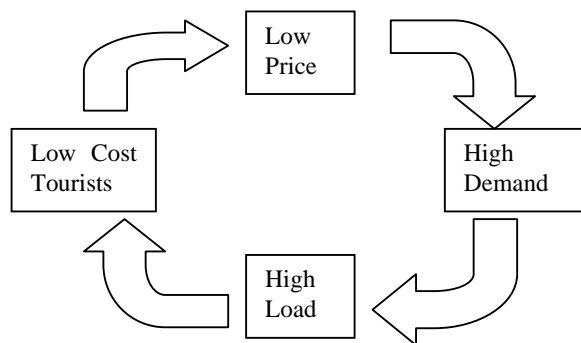
This section will provide a general overview of how tour operators based in the North can influence the potential to implement PPT in developing countries. This will consider firstly the 'power' of tour operators on the macro level as well as the micro level, before discussing the potential role, the potential and obstacles of tour operators implementing specific PPT strategies.

### 5.1 The macro level – tour operators' influence over tourism development in destinations.

#### 5.1.1 Size, path and type of tourism

The major benefit provided by mainstream tour operators to developing countries is that they can significantly increase the volume of tourist arrivals. They put a destination on the map (more literally in their brochures) for a large segment of tourists and thus facilitate access to a destination. This means that once adopted by mainstream operators, a destination will be visited by high numbers of tourists, ideally leading to employment generation, export earnings and economic development. High volumes are necessary for mainstream operators to even consider featuring a destination, and they are achieved by providing low cost holidays. The prices of these holidays in turn are kept low through economies of scale, bulk-buying, and low input prices. The first element, high volumes, does not go without the other, low prices, and vice versa (see figure 11).

**Figure 11 Relationship between low price and high load factors**



Within a price sensitive market, the costs for a holiday determines demand and consequently load factors. This also determines the clientele attracted. Mainstream tour operators are reliant on attracting large amounts of customers to make their involvement in a destination commercially viable. For customers this means that destinations that were before out of their reach are now becoming available. For destinations this means that they will attract a large amount of low-spending customers. Tour operators are able to channel demand through pricing strategies, with important consequences for a destination. Bah and Goodwin (2003) highlight the influence of tour operators in The Gambia by stating that 'as the destination is almost entirely dependent on charter flights of the major tour operators, decision making about capacity is in the hands of the UK based tour operators and their judgement about how many holidays to The Gambia they can sell in any particular year' (2003:9).

For many destinations this means that they can fall into what Butler (1980) described in his destination life-cycle analysis. Destinations are discovered by independent travellers or niche operators where much of the control over the development remains locally. With increasing visitor numbers and the development of facilities and infrastructure, mainstream tour operators become interested and start to channel large-scale visitor loads to the destination. With increased volume and development pressure the destination loses its exclusivity and environmental qualities making it unattractive to high spending tourists. The destination can only be sold cheaply making re-investment in the local infrastructure difficult.

Although this destination life cycle analysis has its critics, it serves well to demonstrate the effects that the reliance of destinations on mainstream tour operators, serving a price-sensitive clientele, has for them. Britton (1982) argues that the standardisation of the tourism package increases the substitutability of one 4S destination by another, decreasing the ability of host countries to gain adequate control over their own visitor industry. With all destinations offering a similar product and little emphasis being placed on what other products a destination can offer, the price becomes a major decision making factor for consumers.

Mallorca in the mid 1980s is a prime example of a destination that was suffocating from its own success until the local government decided to tear down and prevent the construction of further low quality hotels. This reaction against low paying mass visitors was mirrored in many of the traditional Mediterranean destinations, who instead sought to promote low yield/high spending 'quality' tourists.

Mainstream tour operators have considerable control over this development and might not necessarily be in favour of promoting more up-market holidays, simply because their clientele demands otherwise. When in the mid 1990s Malta tried to go more up-market with the construction of several 4 and 5 star hotels, the mainstream tour operators snubbed and refused to include these properties in their brochures: 'we rather include another 3 star hotel in our brochure than have a 5 star and alienate our clientele'<sup>16</sup>. Substantial 'tour operator support' (i.e. financial payments from the National Tourist Authority to the tour operators and/or joint advertising) is often required to convince mainstream operators to include properties and/or products to their programmes, which would otherwise not feature. Lea (1988) argues that 'few opportunities exist for Third World host countries to cut out the intermediaries and deal with their sources of tourist supply directly'.

Destinations, of course, become highly dependent on a few mainstream tour operators simply because of the volume they generate. Take for example a small island state in the Mediterranean with just over 200,000 inhabitants and 1.2 millions visitors annually, of which over 40% book through the four main UK tour operators. Alienating only one of the main tour operators would have severe consequences on export earnings and GDP generated through tourism. Simply put, the prospect of losing high numbers of price conscious customers being offered a better deal elsewhere would ultimately mean low occupancy rates and high unemployment in the destination, not a choice easily taken by governments dependent on tourism. Bah and Goodwin (2003) argue that 'Large non-specialist operators who market sun, sand and sea destinations are free to switch between destinations in pursuit of price and non-price competitive advantages – no hotelier, ground handler, government or informal sector producer of goods or services can afford to ignore this market reality' (2003:36).

The more important tourism is for a destination as foreign exchange earner and contributor to GDP the higher the dependency of governments on this industry. At the same time, the more important tourism is for a destination's economy, the more likely it is that mainstream tour operators based in

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<sup>16</sup> Personal conversation with Mr. Kuno Jaeggi (Thomson Holidays – Purchasing Manager) in 1995.

the North are channelling high volumes of tourists to the destination (e.g. the Caribbean, North Africa and South East Asia).

For a destination this implies that it has to critically assess the type of tourism desired, i.e. one based on high volume, low paying customers, or one based on low volume, high paying customers. These two very different customer segments do not necessarily mix easily. In the past, the success of tourism development was often equated with arrival figures. In the past decade, however, many well established destinations have tried to move away from a focus on volume to a focus on 'quality' tourists. While the progression from an exclusive, low volume destination to a mainstream mass tourism destination is frequently the way in which destinations develop, it is far more difficult to turn back the clock and go the other way. These decisions ideally need to be taken in the early stages of tourism development, and they involve strong considerations to the kind of tour operators supported by destination governments.

If tourism is an important contributor to economic growth and government revenue, then the volume of sales derived from package tours can be an important boost. The development of resort-based tourism can be an important motor of employment creation and infrastructure development. Though coastal areas will not necessarily be the poorest areas, they nevertheless are usually important focuses for economic growth and domestic migrancy and the employment they create can indirectly support rural families. Without mainstream tour operators many destinations in developing countries would not survive simply because infrastructure and local businesses are set up to serve this market. Classical examples are of course many of the mainstream Caribbean islands, Cancun in Mexico, the North African and South East Asian coastal resorts.

However, there are trade-offs. If tourism is developed to meet the needs of mainstream customers, it makes it more difficult to invest in more diverse areas and products, which may have greater involvement of poor and small-scale producers but are less easy to 'squeeze' into highly standardised packages.

The implications for the nature of the product from a growing presence of specialist operators are quite different. They may be very important in the early years of tourism development in locations that were unknown internationally. Thus they can stimulate and influence tourism development, although the number of visitors they themselves provide is often low. Specialist operators are much less likely to make a substantial impact on total tourism volumes. But they may provide an important and growing client base for different types of tourism, including rural, cultural, and adventure tourism.

### *5.1.2 Leakages*

Leakages out of the host destination have been discussed at length as one main element of the critique of tourism in developing countries. Leakages are monies leaving the destination, or never arriving in the destination, as payments for imported goods and services, and most importantly as payments to offshore factor of production. Generally it is estimated that over 50% of all tourist money paid in generating countries either never reaches or leaks out of developing country destinations (Mowforth and Munt 1998:193). While the calculations for leakages vary considerably between writers some often quoted estimates include: 55% of gross tourism revenue to developing countries leaks back to developed countries (Frueh 1980). Even more pessimistic figures are quoted by Pattullo (1996): 70% of leakage on average in the Caribbean; and Madeley (1996): 77% leakage for charter operations to The Gambia.

A general consensus has been that leakages are higher if integrated Northern tour-operators are involved. This is related to the fact that integrated companies frequently own the main elements of the package holiday, i.e. transport and accommodation. Dieke (1989) argues that where developing

countries induce enterprises from elsewhere because they do not possess the necessary resources themselves, than the leakage of factor rewards is inevitable. These include interest payments abroad, and a large amount for expatriate labour.

