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P R E S S R E L E A S E

Competitiveness of Greek Tourism Sector

RIT presents the study of Associate Professor of the Athens University of Economics Mr. V. Patsouratis “Competitiveness of Greek Tourism Sector”.

Greek tourism sector is one of the most important factors of Greek economy contributing by more than 18% in GDP, with more than \$ 9 billion in foreign exchange and also significant influence on job creation.

Tourist arrivals in Greece recorded a long-term upward trend. The highest increase in arrivals was recorded in 1980 decade, while the corresponding increase in 1990 decade was significantly lower. The share of Greek tourism in European and world tourism in general recorded a downward trend the last years. The explanation for the comparative reduction of the competitiveness of Greek tourism in terms of value or quality or value for money in general, lies to the factors that determine the cost and quality of tourism product in the international market.

The subject of this study is to determine the competitive position of our country in European tourism market and especially in Mediterranean market, based on its strengths and weaknesses, examine the dangers and the opportunities offered in the sector based on the conditions and trends of international tourism market and finally make suggestions for the improvement of international competitiveness of Greek tourism product.

I. Findings

Our country is threatened by the other Mediterranean countries, both by those who belong to EU (Italy, Portugal and Spain) as well as by those who do not belong to the EU (Turkey, Israel, Croatia, Egypt, Cyprus, etc.). Those countries offer similar tourism product to the Greek product but in lower prices.

Mediterranean countries examined in the present study can be divided into two categories, based on the emphasis given to the tourism product they offer. The first category includes our country, Spain, Portugal, Turkey and Italy (to a lower degree), which offer vacation tourism and large variety of cultural heritage.

The conducted empirical research aimed to the estimation of demand functions regarding four countries of origin: England, Germany, Italy and France. Elasticity demand of price, exchange and life cost of Greek tourism product over one (1), indicates that our country faces severe competition from competitor countries, especially Spain

II. Causes-Evaluations

The examination of the factors that impact the competitiveness of Greek tourism product compared to the corresponding product of competitor countries showed the following:

- *Size and category of hotel businesses*
The average size of accommodation, which affects their performance and the quality of services between competitor countries, ranges between 53 beds in Italy and 130 beds in Spain and Portugal. The corresponding size in our country is equal to 76 beds by accommodation. The composition of hotel categories, which is also an indication of quality of services provided, ranges between the countries of the study. Spain, Italy and Turkey are based on second category hotels, our country and France are based on third category hotels, while most of the hotels in Portugal belong to other accommodation. Therefore, Greek hotels are smaller in size and their majority belongs to third category.
- *Financial structure of hotel businesses*
Financial structure of Greek hotel sector is characterized as “non-rational”. This fact is explained by the features of the businesses of the sector (small size, family type etc.) as well as state and bank policy regarding the sector. The inefficiency of equities combined with limited funding from the state and the bank system prevented the development of the sector.
- *Efficient management*
In all countries, except Portugal, high level management is performed only by subsidiaries of international chains. Local hotel businesses in all countries, except our country, perform moderate level management. The level of management in our country is poor.
- *Human factor*
Human factor plays a significant role in tourism product supply, in terms of productivity and in terms of quality. Employees need to have professional behavior, expertise and proper communication. The above skills are a result of investments in staff education and training. Unfortunately, a big part of the employees in Greek tourism sector does not have these characteristics. This

fact affects the position of our country compared to the other countries, as it has a higher position only against Portugal.

- *Exchange policy*

Our country's exchange policy since 1986 was an obstacle to the flow of tourists, because it kept the price of the tourist product high. On the contrary, the same time, competitor countries devalued their currency, increasing the demand for their tourism product.

