

CABI TOURISM TEXTS

2nd Edition

Strategic Management in Tourism

Edited by
LUIZ MOUTINHO



STRATEGIC MANAGEMENT IN TOURISM, 2ND EDITION

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CABI is a trading name of CAB International

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A catalogue record for this book is available from the British Library, London, UK.

Library of Congress Cataloging-in-Publication Data

Strategic management in tourism / edited by Luiz Moutinho. -- 2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-84593-588-7 (alk. paper)

1. Tourism--Management. I. Moutinho, Luiz. II. Title.

G155.A1S68 2010

338.4'791--dc22

2010026877

ISBN-13: 978 1 84593 588 7

Commissioning editor: Sarah Hulbert
Production editors: Tracy Head, Simon Hill

Typeset by SPi, Pondicherry, India.
Printed and bound in the UK by Cambridge University Press, Cambridge.

CABI TOURISM TEXTS are an essential resource for students of academic tourism, leisure studies, hospitality, entertainment and events management. The series reflects the growth of tourism-related studies at an academic level and responds to the changes and developments in these rapidly evolving industries, providing up-to-date practical guidance, discussion of the latest theories and concepts, and analysis by world experts. The series is intended to guide students through their academic programmes and remain an essential reference throughout their careers in the tourism sector.

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Students at all levels of study, workers within tourism and leisure industries, researchers, academics, policy makers and others interested in the field of academic and practical tourism will find these books an invaluable and authoritative resource, useful for academic reference and real world tourism applications.

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Preface

Here we are with the second edition of *Strategic Management in Tourism*. It has been a long time, and I would like to apologize to the adopters of the book. Nevertheless, the long wait has meant that the second edition has been able to be designed in terms of new insights, updated concepts and a new articulation of themes.

Part I is now an enlarged element of the text and combines an analysis of the new tourism environment, economic development, tourism forecasting and new trends in tourism. Chapter 1 is reinforced not only by analysing new trends in tourism but also by placing a lens on the new business environment. I also very much welcome a new team of co-authors – R. Ballantyne and S. Rate. With this new team of co-authors, Chapter 2 brings in a new set of concepts and paradigms that are changing the face of the tourism industry. This is a brand new chapter. Chapter 3 is also a new addition to the book, co-authored by three new contributors and led by a prominent scholar in the field. It brings in a much needed appraisal of economic development in tourism. New co-authors have added the application of fuzzy time series to the chapter on tourism forecasting (Chapter 4).

Part II now involves consumer behaviour, strategic innovation, distribution channels, human empowerment, operations management, as well as two new chapters on financial management. Chapter 5 contains new material on consumer behaviour in tourism with a new set of contributors. A whole new chapter is added to the book tackling a very important and 'refreshing' topic – strategic innovation management in tourism (Chapter 6) – by a new contributor, Anne-Mette Hjalager. Another new chapter by Enrique Bigné covers the transformation of distribution channels (Chapter 7). Human resources issues are transformed into human empowerment and are encapsulated in Chapter 8 written by new contributors Jithendran Kokkranikal, Jonathan Wilson and Paul Cronje. Operations management in tourism (Chapter 9) has been revamped and updated by Geoff Southern. Two new chapters on financial management (Chapters 10 and 11) have been added with a new co-author – James Wilson. The new Chapter 11 focuses on the financial impact of tourism marketing.

Part III deals with strategic vision and management in tourism. Chapter 12 combines the areas of strategic planning and performance management. Once again, S. Rate and R. Ballantyne are the new co-authors. Chapter 13 is another brand new chapter on eTourism

strategy, authored by the tourism supremo Dimitrios Buhalis. Chapter 14 is yet again a new additional chapter authored by Geoff Southern, covering the critical area of process-based management in tourism. Finally, Chapter 15 is the last novel addition to *Strategic Management in Tourism* and this chapter, written by E. Parra-López, V.Y. Estevez and M.M. Navarro, discusses international strategies in tourism. So, as you can see, apart from updating all the chapters, this new edition contains ten brand new chapters out of a total of 15! It is almost a totally new text.

As a final word, I would like to thank all of those academics who have adopted the book for their classes, as well as the book translations (e.g. into Macedonian and Croatian).

I sincerely hope you enjoy reading and using this brand new edition of *Strategic Management in Tourism*!

Finally, I would like to profusely thank Sylvia Kerrigan for all her help, dedication and friendship over many years, including putting together this text. Furthermore, I would very much like to thank my commissioning editor at CABI, Sarah Hulbert, for all her patience, understanding and assistance related to the completion of this new edition of *Strategic Management in Tourism*.