Leakages induced by imports are a common factor in the tourism industry. Transnational companies often must reflect their connection to their home country through the import of food and drink, the use of hotel furnishings and 'national' decorations. For many hotel chains, for example, the standardisation of the product offered across the globe has been a main selling point, allowing visitors to feel at home even if in uncharted territory. Similarly, the standardisation of the package tour implies that mass market tourists expect certain goods and services which are related to their standards at home. This inevitably leads to leakages. It has been widely argued that leakages are higher for companies relying on a high degree of standardisation such as mainstream tour operators (Burns and Holden 1995). Bull, however, contends that: 'there has been no solid evidence that a MNE subsidiary in a host economy has a higher propensity to import goods and services to run its operation than any comparable locally owned enterprise' (Bull 1995:206). Capital equipment imports tend to be no higher for subsidiaries of foreign companies than they are for locally owned enterprises (i.e. in both cases the taxi is likely to be produced by Mercedes, while the minibar might come from Taiwan).

However, looking at leakage in terms of lost profits and fees, there is likely to be a difference between locally and internationally owned businesses. Bull (1995) showed that only 31-33% of profits remain in the destination when transnational companies are involved as opposed to in excess of 50% for individual, local suppliers.

In the case of vertically integrated tour operators, who own suppliers such as carriers and accommodation providers in the destination, it can be expected that a large amount of the money paid for a holiday remains in, or returns to, the generating country. On the other hand, considerably more money will be retained in the destination if national carriers and local accommodation providers are used, as it is done frequently by small-scale niche operators. Transport and accommodation are the two main cost factors in the package tour, if both are under the control of the tour operator, financial rewards for the destination might be extremely limited. Thus the extent to which leakages occur varies strongly with the kind of tourism attracted and the degree of reliance on vertically integrated tour operators.

Bah and Goodwin (2003) argue that the presence of high leakages is a good indication that there is scope for turning them into linkages, i.e. rather than importing goods and services for the tourism industry in the destination, the opportunity to use local suppliers exists. This of course is a fundamental principle of PPT: to encourage increased linkages between the formal sector, i.e. Northern tour operators and suppliers, formal and informal, in the South. The opportunities of achieving this, but also the obstacles based on industry structures, are well illustrated by Bah and Goodwin (2003) in their discussion of formal-informal sector linkages in the Gambia. They contend that there is currently limited incentive to tour operators and their representatives to encourage linkages with the informal sector, i.e. guides, as this would adversely affect income.

### *5.1.3 Government strategies and decisions*

Governments in developing countries often invite transnational corporations to set-up the industry, in particular resort companies. Some governments in the Caribbean have signed exclusive contracts with resort companies such as Club Méditerranée and Sandals that proved highly beneficial for these companies by restricting competition, and by being able to control the development of tourism in the destination (Bull 1995). Examples of Club Méditerranée as monopolistic provider are San Salvador in the Bahamas and Les Almadies in Senegal. Transnational corporations, especially given size and scale of operation, can put intense pressure on local governments or international agencies

to fund initial infrastructure investments, frequently with limited success. Richter (1989) discusses governmental involvement in South East Asia, while Britton (1987) describes government assisted foreign ownership in Fiji. Burns and Holden (1995) on the other hand, give a less successful account of the Overseas Development Authority's (now DFID) dealings with Club Med in the Turks and Caicos islands in the early 1980s, which, according to them, 'coloured the British government's view on assisting tourism for many years to come' (1995:91).

While many now argue that the host governments bargaining power has grown substantially (Mowforth and Munt 1998) in many, especially developing, countries, transnational corporations are still welcome since the alternative often means 'no development'. Tourism is a notoriously difficult industry given the very different scales in which businesses operate (i.e. from a small-scale bed and breakfast owner to a large-scale multinational operations), and also the very different sectors involved in this industry (e.g. accommodation, transport, attractions, retail). The industry is often far from unified in terms of objectives and goals, which can range from increasing visitor numbers (essential for international airlines), to environmental protection and low carrying capacities (essential for tourism dependent wild life protection areas). The target clientele of a small scale B&B is very different to that of a luxury hotel, similarly cruise companies and local hotels have often contradictory interests. The decision making role of governments is highly political and complex, and industry interest organisations are a necessary requirement. In new destinations these are often non-existent and powerless, making the planning for, and organisation of, tourism development very difficult. Governments and planning authorities like to deal with a few main players. Given capacity constraints in governments, it would be a great challenge to liaise effectively with a myriad of operators. This makes it often easier for a small number of highly organised, and volume generating, tour operators to gain momentum and voice in the planning for tourism. Unless small independent operators are sufficiently organised, and given political support by destination governments, their power will remain limited.

In some countries the tourism industry has a notoriously bad reputation in terms of its contribution to tax revenue. In theory, contribution to revenues of a government committed to poverty reduction should be a major channel for growth to be 'pro-poor'. In practice, few taxable profits are declared, governments often prioritise attracting investors over maximising tax collection, and there is debate over the pro-poor uses of revenue. Where established multinationals are involved as tour operators, the companies may be more observant of correct accounting practices. But they are also, given their structure, more able to shift 'profits' to company components around the world and more likely to be wooed by governments for their investments, possibly through tax-breaks, than castigated for their tax payments. The level of tax breaks and 'subsidies' by destination governments is of course dependent on the tour operators' investment in the country and the expected benefits which are related to size of operation and volumes generated. Large-scale operators are thus naturally more likely to be 'invited' by governments. Smaller operators often do not benefit substantially from government investment incentives.

## **5.2 The micro-level**

### *5.2.1 Local suppliers*

Tour-operators are able to offer highly competitive prices to their customers because of their ability to bulk-buy supplies (Cleverdon 1979). Sheldon (1986) argues that the major economies in tour-operating are in securing large volume discounts from suppliers. In general: the larger the operation, the greater the power over suppliers. Diaz Benavides (2001) argues that 'tour operators frequently exercise monopsonistic power over local tourism suppliers ... since for the latter the servicing of the package tour is a vital means of securing their occupancy rates' (Diaz Benavides 2001: 173). German and British tour-operators are renowned for negotiating extremely cheap prices with for

example Spanish and Greek hoteliers and tourism attractions. Carey et al. (1997) contend that mass-market operators have more influence and power in negotiations based on their superior knowledge of the market compared to local suppliers. 'They are able to drive prices down to compete at home and, thus, reducing the revenues of the destination suppliers considerably' (Carey et al. 1997:429). Mainstream tour operators can simply formalise and internalise the negotiations. Prices are set in relation to the tour operator's marketplace and costing of component services provided by subsidiaries may well reflect group accounting and profit needs rather than those of each subsidiary (Bull 1995). Sinclair and Sutcliffe (1988) argue that this leads to transfer pricing, which is a method of artificially setting prices for each component of the product in a way so as to maximise corporate benefits. It is most often used in minimising tax liabilities, which in turn leads to government moves to regulate it. Transfer pricing and its associated flexible rescheduling of foreign exchange payments to take advantage of exchange rate variations can be a major loss to host economies (Bull 1995:205).

Long-term contracting arrangements (usually over 1 year or season) can provide a considerable risk for tour operators and they try to reduce it by including a number of conditions into formal contracts with suppliers, such as:

- substantial discounts;
- no deposits required;
- payments can be made a considerable time after departure;
- a 'release-back-clause' whereby contracted rooms are returned when not needed by the operator just prior to the booked date without compensation payment.

The final negotiated price depends on factors such as the season and the hotel occupancy rate; the purchasing conditions (i.e. individual, block or time series booking); the volume; and the continuity of the operator's demand (demand in low season is a strong bargaining counter not only for low rates, but also protecting the operator's allocation in high season).

This relative bargaining power of the larger tour-operators over local suppliers secures block bookings at cheap rates. The supplier on the other hand has both the guarantee of demand and the prospect that some customers may return later at full price. As such block buying agreements are vital for suppliers. However, the final negotiation price can be far lower than is needed for maintaining a successful business at the local level. Bull (1995) argues that the inclusive tour sells because it offers a cost advantage to the consumer. In some cases in Europe the consumer can save more than 40%. If tour operators lose cheap input prices they may be less willing to supply visitors. As a result supply may be reduced – the intense competition challenges which result, especially in Europe, have been well documented (Bywater 1992).

