

THE RUSSIAN OUTBOUND TRAVEL MARKET

 **EVENTICO** COMMUNICATIONS

SPECIALISTS IN TRAVEL AND TOURISM PR
IN RUSSIA AND THE CIS

Since 1996

Russians' In-Resort Spending Far
Outweighs that of British and German
Tourists

Sept 2008

lastminute.com

Forbes list sees Russian
billionaire numbers double

April 2010

BBC

Morgan Stanley raises Russia GDP
growth forecast

April 2010

Bloomberg

Tui spends \$60 million launching
brand in Russia and Ukraine

03 March 2010 **TravelWeekly**

"Vietnam hopes to attract 100,000
Russian tourists this year, double the
2009 number"

Vietnews

250,000 Russian Tourists Visited
Sharjah in 2009

MENAFN.COM
MIDDLE EAST NORTH AFRICA + FINANCIAL NETWORK

*The Russians Are
Coming, Again*

May 2010

RUSSIA PROFILE.ORG
UNWRAPPING THE MYSTERY INSIDE THE ENIGMA

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Russia: Market Profile

- 142m people
- The 12th largest economy in the world and the 7th largest by purchasing power parity (PPP)
- The largest country in the world covering 9 time zones and 17,075,400 square kilometers
- World cities Moscow and St Petersburg – plus 30 major Russian cities, each with a population of 1 million
- 2009 GDP: \$1,507bn
- \$10,740 per capita GDP
- 7% growth a year from 2000 to 2008. Real incomes increased by 10% a year
- 4.5% economic growth forecast in 2010
- \$456 billion in Foreign Exchange Reserves – the third highest in the world

Sources: IMF, World Bank

Russian Outbound Tourism: Rebounding from the Financial Crisis

Spectacular post Soviet growth...

- Only 20 years ago Russians were banned from traveling abroad. Soviet citizens would holiday inside the eastern bloc – Crimea's beaches; the Baltics; sanatoriums in Poland and Czechoslovakia.
- Staggering growth of outbound tourism in the last decade – driven by Russia's gas- and oil-rich economy, which generated increased prosperity, rising incomes and a strong rouble.
- In 1995 only 2.6 million Russians went on holiday outside the former Soviet Union; by 2006 the figure had trebled, to 7.7 million.
- 2008 was by far the best year ever for Russia's tourism industry. 11.3 million Russians took vacations abroad.

... global financial crisis

- In 2009 outbound tourism declined by 15.5% to 9.5 million.
- 2009 was a very difficult year with family budgets squeezed by salary cuts, layoffs, a weaker rouble and economic uncertainty.

Tourism is rebounding with economic recovery

- Economic growth in Russia looks set to exceed expectations in 2010 and could be as much as 4.5%.
- The number of Russian passengers traveling abroad soared by 38% in the first 4 months of 2010 – rising to an approximately 1.5 million people.
- Intourist, Russia's largest operator, reported a threefold increase in the number of Russians buying travel offers in the first quarter of this year compared to the same period last year.
- The President of Transaero, a major Russian airline, recently forecast that the industry will grow by 10-12% in 2011.

Long Term Trends: The Solid Foundation for The Growth of Russian Outbound Travel

- Only about 15% of Russia's 142 million population have ever traveled abroad – there is **huge untapped demand** for foreign travel.
- Many **new routes** are being added by Aeroflot and Transaero, Russia's two major airlines.
- Peter Long, head of the TUI group, has predicted that the **CIS markets could be as big for TUI as the size of the UK and German business combined.**
- Before the crisis, Russia became **the 9th biggest outbound travel market in the world** in terms of expenditure, according to UNWTO – generating \$22.3 billion in spending abroad and \$34.3 million outbound trips in 2007.
- Russians are **high-spenders**: Russians spend on average \$1,000 per head on their holidays.
- The BRIC countries (Brazil, Russia, India and China) will dominate the next 10 to 20 years of global tourism, **growing twice as fast** as the average country, according to Anna Stupnytska, economist at Goldman Sachs.
- The **massive rise in middle incomes** will create not only growth but also diversification of Russian outbound tourism creating **demand for new destinations and types of holiday.**

Russian State Statistics Service; UNWTO; and the World Tourism Council

Russian Tourists: What They Like

- Russian tourists are adventurous – they are active, sociable and looking for new experiences.
- Destinations with spas, sports facilities and culinary delights are all increasingly in demand.
- Russians are extremely susceptible to ‘novelty’: if a destination is marketed and differentiated in the correct way to the correct audience as the new holiday hotspot, it will succeed in the Russian marketplace.
- They like the reassurance of branded hotels and all inclusive trips.
- Russians book very late – 80% of holidays are sold in the last four weeks before departure.
- 72% of Russian tourists pay for their holiday in cash.
- Warm climates with outstanding beaches but which offer much more: spa facilities and restaurants, combined with the sense of history and culture, all sell extremely well with Russian tourists.
- MICE facilities and corporate hospitality – Russia’s businesses are increasingly global in their outlook and activities.
- Education tourism – significant numbers of Russians go abroad to learn foreign languages and other skills.

