The Market for Travel and Tourism in Israel

Euromonitor International

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TRAVEL AND TOURISM IN ISRAEL

1. EXECUTIVE SUMMARY

Return to growth

During 2005, Israeli tourism developed positively almost across the board, as total tourism receipts grew by 15% in current value terms over the previous year. After the outbreak of the second Palestinian Intifada in late-2000, Israel suffered recurring terror attacks and a deep economic recession that lasted until 2003. The repercussions were new lows in incoming tourist figures and economic losses for most tourism businesses. However, due to political developments and economic steps taken by the government, 2004 and 2005 featured an impressive recovery, as tourism fought its way back to profitability.

The most important factor: the tourists are coming back

The most important factor in Israeli tourism in 2005 was the rising number of arrivals, with arrivals up by 35% over the previous year. After the declines of the middle of the review period, arrival figures finally came close to those of 2000, a prime year in Israel's tourism history. The return of tourists led to positive growth in value sales for travel accommodation, airlines, tourist attractions and travel retail. As a result, many tourism businesses managed to recover from the heavy losses experienced earlier and returned to profit once more.

Internet still awaiting a breakthrough

Israel is considered a global high-tech leader and the internet is available in a rising number of households. However, online sales remain relatively small, as only 3% of Israelis chose to purchase through the internet during 2005. Currently, the internet is perceived as a tool for information and price research and not as a booking platform, as it suffers from an unreliable image. Things are starting to change, however, as companies are more aware of the importance of a useful website. However, online booking platforms are still obsolete and no major Israeli online travel company has yet emerged.

Competitive environment

The leading company in Israeli tourism in 2005 was national airline company El Al Israel Airlines Ltd. After being privatised in 2004, the company managed to return to profit and enjoyed a 49% of air value sales in 2005. Accommodation is led by two main companies, Dan Hotels Corp and Fattal Hotel Management Ltd, with a combined 32% value share of hotels during 2005. Travel retail is less consolidated and is led by Natour Ltd and Tzabar Travel & Tours Ltd, which together held 22% of value sales.

Optimism in forecasts alongside uncertainty

After a successful year in Israeli tourism in 2005, it is close to returning to the high figures achieved in 2000. Assuming that the political and military status of Israel will remain relatively calm, Israel is predicted to complete its recovery and see further development and expansion during the forecast period.

With the Open Skies legislation in progress, it is expected that the strict flying regulations currently in place in Israel will become softer. This would allow for real competition and the lowering of prices. Consequently, incoming tourists are expected to grow by 151% during the forecast period, leading to growth in value sales almost across the board in tourism.

However, it is almost impossible to form a reliable forecast for tourism in the Middle East. 2006 will feature elections in Israel and in the Palestinian Authority, which could cause problems. Political stability is a key factor in the area’s future and US troops are still fighting on Iraqi land and threatening to challenge Syria as well. Developments in the area are always surprising and unpredictable and shape the future of everyone living there, along with shaping tourism.

2. OPERATING ENVIRONMENT

2.1 Macroeconomic Parameters

GDP and tourism

Israel is one of the richest countries in the Middle East thanks to a dynamic economy and strong foreign investments. However, it is also has an increasing income gap between rich and poor and unsatisfying unemployment levels. Between the advantages and disadvantages lays an unstable political arena and a 100-year conflict with the Palestinians.

Like all economic systems, the Israeli economy is affected by overall developments in the area. Consequently, in the review period Israel underwent a rough recession. The collapse of the peace process, the outbreak of the second Palestinian Intifada and the downturn in the global and US economy following the 9/11 terror attacks all led to a severe decrease in national GDP and pushed Israel to the verge of an economic collapse.

2003 signalled the beginning of a change. Israel went on a vast military operation in the west bank, started the construction of a security wall between Israeli and Palestinian territories and announced an Israeli withdrawal from the Gaza Strip.

June 2003 saw the beginning of an economic reform led by the Treasury Minister. Ministerial budgets were cut, employees were dismissed and wages were reduced in the public sector. In addition, welfare benefits were lowered while in contrast a vast tax reduction was implemented. The changes included a reform in pension funds, with most being sold to private insurance companies.

In addition, the government initiated a vast privatisation process, selling national companies such as El-Al airlines, Zim shipping, Bezek Telecommunications and The Ports Authority. All of these are well-established leaders in their respective areas. After two rough years, the Israeli economy returned to growth, despite criticism on its strong right-wing economic agenda and the growing income gap between rich and poor.

2005 saw a continuation in Israel's economic growth, reaching NIS557 billion GDP. Officials in the Bank of Israel believe this was due to a number of reasons including the expansion of global trade, although a slight constraint was caused by rocketing oil prices. In addition, the relative calm in the Israeli-Palestinian conflict assisted growth, along with a fiscal policy that achieved goals set concerning the national deficit and an expanding monetary policy. There was also stability in prices and the financial markets. According to estimates made by the Bank of Israel, after a 6% GDP growth in 2005, 2006 is expected to show a growth rate of 4%, led by a in exports and private consumption.

