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Europe — A single leisure market

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Abstract

This paper is based on a Henry Stewart conference speech given by the author. It explores the leisure market in Europe, and in particular assesses market variations among European countries.

‘PEOPLE ARE DIFFERENT HERE’

For those involved in the leisure industry, Europe is not a single market, it is a group of markets — markets that are at different stages of development and offer different levels of potential. The diversity of Europe is rich and observed on many levels, such as language, culture and history; the differences can be political, ideological, social, behavioural and economic. Not only are these differences observed nationally, but also often regionally and in some cases locally.

However, while there are many differences and nuances that differentiate markets, there are far greater similarities across European markets and throughout Europe. Regardless of nationality, people go to work, shop, eat out, visit the cinema and like to have fun with friends and family. While people may eat at different times or like different types of sauce on their fries, fundamentally the similarities are huge. These similarities are leading to a proliferation of leisure, retail and mixed-use developments across Europe. However, the rate of development is not even, as different economies, populations and regulations make for differing markets and therefore development opportunities.

This paper examines European leisure in terms of its proliferation in retail, cinema and theme-park sectors, and looks at major European markets and assesses market maturity and potential.

EUROPE’S BEST

To examine the relative strength of each of Europe’s main countries for leisure development, four criteria were considered — total population, population density, GDP per head and international tourist numbers. The figures were weighted on a five-point scale and the weighted scales combined to rank the countries’ attractiveness as leisure markets. In line with general importance to leisure and tourism developments, international tourism received the highest weighting, followed by population size and GDP; population density received the lowest weighting. Although this is a

Differences

Similarities

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Few surprises

somewhat simplistic analysis, it does allow one to compare markets that have very different characteristics.

As shown in Table 1, the analysis of Europe's leading markets holds few surprises. The leading economic powers on the continent are the most important for leisure and tourism markets. France ranked as Europe's top market, with its huge tourist market outweighing Germany's slightly higher figures in the other three categories. Italy and the UK were very similar markets, with Italy's greater tourist market just giving it the edge, and Spain's combination of large population and tourist numbers compensates for the relatively low GDP levels.

Below these top five, there is a greater diversity in individual areas, but a closer score once the four factors are combined.

EUROPEAN PATTERNS

This big picture analysis is all very well, but it only scratches the surface. To consider the various markets in more detail, it is necessary to look at individual sectors and the differing market conditions that exist in the various markets.

Looking at a number of leisure and retail facilities across Europe it is clear that behaviour patterns vary across the continent. Similarly, the relative maturity of the various leisure industry sectors differs from country to country.

Regular v destination

The author considers there to be two types of leisure facilities. Regular leisure facilities are those that people visit on a regular basis such as cinemas, restaurants, sports clubs and nightclubs. Destination leisure facilities, on the other hand, are those that are visited occasionally, such as theme parks, zoos, museums and historic houses.

The pace of development of retail, regular leisure and destination leisure facilities across the various European countries provides an indication as to their relative strength and maturity.

Table 1: European country ranking

Rank	Country	Population (000s)	Population density (000/km ²)	GDP per capita (US\$)	No of tourists (000s)
1	France	58,470	104	26,300	66,864
2	Germany	82,060	230	28,280	15,837
3	Italy	57,380	190	20,170	34,087
4	United Kingdom	58,540	238	20,870	25,960
5	Spain	39,610	77	14,490	43,378
6	Switzerland	7,250	175	43,060	11,077
7	Belgium	10,130	333	26,730	5,875
8	Austria	8,100	93	27,920	16,646
9	Netherlands	15,610	381	22,887	6,674
10	Denmark	5,260	122	34,890	1,815
11	Luxembourg	420	160	41,000	715
12	Norway	4,400	13	36,100	2,702
13	Sweden	8,860	19	26,210	2,386
14	Poland	38,690	119	3,590	19,514
15	Finland	5,140	15	24,790	1,828

Source: *The Economist* and Economics Research Associates

Retail benefits

In general, as an economy grows, retail is the first beneficiary as people seek to improve their standard of living. Regular leisure facilities follow this retail development. Historically, the progression has taken some time, but the pace is increasing. However, many Central and Eastern European countries are seeing retail and regular leisure development occurring almost simultaneously.

