

NORDIC TOURISM MARKET INSIGHT

RUSSIA MARKET UPDATE

Russia has for many years been one of the largest outbound markets. This special market insight webinar looks at the impacts of the crisis and of future opportunities for the Baltic region.. What are the opportunities for the Baltic region as Russians look to nearby destinations for their vacations?



Russia has for many years been one of the largest outbound markets. This special market insight webinar looks at the impacts of the crisis and of future opportunities for the Baltic region. We speak to HELENE LLOYD of TMI Consulting and consider the economic impact the crisis has had on outbound travel with feedback from the travel industry, looking at consumer confidence and gaining insights into international travel intentions for the coming 6 months. What opportunities are there for the Baltic region as Russians look to nearby destinations for their vacations?

Invited participants

Helene Lloyd - Director, TMI Consulting, Moscow

The Nordic Tourism Collective partners with TMI Consulting in Russia, an established marketing and communications company. Of British origin with international staff working with destinations and hotel suppliers, providing marketing and PR services in the Russian market.



TMI Destination Experience in Russia & CIS



The NORDIC TOURISM COLLECTIVE AND TMI CONSULTING

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TMI has a number of destination clients and hospitality clients with whom it conducts projects, sales and PR activities.

Hotel Communication & Sales Representation



THE RUSSIAN MARKET

The Russian market is the 3rd largest market to Europe after Germany and the UK in volume of visitors. In 2019 Russians took 45m trips away - the largest destination being Turkey which accounted for 6.8m trips. The Baltics are an important destination and appear in the top three. There are opportunities for the Baltics after CV19 to promote the Baltic region as there will be a change in the perception of where to travel for the Russian market.

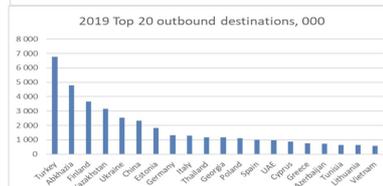
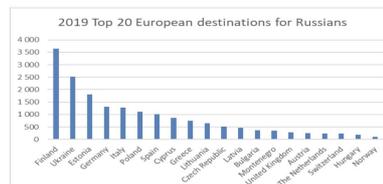
In 2019, the Baltic states were within top 25 outbound destinations for Russians

Total 45 M outbound trips in 2019

Turkey is # 1 destination, 6.8 M

Baltic states are within top 12 European destinations

- Finland 3 653 K
- Estonia 1 808 K
- Lithuania 647 K
- Latvia 462 K
- Norway 111 K
- Sweden 58 K
- Denmark 30 K



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THE ECONOMIC IMPACT

Nearly 32% of people have seen a significant decrease in their income and 10% have lost their jobs. This economic impact will have an affect on how people will be able to spend future income on a holiday.

Economic Impact of Covid-19

GDP

- +1.6% in Q1 2020
- -12% in April
- forecast: -5% in 2020; +2.8% in 2021

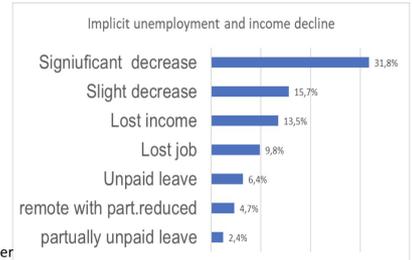
Unemployment, official rate

- 4.3 million in April (5.8% unemployment rate)
- +21% vs. April 2019

54% of companies suspended their businesses

23% organised remote work

Up to 3 million SMEs are on the verge of bankruptcy, however most of business expect to recover within a year



Source: Higher School of Economics report 2 June 2020
<https://dcenter.hse.ru/mirror/pubs/share/direct/369947599.pdf>

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INCOME

Disposable income is expected to drop by 10% in 2020. Retail fell by 25% in April and non-essential spend by 37%. People are naturally reluctant to spend money. Looking at how people plan to spend what money they have then leisure and vacations show the largest reduction at 49%.

We can expect the situation to improve as the lockdowns ease and businesses return to work.travelling

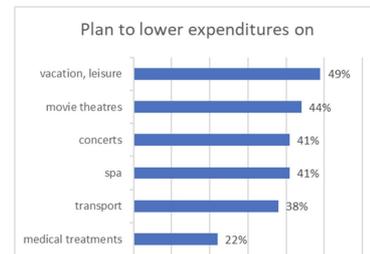
Real disposable income is expected to decrease by 10% in 2020

Real disposable income decreased by 18% in April 2020

Retail sales fell by 23% in April compared to April 2019

- sales of food products fell by 9%
- sales of non-food products by 37%

The volume of services paid by Russians in April fell by 38% compared to April 2019



Source: BCG & Romir research May 2020, 1200 respondents
<https://tass.ru/obschestvo/8653461>

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International flights may reopen 15th July

- Domestic flights started on 1 June
- International flights from and to some European destinations as well as China, South Korea and CIS countries expected to start on JULY 15th
- Aeroflot (flights to Riga, Tallinn Vilnius) and Pobeda (to Riga) offer flights from 1 August; S7 sells Riga from 12 July and AirBaltics – from 6 July

“The Baltic countries will certainly be a priority for them to connect with”

FLIGHT ACCESS AND THE BALTICS

One of the most exciting pieces of news recently is that The Federal Agency for Air Transport (Rosaviatsiya) has met with the Government to agree proposals to open international flights by mid-July. This would be initially to key destinations such as China, South Korea and the CIS countries but it is expected that upto 7 EU countries could also be included on the list.