Buying supplies 'under price' has of course severe consequences for the suppliers and their ability to maintain a quality product. If limited financial resources are available to reinvest in properties, their operational function might be reduced severely, leading to down-grading and in turn reduced prices. This was observed strongly in Mallorca for example in the 1980s. For a supplier it is a difficult decision whether to rely on secure but low income from a few mainstream operators, or whether to invest considerable risk and negotiation time in trying to form contracts with a larger number of higher paying niche operators.

The power of the supplier of course depends on a variety of factors. These include:

- local infrastructure available and competition among local suppliers;
- the characteristics of the establishment (i.e. the larger in size and lower in quality (i.e. 2 and three star; self catering) the higher the dependence on mainstream tour operators);

- the characteristics of the tourism industry in the destination (mass market destinations will necessarily attract mainstream operators and might be less attractive to niche market operators); and
- the dependency on international distribution chains.

The production advantages for tour operators over local suppliers are: logistical skills and experience in the industry; access to sophisticated technology; wider and cheaper sourcing of staff and physical inputs than locals may obtain; staff planning and training expertise, giving superior techniques of producing and delivering services (Dunning and McQueen 1982). These are likely to provide mainstream tour operators with competitive advantages over local suppliers, especially in developing countries.

While high volume operators rely strongly on large-scale suppliers, the situation is often very different for niche operators. Many specialists differentiate themselves from mainstream operators by sourcing small-scale local suppliers with individual rather than standardisation characteristics.

This offers very good potential for local small-scale suppliers, although of course volumes will be considerably lower. Vertically integrated tour operators who own accommodation stock, ground handlers or other suppliers in the destination are often in direct competition with local suppliers.

Niche operators are more likely to make use of tourism assets in less developed areas, and to include local goods and services in their products. Some may specifically seek to enhance the use of local suppliers and market cultural interaction as part of the product. The nature of their operation, its smaller scale and more remote location, may lend itself to greater use of local supplies. Their clientele is frequently less price-sensitive and the product was chosen because of its specialisation, be it a country or activity specialisation, less simply because it was inexpensive. This clientele is often likely to spend more while on holiday, it also less likely to require 'identikit' destinations.

## **6 Tour operators and Pro-Poor Tourism**

### **6.1 Adoption of PPT by tour operators themselves**

In discussions with tour operators, three reasons are often given for their reluctance to encourage pro-poor practice. These are (1) their lack of responsibility for poverty reduction in destinations; (2) the competitive environment in which they operate; and to a limited degree 3) the EU package tour directive.

Firstly, Northern mainstream tour operators do not feel responsible for poverty in a destination that they use and consequently it is not seen as their role to engage in poverty reduction practices. It is the role of the government to formulate policies to redistribute income from tourism to comply with the country's poverty reduction strategy, not that of a foreign private sector, commercially run, business. Unless the situation in the destination negatively affects the operation of a business venture, or it is seen that strong involvement in poverty reduction measures can be sold as a product attribute, there are understandably limited reasons for tour operators to get involved.

One of the reasons given by tour operators for their inability to implement PPT themselves is that they are often (in particular the smaller operators) dependent on other businesses which supply inputs locally (e.g. accommodation, excursion, catering). It is these others who can have the potential to enhance opportunities for the poor, particularly in relation to employment, enterprise development and training. However, discussions with local suppliers have highlighted the limited room for manoeuvre they perceive to be having, given the purchasing power and expectations of Northern tour operators.

Secondly, mainstream tour operators argue that the competitive environment in which they operate does not allow them to focus on 'non-essential' issues which might induce price increases and thus lead to them losing their competitive advantages. A local hotelier interested in, for example, increased investment in training of local staff would be unable to pass on any increase in costs to the contractor or tourists, in particular if he/she is dealing with mainstream operators demanding basic, inexpensive products rather than superior quality products. Changing consumer demands and an increase in ethical issues in tourism might, however, offer opportunities to increase ones competitive advantage by focusing on PPT. This might be particularly relevant for a small number of tour operators targeting the ethical consumer market.

Thirdly, the EU package tour directive, implemented in the UK in 1992, has according to tour operators consumed much of their attention and resources, leaving little room for other issues. The EU package tour directive was devised to create a level playing field between all EU tour operators in terms of their responsibility towards customers. It is essentially a customer protection regulation that makes the tour operator responsible for all elements of the product sold. Rather than dealing with a myriad of local suppliers when dissatisfied with the product delivered, a customer has now 'one point of call': the tour operator. This has of course meant major investment to protect themselves from being taken to court by disgruntled customers. It simply has become too costly to be negligible.

While several have raised the question whether these 'quality improvements' benefit the local workforce and local suppliers rather than purely protecting Northern consumers, this drive for attention given to local inputs might actually provide increasing training and empowerment opportunities to local suppliers. Discussing The Gambia, Bah and Goodwin (2003) argue for example that tour operators' liability constraints are not as significant as argued by the formal

sector. Although it is feared that this ‘standardisation’ will reduce the scope for ‘non-standardised’ local suppliers to take part in the industry, it can also greatly benefit the standard and thus long-term viability of the industry in a destination. Concerns over standards and quality have been a major deterrent for tour operators to form linkages with local suppliers (see for example Braman 2001, Bah and Goodwin 2003, Holland, Dixey and Burian 2003) and any improvement could certainly encourage more intensive linkage in particular with the informal sector. While many mainstream tour operators have used the EU package tour directive as an excuse for not getting involved in anything else, it remains questionable to what extent this negatively impacts on the implementation of PPT strategies in the long-term. Given that customers demand more and more adventurous and ‘out-of-the-ordinary’ holidays, it seems unlikely that this directive will reduce the offers available to customers. Many independent tour operators, for example, design elaborate contracts with their customers in which it is clearly set out what a consumer undertakes at his/her own risk, thus offering non-standardised products while protecting themselves from liability claims.

Given the enormous potential power of tour operators to influence suppliers, and given the need to ensure that those interested in supporting PPT do not lose their competitive advantage, the main initiatives working with tour operators on sustainable or responsible tourism have focused strongly on supply chain issues (e.g. the international Tour Operator Initiative (TOI) and the UK based Sustainable Tourism Initiative (STI)). While these initiatives are still very much in the development phase, both the largest mainstream operators as well as independent operators have shown strong support, and this shows that these issues are now being taken on board (see box 3).

### **Box 3 TOI and STI**

The **Tour Operator Initiative (TOI)** is a proactive international group working in partnership with the UNEP, UNESCO and World Tourism Organisation (WTO), based in Paris. Some key UK based founding members were TUI, BA Holidays and Andante Travel, with First Choice and Airtours having joined later. The aim of TOI is to encourage the industry to work together, believing that as tour operators they are important and can contribute to sustainable tourism development. TOI encourages tour operators to make a corporate commitment to sustainable development and to make considerations for environmental, cultural and social impacts an integral part of their holiday product. Its aim is to create awareness among tour operators and help them to introduce and manage a sustainable tourism development programme. TOI is working towards improving the environmental, social and other impacts of tourism via integrating policies into management systems. This is to be done by promoting tourism development that respects local cultures and heritage, as well as involving local communities in the planning and operation of tourism developments and protecting the physical environment and reducing pollution, noise, waste and other environmental impacts. The group also aims to create and improve more awareness of the benefits of sustainable tourism to all those involved. The TOI focuses strongly on work on supply chain relationships, which can be particularly relevant to implementation of PPT.

The **Sustainable Tourism Initiative (STI)** is a partnership of over forty organisations concerned with outbound tourism from the UK. It embraces large and small tourist companies, industry associations, NGOs, academic institutions and Government. The Foreign and Commonwealth Office provided £150,000 to set up the initiative in 2001. The aim of the STI is to work together to create sustainable tourism practices. These are practices which, as well as giving enjoyable experiences to the visitor, will also improve quality of life of the local people and protect their environment. Work focuses are: communication with tourists, developing collaborative action within a few destinations, and developing tools that enable tour operators to promote sustainable tourism issues through the supply chain. As of 2003 the STI has evolved into a new non-profit foundation and a new industry-run unit, both promoting sustainable tourism practices.