Israeli tourism expenditure holds a share of national GDP of almost 2%. The recovery of tourism in Israel also benefited other areas of national trade. More workers were employed, more money was created in profits by tourism retailers and growth was generated in indirect areas such as commerce, industry and agriculture. Overall, the growth of incoming tourism was reflected in a marginal rise in national GDP in 2004 and 2005.

Disposable income

Disposable income reached NIS327 billion in 2005. As with GDP, disposable income levels in Israel also rose during the review period, from NIS250 billion in 2000, which is a 31% rise in current value terms. However, between individuals there are big differences in disposable income levels, as a large portion of the population lives on a very tight budget and cannot afford the expenses of tourism.

In 2003 the ministry of finance sponsored The Social Survey, which included a chapter concerning the economic wellbeing of the population. This study reveals that Israel, despite its image as a highly-developed country, differs a lot from the welfare states in Europe. According to the study, 38% of consumers had not had sufficient heating or cooling in their home in the past year due to financial constraints. 14% responded that they gave up some food in the past year and 14% had their electricity or telephone line cut off as a result of financial constraints. 39% of the Arab population waived buying prescription drugs, while 16% of the Jewish population found themselves in the same situation in the year. The economy in Israel improved since the survey was conducted but the economic disparities remain and the recent economic improvement was felt least among lower-income consumers.

Consumer expenditure on leisure

Israeli leisure and recreation expenditure did not develop much during the review period and was inconstant in its performance. 2000-2002 showed similar leisure expenditure rates at around NIS20 billion per year. 2003 and 2004 showed a decline to NIS19 billion. This lack of growth in leisure and recreation expenditure, although both the GDP and the disposable income rates rose, reflects the effect of the recession on the average Israeli consumer, who reduced leisure expenditure in favour of saving.

Although the first signs of recovery from the recession were being felt in 2004, the effect was seen only in 2005, when leisure expenditure grew by 4% in current value terms over the previous year to NIS20 billion. This is because the economic recovery penetrated only slowly to middle- and lower-income consumers, who meanwhile reduced their leisure budgets.

Table 1 Operating Environment Parameters 2000-2005

NIS bn

	2000	2001	2002	2003	2004	2005
Annual disposable income	250.4	267.9	298.5	311.6	318.5	326.8
Total GDP	470.9	478.6	493.7	502.3	523.9	554.0
Leisure and recreation	19.7	19.4	19.6	19.1	18.9	19.7

Source: Ministry of Tourism, Euromonitor International

2.2 Political and Legislative Environment

The political and legislative environment in Israel is complex and unpredictable and thus difficult to describe in a few paragraphs. Israel is a representative democracy, divided into a legislative branch in the form of the Knesset, an operational branch in the form of the government and a judicial branch in the form of the Supreme Court.

The first few decades of Israel were caricaturised by a stable political environment, with two main parties sweeping most of the votes. However, since the 1980s the Israeli political map divided into smaller groups, with no Israeli government finishing its full term in the past two decades. Current Prime Minister Ariel Sharon has served in his role for five years in a row, going through two successful election campaigns, the longest term of an Israeli Prime Minister in decades.

The Knesset, the Israeli parliament, has 120 seats, divided among the two major parties of Likud and Labour and a dozen more small parties, reflecting the ongoing fragmentation of Israeli society. As a result, the Prime Minister, who is the leader of the biggest party elected, has to form a coalition using a large number of parties, each promoting the narrow interests of its voters. This created a political state of constant instability and difficulties in executing long-term policies and reforms.

Despite these setbacks and although implementing a controversial withdraw from the Gaza Strip in August 2005, Ariel Sharon's regime managed to cross numerous obstacles and nearly finished its full four-year term in 2005. During November 2005, after Amir Peretz, a young and surprising candidate, was elected as chairman of the Labour party, the Knesset agreed to schedule elections for March 2006, instead of the original date of November 2006. This led to intensive change within the Israeli political system, with its peak being Ariel Sharon's retirement from the Likud party in favour of a new leading party under his leadership. Currently, surveys show that Sharon is most likely to be appointed again as prime minister in the 2006 elections, offering stable and continual governance that would be able to continue executing its ongoing processes, including in tourism, such as the introduction of the Open Skies legislation).

2.3 Terrorism and Security

The security issue in Israel has been crucial since the country's foundation. The outbreak of the second Intifada near the end of 2000 signalled a rise in terrorist acts within the borders of Israel, reaching a murderous high in 2002, with over 100 murdered civilians in April 2002.