Thirdly, and only once the economy has developed to a point where there is sufficient disposable income among the population after basic needs have been taken care of, destination leisure facilities develop. Of course there are museums and cultural attractions in all countries, but the development of commercially driven destination leisure facilities needs a large middle-income market with disposable income; and that is yet to develop in Central and Eastern Europe.

RETAIL SPENDING

Retail is one of the first markets to grow as an economy improves. This was seen in Spain and Portugal in the late 1980s/early 1990s, and the same thing is occurring in the former centralised economies of Central and Eastern Europe, where people now have an increasing amount of disposable income and are seeking to improve their quality of life. This is driving increases in retail spend ahead of leisure spend in these markets.

In terms of retail spend per head, Luxembourg is Europe's biggest spender, followed by Switzerland — countries with the greatest GDP per head. In the majority of Europe's principal economies, annual retail spending accounted for between US\$3,000 and US\$5,000 per head in 1997, as shown in Table 2. In Spain, which has become an important leisure market, retail spending was significantly below this level at approximately US\$2,100. Although this is relatively low, retail spending there has increased significantly more quickly than in the majority of other European economies between 1990 and 1997, reflecting the growth in the Spanish economy over the period.

In line with GDP

The greatest levels of retail spend are generally in line with GDP levels, with residents in the most affluent countries spending the greatest amounts. The average retail spend across the sample was equivalent to around 15 per cent in 1990 and close to 17 per cent of the GDP per head in 1997.

However, again there is considerable variation in Europe, with Italian residents spending almost 25 per cent of GDP per head on retail goods, while the Austrians, Swedes and Belgians are relatively miserly when it comes to retail spending. The major increase in Polish spending and the relationship between retail spend and GDP per head are symptomatic of the evolving economy, and it should be noted that actual retail sales are far lower than the other top 15 European economies. Polish spending levels are likely to decline proportionally in future, as the cost of housing and other everyday essential expenses rises.

Table 2: Retail spend and GDP per head, 1990 and 1997

	Retail sales per head		Retail spend as % of GDP	
	1990 (US\$)	1997	1990 (%)	1997
France	4,023	4,690	17.0	17.8
Germany	4,122	4,241	17.9	15.0
Italy	3,298	5,019	17.8	24.9
United Kingdom	3,014	4,119	16.2	19.7
Spain	1,371	2,095	10.9	14.5
Switzerland	6,082	6,005	14.6	13.9
Belgium	2,629	2,780	11.1	10.4
Austria	2,903	3,531	12.2	12.6
Netherlands	2,808	3,632	14.8	15.9
Denmark	3,566	5,036	12.0	14.4
Luxembourg	5,401	7,453	25.2	18.2
Norway	3,349	4,681	12.0	13.0
Sweden	3,009	3,147	12.1	12.0
Poland	271	1,186	8.3	33.0
Finland	4,010	3,875	17.1	15.6

Source: *The Economist* and Economics Research Associates

Retail spend increased throughout the majority of the top 15, with the greatest annual growth in Poland, followed by Spain and Italy, both of which saw annual increases in retail expenditure of 6.3 per cent.

Ireland fastest

CONSUMER SPENDING GROWTH

Between 1985 and 1995, the greatest increase in Europe in consumer spending was seen in Ireland, which is ranked as Europe's 19th best economy according to these criteria. Consumer spending in Spain, Austria, the UK and Germany followed, increasing by approximately 30 per cent. Several other economies in the top 15 achieved growth in consumer spending in excess of 20 per cent, including the Netherlands, Italy, France and Belgium.

CINEMA

The cinema market has seen dramatic growth in Europe in the 1990s (as shown in Table 3), due primarily to the success of the multiplex cinema. While there is often a difference in terms of film product from country to country, the multiplex cinema format is typically similar.

While the visits per head and numbers of screens do not directly correlate with the economic ranking, the countries with the greatest populations and GDP per capita have seen the strongest growth in the supply of cinema screens.

