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Understanding tourists' economizing strategies during the global economic crisis

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HIGHLIGHTS

- First time economizing strategies are modelled.
- A two-stage generalized structural equation model is used.
- The most popular strategies are reduced length of stay and cheaper accommodation.
- Age and climate of the region of origin are the key determinants.
- A country analysis of the economizing strategies is also provided.

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ABSTRACT

This paper explores how tourists from 165 regions of EU-27 countries cut back their tourism expenditure during the global economic crisis in 2009. Cutbacks in tourism expenditure are divided into two mutually related decisions: Firstly, whether or not the tourists decided to cut back on tourism expenditure because of the crisis; and second, which of six options they employed as their cut-back strategy: "fewer holidays", "reduced length of stay", "cheaper means of transport", "cheaper accommodation", "travel closer to home" or "change the period of travel". The econometric model used to address these kinds of simultaneous decisions is an adaptation of the Heckman model within a generalized structural equations modelling approach. This methodology controls for sample selection bias and correlations between equations. This paper highlights patterns in cutback decisions that are associated with the socioeconomic characteristics of the household and the climate in the country of origin.

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1. Introduction

Since 2008, the EU-27 has been in an economic downturn. According to EUROSTAT, between 2008 and 2012, real GDP growth decreased on average by −0.16% and the unemployment rate increased from 7.6% in 2008 to 10.6% in 2012. The effect and consequences of the economic crisis differed according to country. On the one hand, between 2008 and 2012, countries like Germany grew by an average of 0.8% and even reduced its unemployment rate from 7.5% in 2008 to 5.9% in 2012. On the other hand, countries like Spain or Greece experienced a strong economic crisis (a reduction in real GDP from −0.92% in 2008 to −4.34% in 2012) and have shown a strong increase in the unemployment rates during the last years (from 11.3% in 2008 to 25% in 2012 and from 7.7% in 2008 to 24.3% in 2012 for Spain and Greece, respectively). The economic crisis also triggered debt crises in Greece and Portugal and banking crises in Spain, Ireland, and Cyprus.

At the microeconomic level, this downturn had a strong effect on individual disposable income and thus on total consumption. Under these circumstances, tourism consumption is especially sensitive to tourism expenditure cutback decisions because of its high income elasticity (Lanza, Temple, & Urga, 2003; Smeral, 2012).

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According to Riley, Ladkin, and Szivas (2001), tourism activity relies on forecasting changes in demand to correctly match supply decisions. Thus, anticipation is key to success in tourism activity. Tourism managers and policymakers need more information on how to react during economic crises. Nonetheless, there is a lack of suitable indicators and information about tourism behaviour during economic crises (Bronner & Hoog, 2012, 2014; Sheldon & Dwyer, 2010; Smeral, 2010). The consequences of this lack have already been studied in the literature. According to Okumus and Karamustafa (2005), neither the Turkish government nor tourism enterprises were able to deal with the economic crisis they experienced in 2001. O'Brien (2012) pointed out that the lack of interaction between the government and the private sector explains why the tourism sector in Ireland is not growing, whereas other European destinations have already returned to growth despite the economic crisis."

To date, tourism managers and policymakers have mainly based their analysis on arrivals and expenditure. As shown in Fig. 1, in 2008, tourists immediately adjusted their expenditure to the crisis, whereas the number of arrivals continued to grow. As the crisis persisted, tourists began to cut back on arrivals but increased expenditure. Finally, since 2010, both arrivals and expenditure have fallen sharply. Although arrivals and expenditure depend on each other, the majority of studies have not simultaneously analyzed the relationship between arrivals and expenditure. Arrivals affect expenditure but expenditure may vary for other variables such as length of stay, cheaper accommodation, cheaper means of transport, closer to home or period of travel, among others. Thus, a better understanding and analysis of the mutual relationship between demand and supply could help to determine which aspects of the changes in tourism expenditure are due to changes in arrivals and which are due to changes in prices.