The result was an immediate and vast military action in the West Bank, followed by a spreading of army troops near Palestinian cities and the start of construction for a security wall separating Israeli and Palestinian territories. In 2003, this was followed by the Israeli withdrawal from the Gaza Strip.

Consequently, the level of terrorism dropped consistently since 2003. Although terrorism did not completely cease, a sense of safety returned to Israeli streets. However, this is only possibly thanks to military action and the conflict is far from being over. Security levels in Israel are as high as ever and the impact of this is still being felt in everyday life.

2.4 Sustainable Tourism

The concept of sustainable tourism has been important to Israel for many years. The most significant tourist area is Eilat. Eilat's hotels are located within the proximity of Red Sea coral reefs, which are one of Israel's most important assets as a tourist destination. With the high-tech purification of spill water and other techniques for avoiding contamination, Israeli tourism companies seek to guarantee the survival of the coral reefs, although much of threat against them comes from global warming. Historic sites are also carefully managed and visitors are subject to restrictions in order to conserve sites for future generations.

2.5 Positive Growth Factors

The positive growth of Israeli tourism since 2003 is mainly due to the relative calmness in the Israeli-Palestinian conflict. This conflict is far from being over but a decrease in terror attacks inside Israel, the ongoing construction of a security wall and the Israeli withdrawal from the Gaza Strip in 2005 diminished Israel's image as a dangerous place and increased the number of incoming tourists.

Along with ongoing political stability, the Israeli economy saw an improvement as well during the review period. This was due to vast governmental reforms and an overall global economic recovery. Economic improvements did not bypass tourism, generating a rise in domestic and outgoing tourism and in private investments in tourism.

The political stability of Ariel Sharon's government ended a long period of instability in the senior positions of the Ministry of Tourism. The current Minister, Avraham Hirschzon, and the new ministry CEO are promoting many interests which had been neglected for years. These include the new Open Sky agreement, an intensive global campaign promoting tourism in Israel and aid for local tourism businesses.

Government aid was also a key element following the 2001 collapse in tourism, taking the form of special loans and direct marketing support that prevented many businesses from collapsing. The improvement in tourism during the last years of the review period brought vast investments by private businessmen, such as the privatising of El-Al airlines and investment in tourism agencies and other travel retailers. This positive trend is bringing more money into tourism and making it more efficient while expanding its scope.

Summary 1 Positive Growth Factors

Relative calmness in the Israeli-Palestinian conflict
Economic improvement in Israel
Active Ministry of Tourism
Increased level of investment
Government aid

Source: Trade press (Haaretz, Globes, Passportnet), trade interviews, Ministry of Tourism, Euromonitor International

2.6 Negative Growth Factors

Despite its relative calm recently, the Israeli-Palestinian conflict continues, with a deadlocked peace process. This results in Israel being viewed as a problematic and politically unstable country globally and deters many foreign visitors who oppose the Israeli actions in the West Bank and Gaza Strip.

While Israel strives to position itself as an attractive Mediterranean country, it has a fierce competition from Greece, Turkey and Cyprus. These are all closer to Europe and offer more developed tourist attractions and infrastructure. The low cost charter airline companies in Israel also made a vacation in these countries as affordable as a domestic holiday for Israelis, attracting many Israelis to these destinations rather than to sites inside Israel.

The high security constraints experienced in everyday Israeli life are a key factor in bringing back a safe feeling to Israeli streets. However, these are also often characterised by rigid and exhausting regulations in almost all public sites. While Israelis are used to this, it is not always easy for incoming tourist to go through these procedures.

The Open Sky initiative, promoted by the Ministry of Tourism, strives for more competitive, cheaper and wider flights to and from Israel. However, despite a compromise agreement achieved between the Ministry of Tourism and the Ministry of Transportation, the legislation still faces a few obstacles especially from El-Al share holders, who are interested in maintaining El-Al's current share.

Summary 2 Negative Growth Factors

The ongoing Israeli-Palestinian conflict
Greek, Cypriot and Turkish competition
Security burden
internal obstacles concerning Open Sky legislation

Source: Trade press (Haaretz, Globes, Passportnet), trade interviews, Ministry of Tourism, Euromonitor International

3. COMPETITIVE ENVIRONMENT

3.1 Recent Mergers and Acquisitions

In 2003, El Al's shares were sold on the Tel Aviv stock exchange for the first time. Thus, for the first time since it was founded in 1948, El Al ceased to be a government company. El Al was privatised through an initial public offering during the summer 2003. Arkia's parent company, Knafaim-Arkia, bought options enabling it to acquire more than 50% of El Al's shares.