Supply led growth

What is clear is that the development of new screens has led to increased visits in almost every country. However, those countries with the largest number of cinema screens are beginning to see a slowing in admissions growth, signifying a maturing market. By comparison, some of the smaller countries, which the multiplex

Table 3: Cinema visitation and screens

	Annual visits per head		Number of screens	
	1994	1998	1994	1998
France	2.15	2.90	4,291	4,764
Germany	1.60	1.81	3,763	4,244
Italy	1.66	1.96	2,209	2,619
United Kingdom	2.12	2.29	1,883	2,589
Spain	2.28	2.85	1,930	2,997
Switzerland	2.33	2.24	485	518
Belgium	2.10	2.49	437	497
Austria	1.62	1.88	384	424
Netherlands	1.04	1.28	423	461
Denmark	1.98	2.08	314	331
Luxembourg	1.82	3.34	17	21
Norway	2.68	2.61	394	393
Sweden	1.82	1.79	1,177	1,167
Poland	0.60	0.50	759	841
Finland	1.10	1.24	326	331

Source: Media Sales

boom has passed by to date, appear to offer greater growth potential.

Although the European average is roughly 2.2 cinema visits per year, there is considerable variation — from Luxembourg's relatively strong demand of 3.3 visits per person, to the Polish population, which visited the cinema only 0.5 times per person in 1998. However, this is changing and the leading Polish cities have seen considerable interest from international cinema operators, despite the relatively low income levels in the country.

Between 1994 and 1998, 11 of the 15 markets studied recorded positive growth in the number of cinema visits per head. The greatest increase was achieved in Luxembourg, where annual growth was 16.4 per cent over the period. More modest but above-average growth was achieved in France, Spain, the Netherlands, Belgium and Italy. The average growth among the 15 markets was just under 3.5 per cent each year.

The number of screens in countries throughout Europe is increasing. Across the continent the total number of cinema screens rose from close to 19,000 in 1995 to almost 22,000 in 1998. Among the 15 markets studied, the number of screens increased in all but Norway and Sweden, which remained static markets.

Between 1994 and 1998, the Spanish cinema industry grew rapidly, with the number of screens increasing by an average of 11.6 per cent per year. By the end of this period the number of screens in Spain had increased by more than one-third.

In fact, growth in the number of screens was strong in the five top-ranked countries, all of which had well-developed cinema markets prior to 1994. However, this growth was not matched by growth in visits in all markets. For instance, growth in the number of screens in the UK was strong at 8.3 per cent per year, while during the same period, visits per head grew by less than 2.0 per

Polish potential

Spanish growth

Still behind the US

cent per year. The opposite was true in France, where visits grew more rapidly than increases in screen numbers.

However, Europeans, even those from Luxembourg and Ireland, go to the cinema far less often than consumers in several other parts of the world. In 1998 in the USA, cinema visits reached 5.6 visits per head. In both Canada and Australia, visits were also higher than Europe at approximately 4.0 visits per head.

There are significantly more inhabitants per screen and fewer visits per screen in European countries than in the USA and other international markets. Given the apparent lack of maturity of the cinema industry in some parts of Europe, even among the top European markets there appears to be room for growth in cinema visits, although one would not expect Europe to reach America's level of cinema visits.

THEME PARKS

Theme parks originated in North America, and US parks still lead the world in terms of both innovation and operating performance. A theme park can be defined as an outdoor attraction that combines rides, attractions and shows, is designed around a central theme or group of themes, and has a pricing policy whereby visitors are charged a pay-one-price admission fee.

Visits per head

Theme-park visits per head of population is a useful gauge of the maturity of the industry around the world, and with more than 0.80 annual theme park visits per head of the population, the US market is significantly more mature than any other market. By comparison, Europe performs modestly, with the European average being approximately 0.25 visits per head per annum (Figure 1).

Only Denmark, with two relatively successful theme parks, a fairly small domestic population and significant visits from international tourists to these parks, achieves a ratio close to US levels.

The Netherlands achieves visits per capita above the European average, again benefiting from a high number of cross-border visitors to its parks. Sweden is another relatively strong performer, despite parks there operating for only a short season.