Corporate social responsibility (CSR) and ethical issues have until recently been neglected by the mainstream. More emphasis was given to ‘sustainable development’, much of which focused on environmental issues. While the accommodation and transport sector has for a considerable amount of time been involved in devising ‘sustainable’ development techniques (again with a strong emphasis on environmental concerns) mainstream tour operators, especially in the UK, were slow to become more strongly involved. Although there are now a number of initiatives and many tour operators pride themselves with having adopted sustainable tourism principles, the tour operating sector lags behind.

## 6.2 Relevance of specific PPT strategies to tour operators

This section follows the framework used for assessing PPT strategies (Ashley, Roe and Goodwin 2001), which focuses on actions in a destination related to economic benefits to the poor, other livelihood benefits, and issues of policy and participation (see appendix 1 for details). It explores the relevance of these PPT strategies for tour operators and whether they can be, and are likely to be adopted. Table 10 summarises the range of PPT strategies.

**Table 10 Types of PPT strategies (see Appendix 1 for details)**

Increased Economic Benefits	Enhanced Non-financial Livelihood Impacts	Enhanced Participation and Partnership
<i>More specifically:</i>		
<ul style="list-style-type: none"> <li>• Boost local employment, wages</li> <li>• Boost local enterprise opportunities</li> <li>• Create collective income sources – fees, revenue shares</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building, training</li> <li>• Mitigate environmental impacts</li> <li>• Address competing use of natural resources</li> <li>• Improve social, cultural impacts</li> <li>• Increase local access to infrastructure and services</li> </ul>	<ul style="list-style-type: none"> <li>• Create more supportive policy/planning framework</li> <li>• Increase participation of the poor in decision-making</li> <li>• Build pro-poor partnerships with private sector</li> <li>• Increase flows of information, communication</li> </ul>

Source: [www.propoortourism.org.uk/strategies.html](http://www.propoortourism.org.uk/strategies.html)

### 6.2.1 Increased economic impacts

#### **Employment and training for poor stakeholders**

One of the main advantages of mainstream tour operators is the size of their operation, and thus the volume of economic activity and employment they can create. Irrespective of any pro-poor focus by them, this is highly significant in a poor area. Beyond this, there is potential for them to further stimulate employment opportunities more targeted at the poor, particularly if they own local operations. This could range from shifting from high dependence on expatriate representatives to locally recruited and trained professionals (albeit not necessarily the poorest); greater use of local guides (potential to include the poor if training and certification is adequately designed); to commitments to enhancing employment levels, conditions and promotion prospects among locally-recruited unskilled and semi-skilled staff. Adaptations to recruitment procedures, such as greater transparency and local consultation, rather than using existing networks, would increase access to the poor.

There may appear to be little incentive for mainstream tour operators to do this, unless there is already a well-skilled (and relatively cheaper) workforce available, or government pressure to do so. On the other hand, international evidence (not specifically in tourism) indicates that TNCs are more likely to adopt good labour practices in terms of training programmes and wage levels (Te Velde and Morrissey 2002) when compared to local employers.

#### **Expanding enterprise opportunities for tourism service providers**

One increasingly important source of revenue for mainstream tour operators is the sale of additional services once the tourist has reached his/her destination. A main feature of the package tour is the introductory evening in the resorts where it is the sole aim of the representative to sell as many excursions as possible. All mainstream operators own ground handling agents in their high volume destinations. Many of these are able to put together an excursion ticket at relatively low costs compared to local suppliers. Low production costs coupled with immediate and direct access to consumers make the sale of high priced excursions very profitable. Mainstream operators are highly

unlikely to pass these opportunities on to local suppliers. Discussing tourism in The Gambia, Bah and Goodwin (2003) argue that ‘the income earned from guided excursions is significant to the tour operators and their managers and representatives as the commissions earned from the sale of excursion programmes are a significant source of income, which supplements their salaries’ (2003:34). This leads to a situation of intense competition among those offering excursions, both within the formal and informal sector, and ‘under current arrangements there is no material incentive for tour operator staff to engage in the development of informal sector linkages, indeed to do so will often adversely impact upon their current earnings’ (Bah and Goodwin 2003:36).

However, with a growing interest in ‘soft adventure’ add-ons and changing consumer demand, there might be great scope to move to an inclusion of indigenous features rather than standardisation. For example, in South Africa, leading hotel chains are working with emerging businesses operating township tours (e.g. of Soweto near Johannesburg, Kailichia near Cape Town).

The situation for niche operators is very different. While mainstream packages do not include excursions, many niche operators specialise in providing special interest tours. Here the excursion to local attractions is one of the main elements of the product, and rather than being seen as an additional profit generator, the package is often designed around these excursions. There is likely to be a high potential for further development of complementary business opportunities (craft production and sale, cultural displays, guiding etc). Niche operators in general do not own ground handling agents, with the potential exception of operators that specialise in geographic locations, and they are thus highly dependent on at least some form of local input.

#### **Expanding enterprise opportunities for input suppliers**

Local supplies of food, building materials, and other equipment are often constrained by problems of quality and reliability of supply. Unless a hotel operator can secure the required supplies in terms of quality and quantity from local suppliers, s/he will purchase from the established formal sector, even when greater distances and higher prices are involved. These constraints are likely to be of greater concern to mainstream tour operators, given the large scale at which they operate, their customers’ interest in a standardised product, and their legal commitments concerning health and safety. Thus establishing new local suppliers of inputs should be possible, but would involve substantial transaction costs and investment in local business capacity. For those suppliers that do have contracts with large tour operators, the scale of business is likely to be very significant. Entrepreneurs providing this input are unlikely to be the poorest of society.

For niche tour operators, the barriers to local procurement may well be less of an obstacle, given the smaller scale and non-standardised product. Indeed local purchasing may be a necessity when for example this forms part of the product or the operation takes place in remote locations.

#### **Raising funds, generating community revenue**

Tourists’ donations for local development may be collected by any tour operator or accommodation provider, whether international, domestic, mainstream or niche. Such a system has been used by TUI for example for environmental protection and was after its initial success institutionalised in that a certain percentage of the holiday costs was automatically been given to certain destinations (Turtle project in Turkey for example).

Other systems of generating community income include equity partnerships, revenue shares, and lease fees for use of local resources. These are more common in rural areas where communities have some ownership or tenure over land or resources, rather than in municipal areas (urbanised or resorts). The operators that get involved tend to be those with long-term destination commitment. Thus, these schemes have more potential in the types of areas served by niche operators, operating in the safari business for example (e.g. Wilderness Safaris has established a large number and

variety of partnerships with local communities). Equity partnerships are, however, often of far less relevance to mainstream UK out-bound operators, who often operate in areas controlled by government/municipalities, and who shy away from destination commitments unless large capacities are committed. That said, governments in destinations could set up planning processes that required financial stakes for resident communities from resort developments.

### *6.2.2 Enhancing non-financial benefits*

#### **Capacity- building, training, empowerment**

Tour operators do invest in training, but training of non-expatriate staff has, to date, generally focused on bringing standards of individual contractors or properties up to those required by the EU package tour directive. It does not focus on training of the relatively poor employees, or on issues relating to socio-economic performance of the enterprise. However, the training facilities and programmes put in place by tour-operators in recent years could be extended to include an increased number of previously disadvantaged members of society, with relatively little additional investment. Investment in training for relatively poor people to access semi-skilled jobs and qualifications such as guiding, could be invaluable. However, there is little incentive for tour operators to do this (unless required by government). In Europe there have in the past been initiatives by which tour operators support local hotel schools and training facilities (such as TUI in Mallorca and Thomson in Malta) but there is no evidence so far that these will actually reach the poorest in the community with a limited existing educational base. These are certainly worth exploring.

Tour operators, whether mainstream or independent, employing local staff, even in low-paid jobs, can indirectly build capacity. Experience in a range of countries indicates that small entrepreneurs who set up their own operations often gained their skills as an employee in the formal sector (Ashley and Ntshona 2002).

#### **Mitigating environmental impacts, managing natural resources**

Tour operators, both mainstream and niche operators, have in recent years done a considerable amount of work on mitigating environmental impacts and it will continue to be a key strategy in future. The emergence of eco-tourism and the generally open and more in-depth discussion of environmental issues have led to the very strong emergence of products that are sold as environmentally sustainable. It seems that all tour operators have taken the word sustainable on board to sell their products. This however has also led to a strong critique of current eco-tourism initiatives, which are perceived as marketing and PR tools rather than product specifications. The industry is well aware that customers increasingly demand an 'environmental focus' and all, from mainstream to niche operators, have taken this on board and many actively promote it.