Many thanks, of course, to all the contributors and my co-authors. You have done a splendid job! My very best to all of you.

Luiz Moutinho
Glasgow, April 2010



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chapter 1



The New Business Environment and Trends in Tourism

Luiz Moutinho, Ronnie Ballantyne and Shirley Rate

Understanding the business environment is pivotal to the formulation, development and maintenance of successful management strategy. The new business environment is constantly in flux, ever changing and dynamic in nature. The already rapid pace of change is accelerating – prompted and amplified by a variety of interrelated factors including technological innovations, consumer expectations and the rise of competition. Moreover, although the recent economic downturn coupled with regional uncertainties has impacted upon consumer spend on tourism products the world's economic and social climate is generally predicted to produce a strong increase in tourism over the next 10 years. New markets will emerge due to changing economic conditions, modified consumer behaviour and new technologies. The composition of the tourist population will alter, with increasing proportions of senior citizens, for example. There will be greater emphasis on individual and self-determined holidays and on educational and active recreational pursuits. On the one hand, increasing environmental awareness will affect planning policies and tourist demand. On the other hand, nature, which is the critical resource of tourism, will become more scarce and fragile. An ecological and more sustainable long-term approach to tourism planning is postulated. This chapter provides a rationale for appropriate frameworks to better understand this complex and challenging arena.

Successful new strategic tourism planning initiatives will require that decision makers not only understand historical and contemporary trends and movements in the business environment but will require the ability to predict new key emerging developments and shifts – this will lead to the development of innovative and effective strategies. This chapter then covers recent and probable future trends in tourism. The aim is not to present a definitive picture of developments over this period. It is far more important for this scenario to help the planners concerned with tourism to come to terms with future changes than merely to describe future conditions. Thus, we must examine any distinguishable and important trends with a view to

answering the question: 'What decisions have to be taken now or in the coming years to make adjustment to these trends possible and in good time?'

In terms of the tourism arena, the relationship between the providers of tourism and travel services and the marketing environment in which they operate is unique. For most other businesses, the boundary between the company and the 'world outside' is distinct. For manufacturers, there is one world within the factory gates, and another beyond them. For most service providers there is a distinct location at which the service encounter takes place and can be managed. Changes in the world outside will affect such companies together with their customers and their competitors; but usually, with a little planning and some juggling of the marketing mix when necessary, the effect of external change can be diluted enough to allow most businesses to continue 'as usual' within their own four walls. In contrast, within tourism, the service encounter with a customer can occur within a journey which stretches from one side of the globe to the other and back again. The whole planet is the 'factory floor' of the tourism industry. While for other industries factors such as the physical environment or culture of a region may influence the nature of demand, they are a vital component of the **tourist** product itself. For tourism and travel providers there is no place to hide from the turbulent and unpredictable world in which we live (Gee *et al.*, 1994).

The special relationship between the tourism industry and its marketing environment means that the depth of understanding needed concerning the influence of the environment goes far beyond that which suffices for many other industries. The external environment of any industry contains a myriad of interdependent factors which need to be somehow separated out and categorized to make analysis of them possible. One of the simplest but most enduring frameworks for this analysis is the PEST framework which prompts companies to consider Political, Economic, Social and Technical factors which may affect their company. This is a traditional methodology and is rather a broad-brush form of analysis which, although adequate for industries less vulnerable to environmentally related disruption, is scarcely adequate for tourism providers.

To fully understand the new business environment, a more comprehensive approach is required. It is proposed that a new framework which better fits the nature of the tourism industry is applied to tourist environments. SCEPTICAL analysis considers environmental influences in terms of:

- Social factors
- Cultural factors
- Economic factors
- Physical factors
- Technical factors
- International factors
- Communications and infrastructure factors
- Administrative and institutional factors
- Legal and political factors

This framework provides a more robust structure for understanding the complex business environment in which tourism providers operate.

Each of these categories may be the source of changes which present tourism operators with significant opportunities and threats. As with any form of environmental analysis, the difficult part is not in seeing what is happening in the world beyond the industry's doors. The real challenge lies in disentangling the elements of threat from the elements of opportunity within the changes in the wider world and in distinguishing the temporary 'blips' from the

significant environmental shifts. Finally, and above all, it lies in deciding what to do in the face of a changing and uncertain environment.

SOCIAL FACTORS

Tourism is essentially a social phenomenon and, although like all industries it is influenced by the society in which it exists, tourism is unusual in that it involves a large-scale, if temporary, transfer of individuals between different societies. This can create social change of both a temporary and a longer-term nature. Anyone who has visited Paris regularly will know that the city's character changes radically in August, when vast sections of the Parisian population go on vacation and are replaced by a mass influx of tourists. In other industries, customers and their needs shape the nature of companies' marketing strategies and the product offerings. In tourism, customers and their needs can actually shape the society which they visit.