As Knafaim-Arkia is the owner of rival airline company Arkia, this acquisition naturally led to a problematic situation. The Antitrust Authority announced that Arkia could merge with El Al only on the condition that the airline stops operating its own scheduled and charter flight operations and that will only be allowed to manage its aircraft leasing operation. During 2004, the Borowitz brothers, the owners of Knafaim-Arkia, agreed to sell Arkia's shares to the company's employees. However, by the end of 2005 the sale was yet to be carried out, although it is expected to occur during 2006.

The acquisition improved El Al's performance, after years of suffering losses. In its first year as shareholder, Knafaim-Arkia managed to cause El Al's shares to rise by 50% and to improve the company's income in the third quarter of 2005 by 17%.

Fattal Hotel Management made a few acquisitions during the review period, as part of its struggle to gain the leading spot in hotels in Israel. In 2004, the company bought Hyatt Regency Dead Sea hotel, in a deal that gave it the leadership in hotels in Israel during that year. Fattal Hotel also acquired the Club Med hotel in Eilat at the end of 2003 and Golden Tulip at the Dead Sea earlier in the year, along with signing a management agreement with the Golden Tulip Hotel in Ashkelon.

However, during 2005 Fattal's Golden Tulip Hotel in the Dead Sea was sold to HEI Hotels, which is part of Tamares Group and owned by businessman Foyo Zevladovitch. TAMARES Group is an international business group that engages in many areas and also owns seven hotels in Las Vegas and Florida and two more in Israel.

Other interesting acquisitions in hotels included two purchases made by Isrotel Ltd. This player purchased the Laguna Hotel in Eilat in 2004 and the Rimonim Hotel in Jerusalem in 2005.

The only major merger and acquisition affecting Israeli car rental during the review period was the takeover of certain assets of Budget International by Avis Europe plc in January 2003. This included the rights to use the Budget trademark and name throughout Europe, the Middle East and Africa, together with the existing Budget licensee agreements and royalty streams in those territories.

Avis Europe also took over Budget's Israeli operations, including its outlets and fleet. The company will, however, continue to operate Avis and Budget as separate brands, one focusing on higher-priced rentals and the other on lower-priced rentals, at least for the foreseeable future.

In travel retail, 2005 was an interesting year for Natour Ltd. Ganden Group, one of the leading business groups in Israeli tourism, bought all Natour's public shares. Ganden Group previously owned 55% of Natour's shares and bought another 30% of the company. Further more, the group also bought 14% share in the Unital charter travel agency, previously held by El Al, and decided to merge it with Natour. There are also speculations of another merger between joint venture Unital-Natour and Diesenhaus Travel Retail, another company owned by Ganden Group.

Another key acquisition in travel retail occurred during 2005, as Knafaim Arkia sold its 24% share of ISSTA Lines Cooperative Ltd. ISSTA Lines, the second leading travel agency in 2005, managed to grow profits in recent years, including investments in hotel real estate abroad.

Summary 3 Major Mergers and Acquisitions 2001-2005

Operator	Date	M&A details
Knafaim Group	2003	Acquired El Al
Fattal Hotel Management Ltd	2004	Acquired Hyatt Regency Dead Sea hotel
Avis Europe	2003	Acquired Budget International
Isrotel Ltd	2004-2005	Acquired Laguna hotel in Eilat and Rimonim hotel in Jerusalem
Ganden Group	2005	Acquired Natour from its shareholders
Ganden Group	2005	Acquired Unital and will merge it with Natour and Diesenhaus
Knafaim Group	2005	Sold its shares in ISSTA
HEI Hotels (TAMARES Group)	2005	Bought Golden Tulip Hotel

Source: Trade press (Haaretz, Globes, Passportnet), trade interviews, Ministry of Tourism, Euromonitor International

3.2 Key Strategic Alliances

During most of the review period, Israeli tourism was in a deep crisis, along with an overall recession in the Israeli economy. Therefore, most players in tourism concentrated on surviving and improving efficiency in order to cut back on expenses, rather than on expansions and strategic alliances. When strategic alliances did occur, it was with players from outside tourism, with tourism itself insufficiently profitable to generate investments from tourism players.

Only since 2003 did tourism start to recover in terms of major acquisitions and mergers. However, while many acquisitions were made in the last two years of the review period, there were no key strategic alliances formed. The 2003 El Al purchase by Knafaim Group, the owners of Arkia airlines, was disapproved by the Israeli Antitrust Authority, which instructed the group to sell Arkia.

As tourism is starting to become profitable again, an increasing number of businessmen are starting to show an interest in investing in tourism. A good example is EDB, a leading Israeli business group owned by Nochi Dankner and Avi Fischer, two of Israel's leading businessmen, who already dominate a large part of Israeli tourism industry, through the ownership of companies such as Ganden Group (which owns in turn Natour and Unital), Israir airlines, Accor hotels and many more. During the forecast period, if tourism will continue to grow according to the current expectations, it is only a matter of time before key alliances will form between major players.