Much however is focused on the immediate resource base (i.e. a clean beach used by tourists) rather than the protection of the wider natural resource base that does affect the local population. Indeed 'protecting' the resource and using it for tourism may well involve reducing their access to local people. More needs to be done to manage resources in the joint interests of the poor and the operations. This will require more input from government and local people, and a shift in perspective among the operators away from pure conservation, to recognition that the maintenance of the community's resource base, which is often very different to the tourism resource base, can significantly shape the impacts of tourism on the poor.

#### **Local access to infrastructure and services**

Similar principles apply to the issue of infrastructural development, on which large tour operators often have a major influence (either directly through their investment, or indirectly by encouraging/requiring government to invest in services). The improvement of transport, communication or water supply infrastructure can be one of the major benefits of tourism for local

residents. This is an issue on which mainstream tour operators may bring greater infrastructural development benefits than niche operators, given the size of their operation. However, the infrastructural developments at present do often not benefit, or may even exclude the poor. A second issue therefore is whether infrastructure is designed to generate benefits for both the local community and tourism operations. This is a case where incentives or regulations may be lacking, and yet could be highly effective given the potential economies of scale to be had: large pro-poor return could be achieved for relatively little extra investment.

### **Addressing social and cultural impacts**

The high concentrations of tourism associated with package holiday resorts can exacerbate the negative cultural impacts of tourism. On the other hand, concentrating tourism within resorts can be seen as one way of isolating the rest of a country from negative cultural contact (as, for example, on the Maldives, where tourists are confined to the tourism islands and cannot 'spoil' the others). Thus there is no simple correlation between package tourism and cultural damage. Neither is there a clear definition, or even a structured way of assessing, what cultural 'damage' constitutes. It is a very difficult issue and has often been pushed aside because of its complexity.

Minimising cultural damage to host communities or social problems, such as un-welcomed behaviour, drug-taking, crime, prostitution, has been an area of focus on many codes and initiatives, some of which involve tour operators (in particular issues of child prostitution, i.e. ECPAT ). There has in the past been relatively little direct commercial incentive for tour operators to get involved, in fact the German tour operator Neckermann was in the 1980s advertising its Bangkok properties solely to single male tourists, or all-men groups. This is, however, an area where there is significant potential for tour operators to become involved, because of their key role in informing tourists and creating destination images. Many have in the past years incorporated social and cultural information into the basic information that they provide to tourists, and repackaged their marketing images to avoid cultural misunderstanding or encourage social problems. Much more however can be done in particular in terms of educating tourists about the socio-economic situation in the country that they are visiting, and the impacts that their visits can have. This applies both to mainstream as well as specialist tour operators.

### *6.2.3 Enhancing participation, partnerships, and pro-poor policies*

In enhancing the impacts of tourism on the poor, it is important not only to generate direct tangible benefits, such as enterprise earnings, but to open up long-term opportunities indirectly by reforming policy, involving the poor in decision-making, and establishing partnerships between business and poor communities.

This is an area which mainstream tour operators are likely to see as the responsibility of government authorities, and beyond their remit, although niche operators with long-term involvement in a destination may be involved. However, these are issues on which large tour operators can have significant influence, albeit indirectly and more as a constraint than as an active protagonist. Reforming policy content and policy process to be more responsive to the needs of the poor is indeed a matter for governments. The problems arise if governments are so focused on meeting the needs of the mainstream tour operators that they are unwilling to consider pro-poor issues, to deal with trade-offs that arise between needs of the poor and the tour operators, or to take on the effort of explaining to the industry why they are adapting their process or policies. Examples of trade-offs would be over:

- The pace of decision-making: tour operators are likely to want rapid decision-making and implementation, whereas genuine local consultation takes time;
- Who has a say in planning decisions: a one-stop agency with a mandate to encourage investment, or a local planning group involving residents and community representatives;

- The concessions and commitments that are required of investors, for example in relation to their use of natural resources, sharing of infrastructure, or contribution to the local economy. A pro-poor policy would use ‘planning gain’ (government power) to enhance these, whereas a policy to smooth the way for tour operators would not.

Thus in a destination where mainstream tour operators are powerful, or very much sought after, these approaches to pro-poor policy are likely to be constrained.

The situation with niche operators can be quite different, as they may have loyalty to particular communities where they operate. Thus there are cases where small international operators help local communities to make their case to government, or enter into direct partnerships with them (see Braman and Fundación Acción Amazonia 2001). A South African based safari operator, Wilderness Safaris, enters directly into partnerships with communities in several countries in Southern Africa.

### **6.3 Potential for implementation by tour operators**

The preceding analysis of each type of PPT strategy suggests that the main direct impact of mainstream tour operators is currently in the scale of employment they may generate. Furthermore, there are many areas where mainstream tour operators could make a substantial contribution to PPT strategies (e.g. enhancing employment, enterprise, shared infrastructure). However, there are relatively few incentives for them to do so in the current commercial and regulatory climate. The situation for niche operators is quite different – in many cases they can be influential supporters of PPT implementation – because they combine destination commitment with international credibility and marketing links. Their impact, however, will invariably be smaller than that of a big tour operator.

For mainstream operators, there are several reasons why their business approach may be inimical to implementation of PPT:

- Cost minimisation is a top priority;
- Avoidance of risk is a priority;
- Standardisation of product is fundamental to the package;
- Where operators own suppliers overseas, they have little incentive to use local services/providers rather than their own operations;
- Where they operate/own nothing but work through contracted hotels, they perceive little role for themselves in influencing how those contractors relate to residents;
- Lack of destination commitment: when problems arise, they can shift;
- PPT strategies have no marketing value for the average mainstream customer.

On the other hand several factors might encourage large tour operators to implement some forms of PPT strategies:

#### **i) Cost savings**

Tour operators, whether mainstream or specialist, will adopt PPT practices if they can reduce costs. Cost reduction has been the main feature of environmental initiatives in the hotel sector for example. For mainstream operators input costs are crucial, given low profit margins. Any evidence that PPT can lead to reduced costs while the product (and profit margins) are maintained would be a key argument for adopting PPT.

ii) Security and risk avoidance

Tour operators can only operate in secure environments. PPT can help to improve the security of the environment by reducing socio-economic imbalances in the destination. Mainstream operators are highly dependent on a secure environment and generally only feature destinations where this is given. Because of their high volume and generally long-term product planning processes they do need to maintain security for several years in advance. PPT could help to provide a level of long-term security.

iii) Product improvement

PPT can improve the product. Mainstream operators are less focused on quality than on price, they also depend more on standardisation than on providing 'authentic' experiences. But, quality improvements, in particular health and safety aspects, have been a main activity among integrated operators in the past ten years. There is a slight move away from cheapness to value for money, with UK tour operators having to catch up with European neighbours in terms of quality standards of their products. PPT could be included in these efforts.

iv) Corporate social responsibility

Corporate social responsibility (CSR) can be a major impetus for adopting PPT, although CSR is currently not a strong feature among mainstream operators. While many niche operators subscribe to ethical tourism code of conducts, the mainstream operators are so far mainly concerned with environmental issues. A main issue here is the lack of interest of mainstream product consumers in CSR. Some companies, in particularly TUI, have adopted a strong position on environmental issues and some of these structures and practices are extended to include social responsibility. For TUI it is a main selling point, which also functions as a quality improvement and PR tool. It seems likely that more focus will be placed on CSR over time.

v) Consumer demand

PPT will be adopted if demanded by customers, as the case of environmental protection issues has shown. There is little evidence that the customers of mainstream operators are aware of negative socio-economic impacts of tourism for destinations, there is even less evidence that they demand these problems to be solved. This however does not mean that customer demand is not changing, as was shown in recent reports by Mintel and Tearfund mentioned above.

vi) Industry initiatives

Aside from any impetus within individual companies or from consumers, an additional though related source of pressure is the growing number of initiatives by industry or trade associations. The UK's STI, backed by government, the European TOI (co-ordinated by UNEP), and the World Tourism Organisations adoption of 'Sustainable Tourism for Poverty Elimination (STEP, launched in 2002), indicate growing awareness of the need for cross-industry improvements. While these are strongly motivated by environmental concerns and the need to prove self-regulation rather than government regulation can work, they also contain pro-poor elements.

vii) Government requirements or incentives

At present, there are no compulsory ethical standards or rules and regulations for the UK outbound tour operating industry. Most industry rules and regulations in the UK are concerned with consumer protection and health and safety issues and relate to UK consumers, rather than the situation in destinations. There is also little sign of governments in developing countries requiring pro-poor commitments from operators, although there are some examples from South Africa and Namibia, of government requiring commitments from developers and operators of lodges and resorts. Thus this remains an area of future potential rather than current pressure.