Demographic change

Currently some 78 million people are added to the global population each year. There are now around 6 billion people sharing the planet, and many population experts predict that this will increase to at least 8–10 billion (some time between 2020 and 2050) before global growth stabilizes. The startling reality is that over 90% of this growth will be in developing countries. As the populations of North America, Europe and Japan grow relatively smaller and older, the rest of the world is increasing rapidly and is getting younger. Very soon over 80% of those between 15 and 24 years of age will live in developing countries; in contrast, in Western Europe, one in three adults will be over 55. This 'developing countries boom–developed countries bust' demographic scenario has a wide range of societal, economic and environmental implications, and also significant implications for tourism. In particular for tourism marketers:

1. Global demographic changes must be reflected in planning and decision making with respect to the design, development, delivery and utilization of tourism facilities and services.
2. There is a need to encourage and support research to evaluate the needs of the growing population of older people worldwide. Mass market tourism has grown up with the assumption that the majority of its potential customers are relatively young, active and healthy. Demographic change will inevitably shift the age profile of the customer base, and may require substantial modifications to facility design, tour packaging and event organization. It may also require new initiatives to link tourism services to other services such as health care requirements. The level and nature of demand for tourism and travel are currently being affected by a number of demographic influences, discussed below, most of which seem set to continue or intensify in the foreseeable future.

The democratization of tourism

One of the most important demographically related changes is the 'democratization' of tourism. On a global scale, the socio-economic categories applied to individual nations become relatively meaningless since there are effectively two social groups: (i) the enfranchised members of the consumer society; and (ii) the disenfranchised poor (Durning, 1992). For the poor of the world, travel is usually undertaken for survival, and tourism is not an option. Among consumers, the opportunities for tourism have spread widely. The global economy is evolving in such a way that each of the industrialized nations has a solid, prosperous 'middle-class' core

population. That in turn is being joined by significant middle-class populations in virtually every other country of the world. This middle class is relatively well educated and prosperous, and increasingly has discretionary money for recreation and leisure. In countries such as India or Indonesia, this middle-class 'crust' is quite thin, but its absolute numbers are large enough to offer plenty of potential tourism business. So, although many in the world are excluded from opportunities for travel and tourism, a process of 'democratization' of tourism is under way as it reaches many new consumers.

Global urbanization

Global urbanization is another significant demographic shift starting in the 20th century, and one that has a variety of effects for tourism providers. In 1950 there were around 600 million city dwellers. United Nations (UN) Population Fund estimates suggest that by 2030 more than 60% of the population will live in urban areas. Formerly rural countries such as India, parts of Latin America and Africa are rapidly urbanizing, throwing off-balance their farm economies and wreaking havoc on physical and social support systems. The millennium begins with around half of all humanity residing in urban areas; UN figures suggest that they are increasingly living in 'megacities' of over 10 million people. The number of such cities has grown from two in 1960 to 17 today and is projected to reach 26 by 2015, 22 in less-developed regions and 18 in Asia.

This rapid urban influx of millions in search of work does not provide ideal conditions for tourism services and resources. Resulting increases in congestion, pollution, poverty, unemployment and crime can all have a significant impact on the demand for tourism. Relatively affluent tourists traditionally have not been taught to notice or understand the economic realities of poverty around them (as witnessed by the contents of conventional travel guides and literature). Will tourists themselves demand a better understanding of the life that lies so close to their luxury hotels and beaches? Will they wish to be educated as well as entertained? Perhaps instead they will simply try to stay away from the megacities with their 'belts of human misery' that make well-to-do visitors feel unsafe and uncomfortable.

The outflow of people from rural areas typically contributes to the stagnation of local rural economies which has the effect of increasing the pressures for tourism development to compensate. Many rural areas are seeking to integrate tourism with more traditional rural activities such as farming. Certain government policies are now providing economic incentives for citizens to move back to the countryside. Tourism will aid this redistribution by offering more travel experiences in rural and out-of-the-way places as yet untapped for their tourism potential.