3.3 Leading Company Profile: Dan Hotels Corp

Company background

- Dan Hotels Corp is an independent company owned by the Federman family
- The company works purely in tourism
- The company focuses solely on hotels
- The company's strategy is to invest in high standards and luxury brand names and it is the only company in Israel to belong to the Hotels of The World network
- The company offers an average outlet size, with 15 hotels
- The company positions itself at the high end of hotels in Israel
- The company was the second player in the country in the hotels sector in value sales during 2005, with almost NIS915 million
- The company does not have a national presence, as it concentrates on the key tourism areas of Israel: Eilat, Jerusalem, Tel Aviv, Haifa, Ceaserea and Hertzlia

Summary 4 Dan Hotels Corp: Company Factfile 2005

Company name and status:	Dan Hotels Corp
Parent company:	Dan Hotels Corp
Country of origin:	Israel
Travel and tourism sectors:	Accommodation
Major travel and tourism brands:	King David Hotel in Jerusalem, Dan Panorama Hotel in Jerusalem, Dan Panorama Hotel in Tel Aviv, Dan Hotel in Tel Aviv

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Recent news

- The company achieved well-publicised success during each of the quarters of 2005, in which Dan Hotels Corp was ranked second behind Fattal in hotels
- Dan Hotels Corp acquired Ganei Shulamit Hotels at the end of 1999, adding the company's two hotels to its portfolio

Summary 5 Dan Hotels Corp: Summary of Key Events 2000-2005

1999	Dan Hotels Corp buys Ganei Shulamit Hotels, which owns two hotels in Eilat and Ashkelon
2001-2003	Like other leading hotel companies, Dan Hotels Corp experiences major losses as tourism in Israel is in deep crisis
2004	During the third quarter of 2004, Dan Hotels Corp manages to make an operating profit for the first time since the crisis

Source: Trade press (Haaretz, Globes, Passportnet), company research, trade interviews, Euromonitor International

Financial summary

After suffering losses during the tourism crisis earlier in the review period, Dan Hotels Corp achieved an impressive financial growth during 2005, reaching approximate net profits of NIS79 million, with 62% current value improvement over 2004. "Our main income growth in 2005 is attributed to the growth in incoming tourist accommodation," stated Ami Hirschstein, the CEO of Dan Hotels Corp. "We grew in incoming tourist accommodation 1.5 times better than the growth rate of overall hotels during 2005 at King David Hotel in Jerusalem incoming tourists constitute 96% of visitors and in Dan Tel Aviv and Dan Panorama Tel Aviv they are 90%." Hirschstein states that the increasing administrative efficiencies introduced during the tourism crisis continue and are now helping to enlarge profits.

Summary 6 Dan Hotels Corp: Operational Indicators 2005

Financial year end (December):	NIS915 million
Travel and tourism sales 2005	NIS915 million
% change over 2004:	59%
Net earnings 2005:	NIS79 million
% change over 2004:	63%
Number of employees:	2,500

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

3.4 Leading Company Profile: El Al Israel Airlines Ltd

Company background

- El Al Israel Airlines Ltd is owned by Knafaim Group
- The company is solely focused on airlines, including airplane gear leasing and the production and supply of airline food
- Within tourism, the company is solely present in transportation
- El Al's strategy is focused on maintaining its leading share and brand name, in face of competition from smaller charter companies
- The company offers a wide range of international flights to and from Israel
- The company positions itself at the high end of transportation
- The company leads air transportation in Israel
- The company concentrates mainly on Israel's national airport near Tel Aviv, while other small airports are left for the use of the small charter companies, including El Al's subsidiary charter company, Sun d'Or

Summary 7 El Al Israel Airlines Ltd: Company Factfile 2005

Company name and status:	El Al Israel Airlines Ltd
Parent company:	Knafaim Group
Country of origin:	Israel
Travel and tourism sectors:	Transportation
Major travel and tourism brands:	El Al, Sun d'Or

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Recent news

As the past two years had been very successful financially, 2005 saw El Al looking forward and seeking steps to improve its position as the leading Israeli airline. February 2005 featured the appointment of a new CEO, Haim Romano. This CEO did not come from an airline background but rather from the competitive business world.

In September 2005, El Al announced that it would cooperate with BCC, a subsidiary company of Boeing, in order to install wireless internet portals on El Al's leading lines. In October 2005, El Al announced that it had purchased two Boeing 777 aeroplanes, which will start operating in 2007. Each aeroplane will cost approximately US$117-123 million.

In November 2005, El Al started to operate electronic flight tickets. Each passenger receives a receipt to his e-mail, fax or mail instead of flight tickets, which they can bring to the airport and use as official tickets.