The key question is whether pro-poor investments are seen to make business sense to mainstream Tour operators. The strong subscription to the International Hotels' Environment Initiative (IHEI) is directly related to its aim to promote environmental practices as financially wise business decisions. Similarly, discussions of sustainable tourism development have largely concentrated on environmental issues, and on attempts to prevent the resource base on which the tourism industry relies being eroded. The same connections have, however, so far not been made with regard to socio-cultural considerations. The business case for pro-poor investment needs to be made. It is certainly there, in that poverty and insecurity undermine destinations across the developing world, whereas development can diversify and improve the product base for decades to come. The problem is that this case applies at a scale above that of a single operator: while the logic might be undeniable, there is still little compelling reason for one operator alone to adapt practice and risk undermining competitive advantage. Thus sources of change that cut across all operators are important.

## 7 Summary and conclusion

This section first summarises the key trends observed in flows to developing countries and the structure of the UK outbound industry. It then highlights the main conclusions concerning the influence of this on developing country destinations, and the potential for implementing PPT.

- **Great Diversity:** There is great diversity among developing countries as tourism destinations. High volumes of arrivals are received in destinations that have been adopted by mainstream tour operators (i.e. North Africa, the Caribbean, and destinations in South East Asia), offering the traditional tourism product (3S) in an accessible and safe, but ‘exotic’, environment. Other developing countries (i.e. Africa and South Asia) are on the whole not used by mainstream operators, but instead by independent tour operators generating far lower volumes of arrivals. Some developing countries are completely left out, the main reasons being political instability, limited government support for tourism, unattractiveness and un-marketability, and inaccessibility. There is thus no uniform way in which developing countries are hosts to international tourists and this has to be born in mind when discussing tourism to developing countries.
- **Overall strong growth in arrival figures to developing countries:** However, across the board there is strong growth of tourism to developing countries. Tourism flows have shifted from taking place mainly among the developed world, to include a large number of developing countries. Over 40% of all international travel takes place to the developing world. While the main receiving countries in terms on international arrivals are still middle-income countries, the strongest growth rates are shown for low-income countries.
- **Increases in long-haul travel:** In line with global tourism growth figures, UK consumers increasingly show demand for long-haul, ‘exotic’ destinations in developing countries. Although short-haul travel is still the dominant travel choice, long-haul travel has increased over-proportionally.
- **Increasing volumes due to mainstream tour operator involvement:** The bulk of travel from the UK goes to destinations that are covered by mainstream operators. These are destinations in the developing world that offer the 3S product, the extension of the traditional Mediterranean holiday. The mainstream tour operators are particularly important in destinations such as Northern Africa, the Caribbean, and several Latin American and South East Asian destinations. In recent years ‘new’ destinations in South East Asia (e.g. Thailand, Malaysia, Indonesia, Vietnam) and Latin America (e.g. Mexico, Brazil) have become important package holiday destinations all served by UK based mainstream operators. Travel to destinations that are not covered by mainstream operators remains small-scale and in the hands of niche operators. UK based mainstream operators generate high levels of arrivals of individual countries and are thus highly influential in determining tourism flows.
- **Increase usage of the internet:** UK consumers are increasingly buying holiday products over the internet. Strong increases have been seen in particular for short-haul flight arrangements due to the emergence of internet-based low-cost airlines. In terms of package holidays the uptake of internet bookings is still relatively low, but increasing. Research has shown that the internet is a main source of information for customers. New internet travel agents such as [www.expedia.com](http://www.expedia.com) and [www.lastminute.com](http://www.lastminute.com) are challenging existing High Street agents, at the same time independent travellers increasingly buy flights and accommodation via the internet. There is clearly a move away from relying on integrated High Street travel agents towards direct bookings via the internet. Mainstream operators are responding by offering internet booking facilities. This clearly offers high potential for independent tour operators relying on direct sales.

- **Increased ethical consumer behaviour:** Attitudes towards ethical tourism products are slowly changing. An increasing number of UK residents are considering buying holiday products with a strong ethical code. Those showing interest in ethical tourism products are high spending, less price sensitive customers, choosing specialist operators rather than mainstream operators.
- **Price sensitive mainstream customers:** Mainstream operators' clients, the bulk of UK long-haul customers, are still concerned with 'cheapness' and less with the destination, or the situation in the destination, that they travel to. The standardisation of products (in particular 3S products) means that the destination travelled to is often far less important than the price paid for the (interchangeable) 3S product. Demand for mainstream products is extremely price sensitive. For mainstream tour operators this means that only slight price increases can cost market share, on which the industry is highly reliant. Mainstream products are thus sold on price, i.e. a variety of destinations are ranked by integrated travel agents according to price for an identical product (the beach, the sun, accommodation and a flight). Mainstream operators, having direct access to consumers through integrated travel agents, can shape demand strongly through pricing strategies. Through this mainstream operators can generate high volumes, necessary for them to compete for market share.
- **Adaptation of new 'off-the-beaten track' destinations by mainstream tour operators:** There are major differences between the operations and destinations of the largest companies, and niche tour operators. The largest companies focus on high volume, mainstream destinations, while many of the niche operators feature 'off-the-beaten-track' destinations and more specialist products at low volumes. Many developing countries have become mainstream destinations (i.e. Caribbean, North Africa) with high volumes. Others, particularly poorer countries, are only served by niche operators thus face a different context. As such it is extremely important when discussing operation practices of the industry to distinguish between destinations served by large scale integrated companies and those featured by niche operators. However, mainstream tour operators are increasingly including formerly 'off-the-beaten-track' destinations in their brochures. They aim to respond to changing consumer demand that desires more 'exotic' and 'adventurous' holidays. A main trend in recent years has been to add 'soft-adventure' holiday options to mainstream packages. As such, either by acquiring niche operators (i.e. First Choice's acquisition of Exodus in 2002) or by expanding their product portfolio, mainstream operators increasingly expand into developing country destinations.
- **Increasing concentration in the UK and European tour operating sector:** The UK out-bound tour operating industry has seen dramatic changes in recent years. In the past five years two German companies (TUI and Thomas Cook) have acquired the largest European tour operators while further mergers are discussed among the top four UK operators. The top four 'giants' increasingly buy off successful niche operators. 90% of all UK out-bound holidays sold are 'produced' by 12 companies, while approximately 1,500 tour operators share 10% of the market. Four integrated travel agency chains sell over 60% of these holidays. The market share of the top four companies has been increased through integration practices, both horizontal and vertical. All top tour operators in the UK now own airlines as well as travel agents, giving them large control over both supplies and demand. Integrated companies are increasing their passenger volume to developing countries, as well as featuring new destinations in developing countries. Integrated operators compete on price, which in turn forces niche operators to specialise in order to avoid head-on competition.
- **Increasing specialisation among independent operators:** Independent UK tour operators have in the past year increasingly resorted to product differentiation, as opposed to price differentiation, in order to combat the competition from inexpensive mainstream holiday companies. Because they are not backed by economies of scale and do not generate high volumes, independent tour operators often rely on higher paying, less price sensitive customers. Independent operators generally offer a more expensive, quality focused product. Because of their small scale of operation they are also more likely to be involved in selling 'emerging'

destinations, many of which are in developing countries. Generally, although of course there are exceptions, products of niche operators are predominantly sold on product differentiation and quality, less on price. Niche operators are thus less dependent on input cost reduction through standardisation, as mainstream operators are. In fact, the opposite is often true, non-standardisation is a main selling point for many niche operators. Many independent operators specialise in serving geographical areas or particular destinations, which lead to a strong commitment to a certain destination. These operators rely strongly on 'authentic' local inputs. Niche operators play a particularly strong role in the non-mainstream developing countries.