CULTURAL FACTORS

Research carried out in several countries, in particular a large-scale study by the Stanford Research Institute in California, USA, indicates that there is a clearly defined trend away from an 'outward-directed' lifestyle towards 'inward-directed' and 'integrated' values. Several recent studies indicate that 'post-materialistic values', in other words, growing non-materialistic needs, environmental care, diminishing concerns about career, prestige and status, etc., will gain in importance. In effect, the classic 'It's all about me' philosophy of consumption is increasingly being challenged by 'it's all about us', for example volunteerism and 'giving back'. Within traditional product-based marketing we are witnessing an ever-growing trend towards

societal marketing whereby the corporation and the brands it represents wish to be perceived as wholesome and caring – this is a key trend that has been mirrored and will also continue to grow in the consumption of tourism-related products. A process of rehumanization and philanthropy is replacing the pursuit of physical beauty, material possessions and hedonism. Increasingly, we are witnessing the rise of altruistic consumption where more consumers experience a change or shift in ‘awareness’ or indeed consciousness. In response to this we will see the rise of voluntary simplicity: a move towards a way of life that is outwardly simple and inwardly rich, a trend towards simplification in lifestyles. After many years of being oppressed and obsessed with acquiring things, a large population segment has grown tired of this and may be ready to slow down and simplify. New luxuries will become time and simplicity, ‘stillness’ and peace of mind – intangibles like purpose, meaning, fulfilment and quality of life are gaining importance. These intangible luxuries are a response to the longing for an island of calm in a turbulent world. This movement will need to be reflected in the type of tourism products offered.

It must be stressed that classic materialistic lifestyles will not vanish, but an increasing polarization between exponents of material and non-material values is likely to take place. At the other end of the spectrum, uber premium or ‘ultraluxe’ will continue to develop. The rise of a global elite should ensure that the ultraluxe will grow and grow. These status-craving consumers are hunting down the next wave in uber-exclusive goods, services and experiences that are truly out of reach of the masses now that massclusivity has commoditized all but the most luxurious products on earth. Recent emerging examples of ‘ultraluxe’ include Virgin’s out-of-atmosphere flights or Dubai’s seven star luxury hotels with underwater suites.

In terms of the masses, there is a strong trend leading away from standardization towards an ever-greater diversity in lifestyles inciting new approaches to life and recreation and the rise of customization in tourist product offerings. The limits of mass tourism are recognizable not only from the quantitative but also from the qualitative point of view. The following trends are apparent and are probably of a long-term nature:

- Further increasing differentiation and pluralization of demand.
- The emergence of new specialized markets and market segments.
- A decrease of physically and culturally passive forms of vacation in favour of more active pastimes, such as high adrenalin, fantasy adventure or thrill-seeking activities and a shift towards maximizing individual liberty in recombining elements to produce custom-made holiday packages (modular product design). This has been mirrored in the shift and evolution of the travel agent towards travel adviser – offering expertise and counselling.
- The growing need for non-standardized services and individualized tourist behaviour is directly linked to the quest for self-determination (emancipation) and ‘do-it-yourself’ or ‘maxi marketing’ whereby customized, tailored solutions are developed for the individual – this is a key trend that is likely to accelerate and intensify.
- The advanced level of travel experience in the population, which goes hand in hand with more selective, critical and quality-oriented approaches to individual holiday planning as well as growing sophistication of demand and rationality of choice.
- An increasing desire to relate to nature, to gain first-hand experience and to engage in active pastimes (e.g. hobby holidays, trekking holidays, farm tourism).
- Higher levels of environmental consciousness and sensitivity to the quality of life in general.
- The increasing effort to learn, which often manifests itself in serious attempts to get to know foreign cultures.

The suppliers of tourist services will increasingly offer service packages that directly address specific customer problems and provide travellers with more opportunity to shape their holidays as they wish. Activities, experiences, participation and learning will all be key elements in the future. Adventure holidays, sports and health trips, sabbaticals and learning holidays will all become more popular. This desire for the experiential will give rise to a new tribe of consumers – ‘transumers’. Transumers are consumers driven by experience instead of the ‘fixed’ traditional tourism offerings, driven by entertainment, by discovery, by fighting boredom, increasingly living a transient lifestyle, freeing themselves from the hassles of permanent ownership and possessions. The demand for ‘soft’ forms of transport and tourism, including ‘back-to-nature’ activities, will show a marked increase. An increasing number of tourists will look for a holistic type of recreation, in search of an ‘overall balance’ of body, soul and mind. More and more travellers will define their concept of a ‘rich holiday’ in terms of the depth rather than in terms of the diversity of their travel experiences.