During 2003, El Al was privatised and floated on the Tel Aviv stock exchange. In June 2004, the state of Israel sold most of El Al's shareholdings to Knafaim Group, which already owned Arkia Airlines. The state still owns 21% of El Al's shares and has a golden share in the company. The sale was approved by the Israeli Antitrust Authority only on the grounds that Knafaim Group would sell its shares in Arkia Airlines. Otherwise, the combination of El Al and Arkia would form an illegal monopoly in Israeli air transportation.

Summary 8 El Al Israel Airlines Ltd: Summary of Key Events 2000-2005

2001	The second Intifada hits El Al results and El Al attempts to lower travel agency ticket commissions
2003	El Al privatised and floated on Tel Aviv Stock Exchange
2004	Knafaim Group cleared to buy El Al; El Al back to profitability
	The Israeli Antitrust Authority instructs Knafaim Group to sell its shares in Arkia Airlines
2005	El Al nominates Haim Romano as its new CEO
	El Al purchases two new Boeing 777 aeroplanes, which are due to start operating in 2007

Source: Trade press (Haaretz, Globes, Passportnet), company research, trade interviews, Euromonitor International

Financial summary

Before it was privatised, El Al finished each year from 2000 to 2003 with net losses. 2004 and 2005 saw El Al achieving net profits once again, however. Sales during 2004 reached NIS4 billion in value sales and NIS135 million in net profits. 2005 was even better, with 15% improvement in value sales and 9% growth in net profits.

Summary 9 El Al Israel Airlines Ltd: Operational Indicators 2005

Financial year end (December):	NIS5.1 billion
Travel and tourism sales 2005:	NIS5.1 billion
% change over 2004	15%
Net earnings 2005	NIS148 million
% change over 2004	9%
Number of employees:	3,213

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

3.5 Leading Company Profile: Fattal Hotel Management Ltd

Company background

- Fattal Hotel Management Ltd is an independent company
- Its core business is hotel management
- The company is active solely in accommodation
- Fattal's main strategy is investing in hotels suffering from poor strategy or management and introducing its own management and operations
- The company offers 10 hotels, an average number in comparison to its competitors
- The company position itself at the high end of hotels
- Fattal Hotel Management Ltd was leader in hotel value share in 2005

- The company's hotels are concentrated mainly on key tourist cities, with eight of its hotels in Eilat or the Dead Sea region

Summary 10 Fattal Hotel Management Ltd: Company Factfile 2005

Company name and status:	Fattal Hotel Management Ltd
Parent company:	Fattal Hotel Management Ltd
Country of origin:	Israel
Travel and tourism sectors:	Accommodation
Major travel and tourism brands:	Meridian Eilat Hotel, Magic Palace Eilat, Club Med Coral Beach

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Recent news

After being founded in 1998, Fattal's intensive race to the top included investments in IT solutions. These were generally installed to improve efficiency and utilisation.

2003 and 2004 were expansion years for the company. After a few rough years for hotels as a whole, Fattal opened another hotel by the Dead Sea and in the following years reopened the Club Med hotel in Eilat. After being one of the first players to develop in spite of the recession, Fattal finished 2004 as the top player in value sales.

During 2005, one of Fattal's hotels, Golden Tulip in Eilat, was sold to TAMARES Group.

Summary 11 Fattal Hotel Management Ltd: Summary of Key Events 2000-2005

2000	Fattal invests in CRM system to optimise bookings
2003	Fattal opens hotel by the Dead Sea
2004	Fattal buys the closed Club Med hotel in Eilat
2005	Fattal's Golden Tulip Hotel is being sold to TAMARES Group

Source: Trade press (Haaretz, Globes, Passportnet), company research, trade interviews, Euromonitor International

Financial summary

Fattal saw rapid growth over the review period in terms of sales. Unlike Dan Hotels Corp, Fattal did not focus mainly on incoming tourism and did not only position itself in luxury hotels. Therefore, when incoming tourist figures plummeted and the recession hit Israel, Fattal managed to maintain a relatively consistent growth rate in value sales and move to the top of Israeli hotel companies. During 2004 Fattal became the number one Israeli hotel company, and the company kept sector leadership in 2005.