- **Tour operators' main areas of influence over destinations:** Integrated large-scale operators can have tremendous power over tourism development in certain developing countries (i.e. Caribbean, North Africa) simply because of the volume they generate. They control the tourist markets and tourist flow, often with limited power given to the destination. Mainstream destinations in turn are highly dependent on a few large-scale operators. Because of the volume they carry to destinations and their dependence on cheap inputs, they have large influence over sourcing and prices paid to local suppliers. Because of their integration with suppliers (airlines, accommodation, ground handling) mainstream operators are often associated with high leakages. It is assumed that the net income per passenger is far lower than income received from passengers of niche operators. The volume generated is however not comparable. The main advantage to developing countries of mainstream tour operators is their immense marketing power, and the scale of tourism they bring. For a country looking to develop its tourism sector, this can provide a massive boost to the sector, and thus to the scale of local development and employment. However, they also bring disadvantages to national governments and local operators: they are likely to control branding of the destination, have massive negotiating power to demand concessions, low prices, and high flexibility, and have little destination commitment. This can lead to extreme dependency of destinations on mainstream operators and strongly influences the image and product being sold, as well as the price obtained and revenue generated.

Tourism development at the destination level is strongly influenced by tour operators. Tour operators create the image for a destination that is used in promotional activities at home. They can put a destination onto the map and at the same time discontinue featuring it. The big difference in the market position and operating behaviour of mainstream and independent tour operators makes it difficult to generalise about the impact of these structures on developing countries.

Mainstream tour operators have large control over the whole tourism experience due to economies of scale and volume planning, image creation, destination contracting, types of excursion offered, nationality of overseas staff and pricing policy which puts them firmly in control over demand as well as supplies. Should a new destination serve the financial interest of the operator better, the tour operator will move on. This places destinations strongly relying on mainstream operators into a dependence relationship. While mainstream tour operators are often playing a pivotal role in channelling large-scale flows of international tourists to established destinations in developing countries, independent tour operators are often the ones 'discovering' a destination by putting it on the tourism itinerary.

It has been argued in this paper that mainstream operators are crucially important for a large number of destinations simply because of the volumes they bring and business that they generate. Independent operators provide often a far less significant economic contribution, but are often more amenable to PPT measures for several reasons. Independent operators strongly rely on destination inputs and can provide important markets for local products. Part of their product appeal is frequently a destination focus and the inclusion of local products. They are more focused on enhancing product quality rather than price competition, and can also often have a more balanced relationship with suppliers due to the product characteristics and volumes generated.

There are several constraints to the implementation of pro-poor tourism:

- Image creation for a destination is done in generating countries often with limited destination input.
- The holiday product is designed and distributed by tour operators in generating countries, who control demand and volumes.
- Because mainstream operators sell a product, rather than a destination, destinations become interchangeable.
- Mainstream products are sold on price and only a very small price increase might lead to customers looking for alternative products.
- Developing countries with a high volume of tourists supplied via a small number of mainstream tour operators are highly dependent on these operators.
- Similarly, suppliers in the South are often dependent on tour operators that can offer large-scale, relatively secure contacts.
- Demand from mainstream customers for PPT products is so far non-existent, consequently mainstream operators are reluctant to invest in PPT.

On the other hand, the structures of the UK outbound tour operating industry also offer great potential for more encouragement of PPT practices:

- Tour operators have great potential to influence both their customers as well as suppliers and host destination governments to adopt PPT practices – this potential should be built up through continuous engagement with the private sector.
- The current interest of mainstream tour operators in sustainable tourism practices, and the formation of forums such as the STI and TOI, offers potential to introduce industry-wide best PPT practice.
- The increasing specialisation of niche operators offers potential for PPT to be used as product specification and USP, similar to sustainable and responsible tourism initiatives in the past few years.

In conclusion, in most developing country destinations, tours operators, both large and small, play important roles. They pose both challenges and opportunities for the implementation of PPT. Both need to be understood. It is therefore of great importance to work together with the sector. It is also important to understand, and continue to monitor, how changes in the structure of the industry and demand from their customers influence operating practices and the commercial incentives that encourage or constrain interest in PPT.

## Appendix 1 Overview of Pro-Poor Tourism Strategies

Strategies for pro-poor tourism can be divided into those that generated three different types of local benefit: economic benefits, other livelihood benefits (such as physical, social or cultural improvements), and less tangible benefits of participation and involvement. Each of these can be further disaggregated into specific types of strategies.

Strategies focused on economic benefits include:

- Expansion of employment and local wages: via commitments to local jobs, training up locals for employment.
- Expansion of business opportunities for the poor. These may be businesses/entrepreneurs that sell inputs such as food, fuel, or building materials to tourism operations. Or they may be businesses that offer products directly to tourists, such as guiding, crafts, tea shops etc. Support can vary from marketing and technical support (e.g. by nearby mainstream operators), to shifts in procurement strategy, or direct financial and training inputs.
- Development of collective community income. This may be from equity dividends, lease fee, revenue share, or donations, usually established in partnership with tourism operators or government institutions.

In general, staff wages are a massive boost to those few that get them, small earnings help many more to make ends meet, and collective income can benefit the majority, but can often be misused. Thus all three types are important for reaching different poor families. Strategies to create these benefits need to tackle many obstacles to economic participation, including lack of skills, low understanding of tourism, poor product quality and limited market access.

Strategies to enhance other (non-cash) livelihood benefits generally focus on:

- Capacity building, training and empowerment.
- Mitigation of the environmental impact of tourism on the poor and management of competing demands for access to natural resources between tourism and local people.
- Improved social and cultural impacts of tourism.
- Improved access to services and infrastructure: health care, radio access, security, water supplies, transport.

Such strategies can often begin by reducing negative impacts – such as cultural intrusion, or lost access to land or coast. But more can be done to then address these issues positively, in consultation with the poor. Opportunities to increase local access to services and infrastructure often arise when these are being developed for the needs of tourists, but with some consultation and adaptation could also serve the needs of residents. Strategies for capacity-building may be directly linked to creating boosting cash income, but may also be of more long-term indirect value, such as building management capacity of local institutions.

Strategies focused on policy, process, and participation can create:

- More supportive policy and planning framework that enables participation by the poor.
- Increased participation by the poor in decision-making: i.e. ensuring that local people are consulted and have a say in tourism decision making by government and the private sector.
- Pro-poor partnerships with the private sector.
- At the minimum: increased flow of information and communication: meetings, report backs, sharing news and plans. This is not participation but lays the basis for further dialogue.

Implementing these strategies may involve lobbying for policy reform, involving the poor in local planning initiatives, amplifying their voice through producer associations, and developing formal and informal links between the poor and private operators.

Table 11 summarises this typology of PPT strategies

**Table 11 Types of PPT strategies**

Increase economic benefits	Enhance non-financial livelihood impacts	Enhance participation and partnership
<i>More specifically:</i>		
<ul style="list-style-type: none"> <li>• Boost local employment, wages</li> <li>• Boost local enterprise opportunities</li> <li>• Create collective income sources – fees, revenue shares</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building, training</li> <li>• Mitigate environmental impacts</li> <li>• Address competing use of natural resources</li> <li>• Improve social, cultural impacts</li> <li>• Increase local access to infrastructure and services</li> </ul>	<ul style="list-style-type: none"> <li>• Create more supportive policy/planning framework</li> <li>• Increase participation of the poor in decision-making</li> <li>• Build pro-poor partnerships with private sector</li> <li>• Increase flows of information, communication</li> </ul>

Source: [www.propoortourism.org.uk/strategies.html](http://www.propoortourism.org.uk/strategies.html)

## Appendix 2: World Bank country classifications of developing countries

### By area

**East Asia and Pacific (developing only: 23):** American Samoa, Cambodia, China, Fiji, Indonesia, Kiribati, Korea (Dem. Rep.), Korea (Rep.), Lao PDR, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Thailand, Tonga, Vanuatu, Vietnam.

**Europe and Central Asia (developing only: 28):** Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Isle of Man, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia (FYR), Moldova, Poland, Romania, Russian Federation, Slovak Republic, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan, Yugoslavia (Fed. Rep.).

**Latin America and the Caribbean (developing only: 32):** Antigua and Barbuda, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

**Middle East and North Africa (developing only: 16):** Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Oman, Saudi Arabia, Syrian Arab Republic, Tunisia, West Bank and Gaza, Yemen.

**South Asia (8):** Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

**Sub-Saharan Africa (developing only: 48):** Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Dem. Rep.), Congo (Rep), Cote d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe.