- *Tax burden*

Athens before the establishment of the new airport was at the 41st position out of 52 cities, based on the total tax burden imposed on tourist services, while the airport of Athens is at the 8th position out of sixteen (16) European airports, with the highest index regarding tax burden. Our country applies 8% VAT on room rate, compared to 7% in Spain and 5% in Portugal. The features of Greek tax system are the strictest compared to competitor countries. The operation of the airport of Spata inserted new changes on burden that worsened the situation to a significant degree. The new airport is 2,5 times more expensive for airport companies, compared to the airport of Rome and 2 times more expensive compared to the airport of Barcelona etc. (RIT, 2001).

- *Cost of money*

The financial structure of Greek hotel companies in combination with the high interest rates that were applied in our country led to a high financial burden on the Greek tourism product, thus reducing its competitiveness. Bank lending rates for businesses are by 1.58 - 2.16 percentage points higher in our country compared to the corresponding average of the euro-zone.

- *Unit labor cost*

Our country is significantly behind Spain, Portugal and France regarding unit labor cost, fact that has a negative impact on the competitiveness of the Greek tourism product. Available data on unit labor cost of our country are not comparable to the corresponding data of Turkey. Our country seems to have higher employment productivity in tourism sector, but low employment costs compared to Turkey.

- *Cost of living*
Regarding cost of living, our country is very close to Portugal, slightly superior compared to Spain and significantly superior compared to France and Italy. However, the last years the highest increase of the index of hotel services, coffee and restaurant was recorded, resulting for its value to become higher compared to the corresponding index of other countries under consideration, in 1999.
- *Public and private infrastructure*
The airports, ports, railway stations etc. offer low quality services, as they are small and poor compared to the tourism flow. Delays in country's airports change any positive image formed by foreign tourists regarding our country. Concerning general infrastructure, if seven (7) is the top, our country scores 2.86 against 3.50 and 4.02 of Turkey and Spain, respectively.
On the contrary, the quality of Greek accommodation, at least of high categories, is satisfactory (with positive and negative exceptions). The categorization of hotels does not meet with the requirements of the international market as is based only on criteria of hotel size and not quality.
- *Natural resources - Archeological and Cultural heritage*
The unique natural features of our country are the necessary condition for its tourism development. However, this comparative advantage of Greece is not capable of creating the tourism product, in price, quality and form, required by the conditions of the international competitive environment.
Regarding history, our country has a unique archeological, cultural and artistic heritage. Those features attract people who choose a destination based on classic culture and personal development. This factor is not well-promoted in our country.
- *Geographic location of Greece*
The distance of our country from tourist countries of origin is a disadvantage compared to competitor countries Spain, Portugal and Italy. Greece is an air tourism country, as 75-80% of visitors use plane as mean of transportation. Most of those tourists travel with charter flights, fact that indicates the country's dependence from tour operators.
- *Seasonality*
The nature of Greek tourism product combined with geographic location of our country lead to high seasonality, with negative consequences on its cost and quality. Our country's disadvantage is that it has the highest seasonality rate between the countries under consideration.

The general conclusion of the analysis is that our country lags behind almost all competitor countries in terms of the parameters presented above. The advantages of our country are natural resources and archeological, cultural heritage, features that maintain the development of the sector.

III. Policy Direction

According to the forecasts of World Tourism Organization, European tourism continues to develop, with a lower rate, fact that intensifies the competition between different destinations. Strategy goals should be set for our country to increase its share in international tourism market:

- quality improvement of the offered tourism product
- promotion of its cultural heritage
- seasonality reduction
- implementation of a development tourism policy

The necessary means to achieve the above goals are concluded below:

- *Means to improve quality*
 - Improvement of public infrastructure
 - Education-training of employers and employees
 - Larger accommodation size
 - Accommodation categorization based on new criteria formed by the market conditions and increase of the share of high category accommodation
 - Stricter controls in public and private means of transportation
 - Legal protection of the tourist
- *Marketing policy based on constant market research and adaptation to its requirements (new forms of tourism etc.).*
- *Improvement of microeconomic and macroeconomic environment.*
- *Closer cooperation with tour operators.*
- *Close cooperation between all the links of hotel chain.*