Aeroflot is already flying to Tallinn, Riga and Vilnius and Pobeda (the budget arm of Aeroflot) has announced it will be flying from Aug 01st. Private airline S7 also has flights scheduled for mid-July as does Air Baltic.



Travel Trade

- Tour operators have heavy financial liabilities € 523 million
- Travel trade is working remotely , many staff works on reduced working week / reduced remuneration
- Tour operators offer deposit vouchers or re-book tours for later dates with guaranteed prices, they do not have to provide a refund.
- Tour operator try to increase domestic packages
- Luxury travel companies report that high-standard offer in Russia is limited and prices have increased dramatically. Premium travellers prefer to wait for international flights to open and shift vacation to August-September
- The Governmental has been encouraging Russian to spend their holidays in Russia, but the start of bilateral border openings with foreign countries on May 30th has created greater optimism among tourists and travel industry experts



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THE TRAVEL TRADE

Tour operators have high liabilities of upto €523m due to cancellations. The Government has agreed Tour Operators could issue vouchers instead of giving refunds and so this has allowed many to avoid bankruptcy. In the last few months we have seen many TOs trying to put together domestic packages but as it looks like the borders will be open from Aug 01st, the interest in doing this has died down. Certainly as far as the premier sector and wealthy Muscovites are concerned, people are holding out for international travel again. Many luxury travel agents are encouraging their clients to wait. The Government's policy is certainly to encourage domestic tourism but at the same time they are looking to open up air corridors, so the message is confused for many.

THE BALTIC REGION

We asked a number of Tour Operators for their feedback about the Baltics. For most, the Baltics are regarded as value for money and not luxury - or at least that is the perception. There is a very different perception for the Nordic countries.

Travellers are becoming more sophisticated and looking to travel independently; particularly the younger traveller and for city breaks where people can now obtain 5 year multiple entry visas, which make city breaks easy to take for just a weekend.

TO Feedback on Baltics



Customer profile

- Perceived value for money destination. Not perceived luxury.
- Increased proportion of independent travelers; young couples for weekend/ few days city-break. Often consult with a travel agent but book themselves
- Segments that use travel agents
 - 50+ with nostalgic memories from soviet childhood, interested in city tours and wellness.
 - Families with kids for sea-side and city tours

Touroperators challenges

- Commercially, not the most attractive destination – hotels somewhat reluctant to provide TO rates / commissions; booking.com or direct rates are often better than TO contract terms
- Difficult to sell 2-week programmes due to higher rates for weekends

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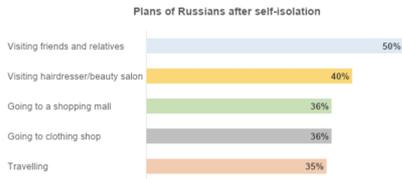
COMMERCIAL CONCERNS

Travel agencies sell mainly to the 50+ market where travellers have nostalgic memories of the Baltics perhaps from their childhood vacations. The main challenge is that for travel agencies they are not the most commercially interesting destinations.

Hotels do not provide special rates and sometimes prices can be more than those found on Booking.com. Because of the high occupancy at weekends, it is difficult to sell longer packages as the prices become too high. Hotels should consider special rates for a 1wk or 2wk package.



35% plan to travel immediately after the quarantine is lifted



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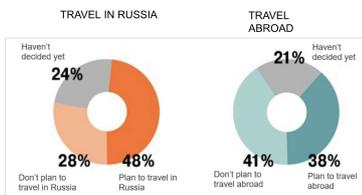
Source: GfK research



THE RUSSIAN CONSUMER

Around 25% have not decided where they want to travel to although 28% have said that they want to travel outside Russia..

Where do Russians plan to travel?



- Travel season to shift to July - September
- Domestic travel is perceived as more realistic

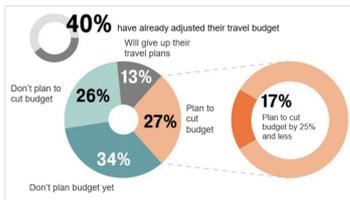
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Source: Kommersant



The travel season has moved though and now extends to July through to October in an extended summer.

26% plan to allocate the same budget to travel as before covid-19



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Source: Kommersant

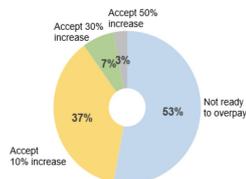


Nearly 40% of people have adjusted their budgets..

34% have not altered their spending plans, 27% have cut their spending plans but 26% are keeping at it as it is - which is not too bad!