### By income

**Low-income economies (63):** Afghanistan, Angola, Armenia, Azerbaijan, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo (Dem. Rep), Congo (Rep.), Cote d'Ivoire, Eritrea, Ethiopia, Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Haiti, India, Indonesia, Kenya, Korea (Dem Rep.), Kyrgyz Republic, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tajikistan, Tanzania, Togo, Uganda, Ukraine, Uzbekistan, Vietnam, Yemen (Rep.), Zambia, Zimbabwe.

**Lower-middle-income economies (54):** Albania, Algeria, Belarus, Belize, Bolivia, Bosnia and Herzegovina, Bulgaria, Cape Verde, China, Colombia, Cuba, Djibouti, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Fiji, Guatemala, Guyana, Honduras, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kiribati, Latvia, Lithuania, Macedonia, Maldives, Marshall Islands, Micronesia, Morocco, Namibia, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Russian

Federation, Samoa, Sri Lanka, St. Vincent and the Grenadines, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Vanuatu, West Bank and Gaza, Yugoslavia (Fed. Rep.).

**Upper-middle-income economies (38):** American Samoa, Antigua and Barbuda, Argentina, Bahrain, Botswana, Brazil, Chile, Costa Rica, Croatia, Czech Republic, Dominica, Estonia, Gabon, Grenada, Hungary, Isle of Man, Korea (Rep.), Lebanon, Libya, Malaysia, Mauritius, Mayotte, Mexico, Oman, Palau, Panama, Poland, Puerto Rico, Saudi Arabia, Seychelles, Slovak Republic, South Africa, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago, Turkey, Uruguay, Venezuela.

**High-income economies (52):** Andorra, Aruba, Australia, Austria, Bahamas, Barbados, Belgium, Bermuda, Brunei, Canada, Cayman Islands, Channel Islands, Cyprus, Denmark, Faeroe Islands, Finland, France, French Polynesia, Germany, Greece, Greenland, Guam, Hong Kong (China), Iceland, Ireland, Israel, Italy, Japan, Kuwait, Liechtenstein, Luxembourg, Macao (China), Malta, Monaco, Netherlands Antilles, Netherlands, New Caledonia, New Zealand, Northern Mariana Islands, Norway, Portugal, Qatar, San Marino, Singapore, Slovenia, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States, Virgin Islands (U.S.).

## Appendix 3 Some key terms for international tourist flows

### **Tourism Definition:**

Tourism is defined as the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited.

The use of this broad concept makes it possible to identify tourism between countries as well as tourism within a country. 'Tourism' refers to all activities of visitors, including both 'tourists (overnight visitors)' and 'same-day visitors'.

The different forms of tourism:

- Domestic tourism: is the tourism of resident visitors within the economic territory of the country of reference;
- Inbound tourism: is the tourism of non resident visitors within the economic territory of the country of reference; the country to which tourists travel is also called receiving country or host country;
- Outbound tourism: is the tourism of resident visitors outside the economic territory of the country of reference; the country from which outbound tourism derives is also called generating country;
- Internal tourism: is the tourism of visitors, both resident and non resident, within the economic territory of the country of reference;
- National tourism: is the tourism of resident visitors, within and outside the economic territory of the country of reference.

### **Definition of international visitors:**

Any person who travels to a country other than that in which s/he has her/his usual residence but outside her/his usual environment for a period not exceeding 12 months, and whose main purpose of visit is other than the exercise of an activity remunerated from within the country visited. International visitors include:

- a) Tourists (overnight visitors): a visitor who stays at least one night in collective or private accommodation in the country visited;
- b) Same-day visitors: a visitor who does not spend the night in a collective or private accommodation in the country visited.

### **Definitions for purpose of trip:**

A classification of main purpose of visit (or trip) by major groups is recommended below. It elaborates on a classification proposed by the United Nations in 1979 in its Provisional Guidelines on Statistics of International Tourism. This classification, which can be used for international and domestic tourism, is designed to measure the key segments of tourism demand for planning, marketing and promotion purposes. The major groups are:

1. Leisure, recreation and holidays
2. Visiting friends and relatives (VFR)
3. Business and professional
4. Health treatment
5. Religion/pilgrimages
6. Other

**Tourism Gross Domestic Product:**

Since total GDP of an economy is equal to the sum of value added generated by all productive activities (at basic prices) plus net taxes on products and imports, it is possible to establish rules for measuring GDP generated by visitor consumption. This is the sum of the value added (at basic prices) generated by all industries in response to internal tourism consumption, and the amount of net taxes on products and imports included within the value of this expenditure.

*Source: [http://www.world-tourism.org/market\\_research/facts&figures/menu.htm](http://www.world-tourism.org/market_research/facts&figures/menu.htm)*

## Appendix 4 Tourism Statistics

**Table 12 The top 50 DAC countries in terms of international arrivals**

Position	DAC country	Arrivals in '000 in 2000
1	China	31,229
2	Russian Federation	21,169
3	Mexico	20,643
4	Malaysia	10,222
5	Turkey	9,587
6	Thailand	9,509
7	South Africa	6,001
8	Croatia	5,831
9	Brazil	5,313
10	Indonesia	5,064
11	Tunisia	5,057
12	Egypt	4,489
13	Morocco	4,113
14	Argentina	2,991
15	Dominican Rep	2,977
16	India	2,641
17	Philippines	2,171
18	Vietnam	2,140
19	Bahrain	1,991
20	Uruguay	1,968
21	Zimbabwe	1,868
22	Chile	1,742
23	Cuba	1,700
24	Iran	1,700
25	Jordan	1,427
26	Jamaica	1,323
27	Costa Rica	1,106
28	Peru	1,027
29	Kenya	943
30	Algeria	866
31	Botswana	843
32	Guatemala	823
33	Nigeria	813
34	El Salvador	795
35	Lebanon	742
36	Azerbaijan	681
37	Mauritius	656
38	Guadeloupe	623
39	Ecuador	615
40	Zambia	574
41	Namibia	560
42	Barbados	556
43	Pakistan	543
44	Colombia	530
45	Oman	502
46	Nicaragua	486
47	Panama	479
48	Venezuela	469
49	Maldives	467
50	Cambodia	466

**Table 13 The fastest growing DAC countries in terms of international arrivals**

Position	Country	Arrivals in 1990 (in '000)	Arrivals in 2000 (in '000)	Growth rate 1990 to 2000 (%)
1	Cambodia	17	466	2,641.18
2	Lao PDR	14	300	2,042.86
3	Iran	154	1,700	1,003.90
4	Myanmar	21	208	890.48
5	Vietnam	250	2,140	756.00
6	Cape Verde	24	143	495.83
7	South Africa	1,029	6,001	483.19
8	Cuba	327	1,700	419.88
9	Chad	9	44	388.89
10	Brazil	1,091	5,313	386.98
11	Nicaragua	106	486	358.49
12	Nigeria	190	813	327.89
13	Micronesia Fed.Sts.	8	33	312.50
14	El Salvador	194	795	309.79
15	Zambia	141	574	307.09
16	Bhutan	2	7	250.00
17	Oman	149	502	236.91
18	Peru	317	1,027	223.97
19	Zimbabwe	605	1,868	208.76
20	Madagascar	53	160	201.89
21	Comoros	8	24	200.00
22	Tanzania	153	459	200.00
23	China	10,484	31,229	197.87
24	Burkina Faso	74	218	194.59
25	Ghana	146	373	155.48
26	Costa Rica	435	1,106	154.25
27	Jordan	572	1,427	149.48
28	Maldives	195	467	139.49
29	Niger	21	50	138.10
30	Solomon Islands	9	21	133.33
31	Indonesia	2178	5,064	132.51
32	Dominican Rep	1305	2,977	128.12
33	Mauritius	292	656	124.66
34	Panama	214	479	123.83
35	Uganda	69	151	118.84
36	Philippines	1,025	2,171	111.80
37	Mali	44	91	106.82
38	Turkey	4,799	9,587	99.77
39	Guadeloupe	331	623	88.22
40	Egypt	2,411	4,489	86.19
41	Chile	943	1,742	84.73
42	St Lucia	141	259	83.69
43	Samoa	48	88	83.33
44	Thailand	5,299	9,509	79.45
45	Nepal	255	451	76.86
46	Malawi	130	228	75.38
47	Bangladesh	115	200	73.91
48	Trinidad and Tobago	195	336	72.31
49	Ecuador	362	615	69.89
50	Central African Republic	6	10	66.67

Source: WTO database

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