Key Segments in Russian Outbound Travel

The Ultra Wealthy

- Discerning and very affluent travellers/HNWIs
- Cash and time rich – multiple trips a year
- Initially hit hard by the financial crisis, but a new class of ultra wealthy has emerged. The number of Russian billionaires increased by 50% in 2009.
- Extremely difficult to reach by marketing and promotions; rarely using tour operators.

Young Professionals

- Even during the crisis unwilling to sacrifice their holidays – travel is no longer a luxury, but a fundamental part of their lifestyle.
- Foreign holidays are a status symbol; destinations which have a prestige factor, with a strong preference for 5*
- Significant disposable incomes – Russia has a 13% flat rate income tax.
- Jetting off for weekend breaks.
- Increasingly adventurous as they look further a field for new destinations.

Emerging Middle Class Families

- A growing middle class eager for travel – they take one or two trips a year and have a greater propensity to spend on leisure activities.
- Family holidays, predominately traveling to sun and beach destinations – often booked at the last minute.
- Very susceptible to marketing and promotions – especially for family friendly offerings, kids' clubs and competitive pricing policies.
- Destinations which have visa-free access or visas on arrival.
- With the recovery of the financial system, banks are offering credit facilities again, including for holidays.
- After the financial crisis, a new frugality is reported: a new appetite for bargain travel offers. More people are booking services separately in a bid to economize.

Recent Travel Trends

- Outbound traffic from Russia fell yet the volume of people taking **premium or long haul holidays** actually increased in 2009.
- A concerted **promotional campaign** reaps dividends. In 2009 Switzerland invested heavily in marketing and received 28.2% more Russian tourists, despite the financial crisis and the perception that Switzerland is an expensive destination.
- Resorts which responded to the financial crisis by **reducing rates** flourished: Montenegro increased Russian arrivals by 27.8% in 2009 while Croatian resorts, which refused to cut prices, saw numbers of Russian tourists plummet by 36.8%.
- **Exchange rates** are a sensitive factor: The USA received 28.6% more Russians in 2009 in part because of an attractive Dollar-Ruble exchange rate.
- Growing and **intense competition from Far Eastern destinations** – new openings, especially in China, are making a strong bid for Russian tourists.
- **Destinations that are safe yet fun for teenagers** are an important growing segment as wealthy professionals look to send their children abroad during the holidays.
- **Destinations with friendly visa regimes** have an established appeal and continue to rank highest on the list of popular destinations: Turkey, Egypt, Dubai and Thailand. Israel and Brazil recently relaxed their visa requirements and saw numbers of Russian tourists soar.

Russian Tour Operators and Travel Agents

- Russian tour operators are relatively new players – most were formed fewer than 15 years ago.
- Global players in the travel industry are eyeing the Russian market opportunity. In 2009, TUI purchased VCO Travel, the second largest tour operator.
- The market remains very fragmented with a large number of very small companies. Over 70% of all tour companies are small and medium-size enterprises.
- Intourist, once the official state travel agency of the Soviet Union, is now Russia's largest tourism agency. Other leading tour operators include Russkiy Express, Lanta Tour Voyage, Coral Travel, Uzniy Krest, KMP Group and Natali Tours.
- Competition is intensifying as second tier tour operators that have survived the financial crisis seek to capitalize during the recovery.
- The largest flight retailers are: S7 Tour, Intourist, Capital Tour and Transaero Tours Centre.
- Most of the biggest tour operators in Russia work with Aeroflot and Transaero airlines. Some tour operators, such as "S7 Tour", have their own internal airline services.
- The biggest tour operators tend to focus on mass tourism and are less specialised in tailor-made tours that are favoured by the consumers in the higher end of the market.

What Works: Promoting a Destination in Russia

- A positive reputation with Russian travel agents is not enough – a destination must be supported by **a structured PR campaign**, which communicates the brand directly to the widest number of Russians who holiday abroad.
- Constant contact with the Russian media – Russian journalists like to feel wanted. **Personal relationships** and regular outreach is vital.
- **Press visits are essential in developing a destination's profile** in the Russian media. For Russian journalists, seeing a hotel really is believing. It is difficult to convince them to write about a property unless they have actually stayed there.
- **Coverage in luxury magazines is at a premium.** During the financial crisis advertising revenues plummeted and the Russian media market is very volatile. In this challenging environment, destinations which are willing to conspicuously spend money are at an advantage as editorial teams are always going to do whatever they can to support their commercial people.
- Russia has **a thriving travel trade media**, including a Russian version of TGG and online industry portals. It is essential to understand the quirks of the trade press to successfully reach travel industry professionals.
- **Proactive outreach to industry partners is rewarded.** Making the effort to exhibit in Moscow and build personal relationships is an investment worth making.
- **Celebrity ambassadors** focus media and consumer attention – a very effective way at raising the profile of a destination, especially fashionable and aspirational resort.

Appendix: Key Russian Holidays

- New Year to 'Old Russian New Year' – the winter break from 31 December to 9 January, when Russians officially have 11 days off and many choose to travel abroad.
- Easter – Russian Orthodox Easter often does not fall at the same time as western Easter.
- May holidays – from 1 May (traditionally International Workers' Day) to 9 May (Victory Day).
- Long summer holidays – Russian schools are on holiday from 1 June until 1 September. August is traditionally the most popular time for family holidays.
- The first week of November, incorporating a public holiday on 4 November, Day of National Unity.



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