France strong

When compared to the European average, France achieves relatively strong theme-park visits. This is due in part to attendance at the Magic Kingdom at Disneyland Paris, which at 12.5 million visitors per annum in recent years is more than four times more popular than the next strongest European performer. In addition, the Disney resort has served to educate French consumers and played a part in prompting the development of several new theme-park ventures.

The UK market is relatively competitive, with several major parks and a significant number of smaller local parks. However, despite this market competition, UK theme parks achieve only 0.20 visits per capita. Similarly, Germany has a relatively large number of theme parks, a significant majority of which are family owned

Figure 1: Per capita themepark attendance

and have been operating for a number of years. Visits are again relatively low at below 0.20 visits per annum, although new developments such as the Legoland park to be opened in Gunzburg are likely to increase this somewhat.

Spain achieves similarly low theme-park visitation per head of population, although with the opening of Port Aventura (now Universal's Port Aventura) in 1995 and Isla Mágica in 1997, it has seen significant theme-park development in recent years.

Development continuing

Development continues, with Terra Mítica having opened this year and Warner Bros Movie World Madrid scheduled to open in 2003. These will lead to growth in the number of visits per head of population.

Several of the markets under consideration in this ranking do not have established major theme parks, although these markets all have amusement parks, indoor attractions or smaller theme parks.

Markets not ready

Theme parks which operate on a pay-one-price basis require relatively high levels of disposable income within a significant proportion of the markets. Countries such as Poland have not, as yet, attracted major theme-park development, as the economy has not yet developed to a point where the market can afford to pay the required levels to warrant theme-park investment. However, as these economies strengthen and disposable income increases, these and similar markets are likely to become attractive to developers.

Not only are per capita visitor levels below those in the USA, but attendance levels at individual European parks are also lower than at many parks in the USA and Asia. In Europe, the strongest-

Room for growth

performing theme parks, with the exception of the Magic Kingdom at Disneyland Paris, achieve attendance of approximately 3.0 million visits per year; in the USA, attendance levels of 5.0 million are not unusual and large branded parks can outperform this. In the USA, the branding of parks and attractions and the consolidation of ownership have contributed to enhanced performance in the sector. These trends have begun to emerge in Europe in recent years and are likely to increase performance and developer expectations in Europe.

This suggests room for performance enhancement at existing parks, given suitable markets and other requirements, and opportunities to develop new parks.

EMERGING MARKETS

Looking at GDP growth between 1990 and 1997, the fastest-growing economies are Ireland, Turkey, Malta, Cyprus, Germany, Norway and Portugal. Slovenia and Poland have also achieved positive growth throughout the period. Across Europe there are a number of improving economies likely to offer opportunities to leisure developers now and in the near future.

GDP, spending levels, earning potential and disposable income, in addition to many other indicators, still vary immensely between European countries. The economist's benchmark of hours of work for an electronic component worker to earn enough to buy a kilo of bread highlights the disparity in earnings and disposable income. A worker in Finland, for example, would have to work for 24 hours to afford an item that an equivalent worker in Denmark could afford in four hours, and a worker in Lithuania would work for 46 hours for the same item. While these disparities are less pronounced among Europe's top economic powers, differences are still evident and affect the leisure industry on many levels, including product type, quality and pricing.

Economy improving

Throughout Europe previously poor economies are improving and are generating interest in the leisure market. The growth in the leisure industry in Spain over the past ten years highlights the potential for other parts of Europe. Eastern Europe and other markets largely ignored by mainstream leisure developers are areas of opportunity, and these countries have potential for substantial development in the future as their economies improve.

CONCLUSION

Among Europe's wealthiest countries there remains potential to develop and expand the maturing leisure industry. Less advanced leisure markets, such as regions of Central and Eastern Europe, will begin to offer greater opportunity for leisure developers. There is likely to be significant potential for growth and development as their economies mature and disposable income and consumer expectations increase.

The final message is that Europe is not a single market — it is a

group of markets where people all have similar aspirations but where the markets are at different stages of development and offer different levels of potential to leisure developers. However, across Europe, people love to play and have fun, and for providers of this fun there are great opportunities out there.