Thus, this paper provides a detailed analysis of the issue of arrivals and expenditure at a microeconomic level, thereby providing an approach to macro variables. This paper focuses on the factors that underlay household tourism expenditure cutback decisions and how these decisions were implemented during the global economic crisis in the European Union in 2009. Thus, cutbacks in tourism expenditure were divided into two mutually related decisions: whether or not the tourists had decided to cut back and, if so, what cutback strategy they had used. Regarding the former, household expenditure could be the natural variable to use (for example, see Melenberg & Van Soest, 1996). However, tourism household expenditure could have varied for several reasons, some of which may have been unrelated to the economic crisis. To avoid this potential bias, a binary response variable was used as an endogenous variable: firstly, individuals were asked if they had decided to cut back on tourism expenditure because of the crisis; and secondly, if they had cut back, they were asked to provide information on which of six options they had employed as their cutback strategy: "fewer holidays", "reduced length of stay", "cheaper means of transport", "cheaper accommodation", "travel closer to home" or "change the period of travel". Table 1 shows how these alternatives could have affected arrivals and tourism expenditure. For instance, the decision to cut back by taking "fewer holidays" may affect both arrivals and expenditure, but "cheaper transport" or "cheaper accommodation" may only affect expenditure.

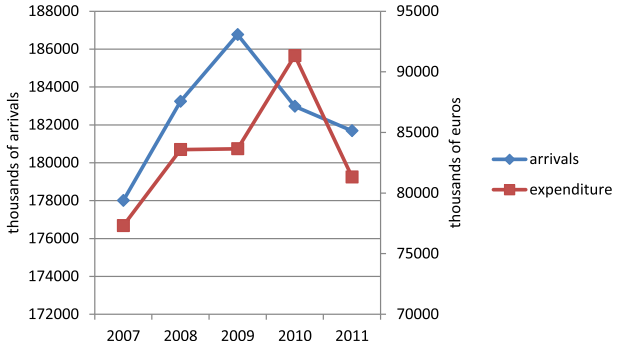

Fig. 1. Tourism arrivals and expenditure EU-27.
Source: Eurostat and WTO.

Few studies have investigated how tourists redistribute their tourism expenditure during an economic crisis. For instance, Eugenio-Martin and Campos-Soria (2014) analyzed cutback tourism decisions but not the way these decisions were distributed. Alegre, Mateo, and Pou (2013) divided tourism decisions into two aspects — tourism participation and tourism expenditure — but did not distinguish between different kinds of tourism expenditures. From a macroeconomic perspective, Frechtling (1982) analyzed travel characteristics during the crisis in the USA in the 1980s. Variables such as "duration", "round trip distance" or "logging nights" were analyzed. As far as we know, the studies by Bronner and Hoog (2012, 2014) are the only ones that address cutback tourism decisions from a microeconomic perspective according to the geographical range of the crisis and its depth. Both papers are focused on the Netherlands. On the one hand, Bronner and Hoog (2012) predict that, under a moderate economic crisis, tourists opt for economizing strategies such as booking a cheaper accommodation or taking another means of transport (coined as slicing strategies). On the other hand, Bronner and Hoog (2014) confirm that, as soon as the economic crisis persists, tourist opt for giving up the vacation (pruning strategies) rather than slicing strategies. However, both of them present an important limitation since data includes holiday plans and intentions instead of actual behaviour. As Sheldon and Dwyer (2010, p. 4) stated: " … Our lack of knowledge about possible consumer responses to the crisis places great impediments in the way of forecasting its effects on the industry. Thus, consumers may spend less, and travel less, but to what extent they shift to other products, reduce debt, or save more is not known. Typically estimates of income elasticities of tourism demand are based on long-term upward trended data and are not applicable to longer and very deep recessions (Smeral, 2012). The degree to which tourists switch to closer destinations, domestic destinations, shorter lengths of stay, or "trade-down" (e.g., lower-cost carriers, lower-standard hotels, business class to economy) are also an important research areas."

The econometric model used to address the simultaneous decisions "cutback" and "how-to-cut-back" is an adaptation of the Heckman model (Heckman, 1976, 1979) within a generalized structural equations modelling approach. The aim of this approach is twofold. Firstly, this methodology controls for sample selection bias and correlations between equations at the micro level (the "how-to-cut-back" decision is only observed if the individual

Table 1
Relationships between the kind of cutback according to arrivals and expenditure.

Economizing strategies	Arrivals	Expenditure
Fewer holidays	X	X
Reduced length of stay		X
Cheaper transport		X
Cheaper accommodation		X
Closer to home	X	X
Period of travel		X

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