Not only will the worldwide travel market itself be characterized by an ever-greater range of possible types of travel and destinations, but substitutional competition will also continue to increase. The range of alternative uses to which free time can be put is constantly expanding, a trend which is likely to continue over the next 20 years. Apart from travel, these options can be characterized by leisure within the home or in the vicinity. Of particular interest are the Internet and gaming pursuits. Also leisure-oriented design of living space, children’s play-grounds near to dwellings, public leisure facilities in residential areas, centres or leisure parks, green belt areas around cities will all be central to current education and further training. To a certain extent, and an ever-increasing one, life is becoming a permanent learning process owing to the rapid rate of change in professional structures and technologies. The spectrum of educational facilities and opportunities is being continually enriched, even though the educational and professional routes are being further formalized under the direction of public institutions. Nevertheless, there is a clear trend towards the pluralization and liberalization of education and training in general, thanks to private initiatives. This applies to all levels, from primary school to university, but especially to training in specific technologies, skills or professional profiles. Schools of the future will not be institutions for imparting knowledge so much as integrated centres for education, culture and leisure. Leisure time will be used much more for productive purposes, in which context the following variants are relevant:

1. Paid work to increase disposable income.
2. Home-based production, which means not only a greater degree of tasks ‘delegated’ by industry to the consumer (such as collecting, assembling, repairing and maintaining products) but also increased production of an agricultural or handicraft type. This type of production is often carried out on a community basis.
3. Sociocultural involvement: this category includes all types of social, political and cultural involvement. The social cooperation networks, which even today are expanding rapidly and which in 20 years are likely to supply a significant proportion of social services, are a prominent example.

In view of the expansion of the ‘informal’ economy and a certain shift, for technological reasons, of professional activities to the traditional domicile, the boundaries between leisure time, work and living are becoming increasingly hazy. Innovations in the Internet, wireless laptop technology and mobile phone technology and the continuing convergence of technology platforms (e.g. the Apple iPhone ‘Apps’) allow for a ‘flow society’ – the 21st-century consumer has increased flexibility to work and play while on the move. Also, the individual will have more opportunities to arrange his or her working hours and leisure time as required.

Reinforcing that, there are increasing signs that a shift away from a work-obsessed lifestyle is becoming a significant trend – time is the new currency. Flexitime, job-splitting, job-sharing, individual arrangements regarding holidays and pensions, etc., will become more commonplace. There is a growing recognition of the value of cultural diversity (possibly a reaction to globalization and increasingly cosmopolitan societies). Parallel with this recognition is a desire to maintain and foster the special and unique characteristics of ethnic groups and host societies as a fundamental principle of tourism development and promotion.

ECONOMIC FACTORS

Tourism as an industry can and does have significant impacts on an economy's growth. For governments, foreign exchange earnings, income and employment generation are the key drivers of economic growth which influence and encourage investment in the industry. However, the growth of the industry is reliant on a number of factors.

Global economic conditions

Disposable income level is the economic factor seen as the most important, but other economic factors are also important. Tourism expenditure has been shown to be affected by levels of employment in service industries and links have been made between tourism expenditure and house prices. Shifts within the global economy will appreciably influence the level of tourism and travel demand, particularly within the triad of major world markets, the USA, Japan and Europe, home to the majority of the world's tourists. Thus, the strength of these economies, their currency and stock market volatility drives the conditions for global tourism.

Inevitably, demand and production of supply are highly dependent on the conditions of the global economy. As mentioned, global economic downturns tend to have a direct impact on expenditure on personal travel and tourism. Recent economic pressures have resulted in many countries, including emerging markets, experiencing a contraction in tourism demand.

Under such conditions, world trade declines, travellers cut costs by choosing to holiday in their own countries for shorter periods of time. This has produced a new form of holiday type – the 'staycation' whereby consumers are utilizing leisure and tourism services close to or indeed in the home. Alternatively, consumers will choose international destinations with the most attractive exchange rate. Thus international demand particularly suffers. Nevertheless, predictions for the growth of the global tourism industry are optimistic. According to the World Travel and Tourism Council (WTTC) the industry will experience a steady phase of growth, 4.4% per annum to 2018 at which point the industry will represent 10.5% of global gross domestic product (GDP) supporting 297 million jobs. They forecast an 86.5% increase in personal travel and tourism expenditure in the decade to 2018 (WTTC, 2010).

Yet currently in developed countries the economic perspective is generally one of greatly decelerated growth and plateauing disposable per capita incomes. The desire to travel in these countries is approaching saturation levels and sensitivity to price levels is therefore increasing. The limits to tourist expansion are already detectable. Furthermore, the problems of the major world markets, higher fuel costs and increasing demands to address fossil fuel consumption and climate change will persist in challenging growth in an energy-reliant industry. Despite this, emerging countries will continue to expand, both as tourism destinations and as traveller markets, thus it is these regions which will contribute to overall growth. Africa, Asia Pacific, in particular China, and the Middle East are experiencing higher growth rates than the world