Russians expect new safety rules, however, don't want to pay extra for it

- seating scheme in compliance with social distancing
- passengers and air crew to wear masks, gloves and to use sanitizers
- measuring passengers' temperatures before boarding a flight
- no movement within the cabin during flights except for trips to the bathroom
- 53% are not ready to overpay for sanitary measures; 3% allow 50% increase in ticket price



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Most Russians are happy with the measures taken for safety and protection and social distancing but only the upper-end traveller is actually prepared to pay for this.



IN SUMMARY

The bookings for Russian will come, once there is clarity about the borders and the flights. The market is desperate to understand about the new regulations and what borders are open and what are not. There is a lot of dis-information about.

Travel expenditure will drop. The upper segments will continue to spend and travel but they will worry about safety. Some may delay their holidays until the winter or 2021. In fact **many agents are already reporting higher levels of bookings for winter than is normal.**

There will be a greater demand for boutique hotels, serviced apartments and private villas where distancing is easier. Independent travellers will book first but older travellers and families will continue to use agents as this gives security in case of any eventuality and cancellation flexibility.

RECOMMENDATIONS

Tourism authorities need to give precise information regarding quarantine conditions and other restrictions; they must communicate with the trade as dates and terms are changing all the time..

Tourism authorities also need to promote the benefits of the Baltic destinations, they are: less crowded, good value, have good safety measures, well developed infrastructures and good services. Hotels need to update regularly, create special offers and most importantly keep in touch

FOR MORE INSIGHT

The Nordic Tourism Collective and TMI Consulting continue to conduct market research. A regular bi-weekly Russian update can be obtained from TMI Consulting by contacting Helene Lloyd

Summary

- Bookings will recover as soon as there is more clarity on resumption of the international flights
- The market needs an information on the new regulations applied locally and by the destination, information on visa centres reopening and requirements
- Travel expenditure will drop, however upper segment will recover sooner; delayed consumption will help to accept increase in cost of travel should it be the case; people are tired with the quarantine and eager to travel
- Demand to smaller boutique hotels, serviced apartments and villas will increase
- Independent travelers will probably be the first to book. At the same time, people tend to trust travel agents more expecting their higher awareness and relying on their help in emergency situations
- All channels expect price offers and flexibility in the cancellation policy

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Recommendations

- Tourism authorities to update the industry on the regulations and safety measures
- Promote destination benefits:
 - Less crowded
 - Good value for money
 - Safety and security, developed infrastructure and good service
- Private sector:
 - update travel trade on what measured do you undertake to provide health safety
 - Special offers and cancellation flexibility
 - "Keep in touch" rather than "hard sell"
 - Focus on the key USP's relevant in the Post-Covid -19 tourism era, especially on the safety aspects for the premium Segment.

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SOME QUESTIONS AND ANSWERS

How big exactly is the Russian 'high-end' market?

It's quite big as a percentage compared to other European countries. Our best estimate is that it is between 5%-10% of the overall market - so say 5% of 45m travellers. The market is famous for its high-end; all the top resorts in Italy and Greece for example are targeting the Russian premier sector. But the segment is becoming more sophisticated and follows the jet-set trend rather than the Russian trend. They travel a lot and are a lot more environmentally aware (if that's not a contradiction!)



"The main challenge or opportunity for the Baltic States is that they are not highly promoted in Russia. Everyone knows where they are as neighbours but there is no focus at all on the premium sector."

Can you give an indication of the average spend for flights and accommodation for instance?

The upper segment spends between €3,500-€50,000 per person. There are a lot of people looking for unique experiences and tailor-made vacations and adventures. If we disregard the ultra-high-end then the average is probably around €2,500-€3500 pp.

Russia is not particularly known for its position on sustainability, but have you seen any demand for environmentally friendly products?

Some. There was huge outrage about the most recent oil-spill and what we have seen when promoting environmental products in Greece and other countries is that there is huge engagement from the Russian media and Russian operators. The market has moved on - it's still behind most of Europe but is adapting fast.

Russia has had a bumpy ride of the last 20 years. How resilient is the Russian market? When the borders open, how will we see the Russians return to travelling again?

Russia has had many ups and downs but it is a very resilient market. This is regarded as just 'another dip'. Relatively speaking Russia has not been emotionally affected as much as some other countries that have seen decades of economic stability and continuity. People are ready to travel. The premium sector has been stuck in their Dachas' and are desperate to travel again. The Baltics are seen as reliable, nearby and safe - they have had an exemplary record in dealing with the crisis - and they can even be visited but car!.

Russia does have some sophisticated resorts, particularly on the Black Sea, but people want a change of atmosphere - they want to go away from home. There will be demand. It may not be at the same levels as before but it is a big market!

Please give us a couple of tips. If you are a supplier in the Baltics, how would you engage with the Russian market?

If you want to engage directly, then social media is the best. But to gain a real impact, it's best to team up with a media partner. If you are marketing to the travel trade, then reach out to them, reach out to your partners and provide them with the information they need. Call them, engage and communicate!