Summary 12 Fattal Hotel Management Ltd: Operational Indicators 2005

Financial year end (December):	NIS837 million
Travel and tourism sales 2005	NIS837 million
% change over 2004	41%
Net earnings 2005	55
% change over 2004	60%
Number of employees:	2,000

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

3.6 Leading Company Profile: Natour Ltd

Company background

- Natour is owned by Ganden Group, which also owns Israir Airlines, Tzabar Travel & Tours and Open Sky travel agency
- Natour is purely focused on travel retail
- Natour focuses on domestic tourism inside Israel and on travel packages abroad
- The company offers a wide selection of services, both for the domestic tourist and for the outgoing tourist
- The company position itself at the high end of travel retail
- During 2005 Natour was ranked second in terms of overall travel retail share
- The company has a national presence, with 53 outlets across Israel

Summary 13 Natour Ltd: Company Factfile 2005

Company name and status:	Natour Ltd
Parent company:	Ganden Group
Country of origin:	Israel
Travel and tourism sectors:	Travel retail
Major travel and tourism brands:	Natour, Unital, Discovery

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Recent news

During 2005, Natour's major shareholder the Ganden Group bought 30% of the company shares that were on the stock exchange and removed the company from public trade. After purchasing more shares in Unital's charter travel agency, Ganden Group merged it with Natour. There are currently speculations that Ganden Group will also merge Natour with another travel agency under its hold, Diesenhaus.

Summary 14 Natour: Summary of Key Events 2000-2005

2001	The outbreak of the second Palestinian Intifada damages Natour's business
2003	Natour reacts to Intifada by redefining and consolidating its offering
2004	Natour reports turning point in falling tourism sales
2005	Ganden Group acquires Natour's stocks from its share holders and removes it from the stock exchange
2005	After acquiring Unital charter agency, Ganden Group merges it with Natour

Source: Trade press (Haaretz, Globes, Passportnet), company research, trade interviews, Euromonitor International

Financial summary

The problematic years in Israeli tourism from 2001-2003 saw Natour remain at a similar level of value sales. After restructuring its offerings, focusing more on outgoing tourism and on safe domestic destinations, along with lowering prices, the company was able to bounce back to profitability in 2004, with profits exceeding NIS1 million. The resurrection of tourism benefited Natour, as its value sales grew by 16% in 2004 and 2% more in 2005, when the company achieved sales for NIS531 million with net profits of an approximate NIS46 million.

Summary 15 Natour: Operational Indicators 2005

Financial year end (December):	NIS531 million
Travel and tourism sales 2005	NIS531 million
% change over 2004	2%

Net earnings 2005	NIS46 million
% change over 2004	114%
Number of employees	400 full time employees + 2,000 service suppliers

Source: Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

4. DEMAND FACTORS

4.1 Leave Entitlement

Until the early-1990s, the Jewish state strictly adhered to the Jewish calendar, which provided for the Sabbath as the one day of rest in every week. In the mid-1990s, it was informally adopted that Friday would also be a day off, for Saturday (Sabbath) preparation rather than for work. This was more widely adopted over the past 10 years and the country now effectively has a two-day weekend, which doubles the time Israelis can devote to leisure and relaxation.

The Jewish calendar is different from the Christian calendar used by most of the rest of the world. This only has an impact on the Israeli economy in the context of Jewish holidays and holy days, which are set according to their date in the Jewish calendar. Therefore the number of holidays and holy days that fall on weekends varies from year to year, having an impact on economic factors and results.

Israeli employees are entitled to 14 holidays per year in the first four years of their employment. The fifth year offers a total of 16 holiday days, the sixth offers 18, the seventh offers 21 and afterwards every additional year adds one more paid holiday day until a maximum of 28 holiday days is reached. This is more rigidly followed in the public sector, though the private sector does follow closely. US companies tend to allow a little less, though most foreign companies tend to follow the national norm.

Table 2 Leave Entitlement: Volume 2005

Number of days

	2005
Total holidays	28.0
-Paid holiday	14.0
-Public holidays on working days	12.0
-Public holidays not on working days	2.0

Source: Ministry of Industry, Trade & Labor, Euromonitor International

4.2 Holiday Demographic Trends

Holiday takers

The Ministry of Tourism conducted a survey in May 2002, investigating Israeli citizens' vacation habits. The survey showed that 82% of Israelis were expected to take at least one holiday, including 56% that expect to take one holiday inside Israel. 44% of Israeli Jews expected to take at least two holidays. 20% expected to take three holidays, while 22% expected to take two holidays in Israel per year. This illustrates the propensity to travel abroad for holidays among more affluent holiday takers. Only 4% of Israelis expected to take three holidays in Israel.

Of those who chose not to take a holiday in 2002, 37% stated economic difficulties as the main reason. 21% stated security concerns, 11% family reasons, 11% health reasons and a further 12% answered simply that they prefer to relax at home. The survey showed that the majority of those that chose not to take a holiday in 2002 also did not take holidays in the preceding years, which indicates that economic conditions did not cause significant cancellations in holidays. Instead, there is a stable proportion of the population that does not take holidays at all.

Among those that took two holidays in 2002, 61% took their first holiday in Israel with 39% travelling abroad. The survey then showed that the pattern was reversed for the second holiday, with 46% choosing to stay in Israel while 54% travelled abroad. This may be due to the weather, which is typically too hot in Israel during July and August to enjoy outdoor activities. This therefore encourages Israelis to search for countries with cooler climates.

After 2002, no study of holiday taking was conducted. However, the holiday taking percentages were similar, which confirms the 2002 survey's conclusions about the stable proportion of holiday takers and those who prefer not to. Additionally, despite the economic improvement since 2003, the income gap between the rich and poor in Israel remains wide. Consequently, lower-income groups that could not afford a vacation in 2002 remain in a similar position.

Sex

Holiday taking does not differ a lot between the genders. Israel is a modern country and women are well represented in the workforce, including in the military and police. The slight difference between the percentages can be attributed to the demographic differences between the sexes, with the population tending slightly towards women. Consequently, women accounted for 52% of holiday takers in 2005.

Age

The age breakdown among holiday takers remained fairly stable during the review period. Most holiday takers are aged 35-64. By this age, most people have established themselves economically and have a need to break up their regular daily routine. Until the age of 21, when mandatory army service ends, most people are not economically independent and therefore rely mostly on their parents and families. Consumers aged 25-34 take more holidays but less than those aged 35-64, since most Israelis go to universities or start work and therefore live on a tighter budget until their career is more established.

New consumer groups

The classic split among consumers evolves around economic status and income levels. However, in recent years new groups emerged. Tourists in Israel can now be divided by other interest groups, with an increase in groups travelling from workplaces, universities and other social gatherings. Noticeable groups include sport fans, health seekers, students, workmates and groups of the same gender.

Table 3 Holiday Demographic Trends 2000-2005

% number of people

	2000	2001	2002	2003	2004	2005
Holiday takers	79.0	84.0	82.0	81.0	81.5	80.5
Non-holiday takers	21.0	16.0	18.0	19.0	18.5	19.5

Source: *Ministry of Industry, Euromonitor International*
Note: *Holiday takers as % of total population*

Table 4 Holiday Takers by Sex 2000-2005

% number of people

	2000	2001	2002	2003	2004	2005
Male	48.1	48.0	48.1	48.1	48.2	48.1
Female	51.9	52.0	51.9	51.9	51.8	51.9

Source: *Ministry of Industry, Euromonitor International*
Note: *Sex of national tourists (domestic and outbound)*

Table 5 Holiday Takers by Age 2000-2005

% number of people

	2000	2001	2002	2003	2004	2005
0-14	10.2	10.5	10.7	10.6	9.9	10.2
15-24	13.9	14.1	14.3	14.2	13.6	13.5
25-34	16.3	16.6	16.7	16.5	16.4	16.2
35-49	22.7	22.8	22.6	22.7	22.9	22.5
50-64	25.6	25.4	25.4	25.5	26.1	26.3
Over 65	11.3	10.6	10.3	10.5	11.1	11.3

Source: *Ministry of Industry, Euromonitor International*
Note: *Age of national tourists (domestic and outbound)*

4.3 Holiday Length of Trip and Seasonality

Length of trip

Throughout the review period, the length of stay to grow most was 4-7 days. This is due mainly to the popularity of shorter holiday packages to nearby beach resorts such as Eilat, Greece or Turkey. It is also due to the popularity of city breaks, chiefly in Europe due to its proximity. Over 7 days trips, although declining, were still the most popular option in 2005. This is due to the typical length of package tours sold by tour operators.

Between 2001 and 2004 there was a rise in the percentage of short holidays. This occurred due to terrorism and recession problems and the slow recovery process, which led people to choose shorter and cheaper holidays.

Seasonality

Holidays in Israel are taken in accordance with the Jewish calendar. These holidays fall upon a different date every year, though in the same overall period of the year. The Jewish religion celebrates many holidays throughout the year but some stand out in terms of tourism and travelling, including Hanukah in December/January; Passover in March/April and Shavuot in May/June. The holiday season in September/October is particularly important, including the Jewish New Year's Eve (Rosh Hashanah), Yom Kippur and Sukkoth. These periods are usually characterised by an increase in holiday taking, especially the holiday season of September-October. During 2005, the September-October period accounted for 22% of all holidays taken.

The other main period for holiday taking is July and August, during schools' summer holidays. At this time most families take their main break with their children, many of them going on holiday to Eilat or to other beach resorts abroad in order to relax and prepare for the autumn, which is usually an intense period for most businesses. During July and August 2005, 26% of all holidays from the year were taken.

Sukkoth is one of the most popular Jewish holidays for a vacation, occurring just a few days after the family oriented Rosh Hashanah holiday and lasting for over a week. Besides the holiday school break, most workplaces give their employees a break or only half work days during this time and this is also immediately before the beginning of the academic year in colleges and universities.

The Jewish calendar differentiates between holidays and holy days. Holy days are more religious and sombre occasions and therefore less suited for holiday taking in Israel. Holidays tend to be longer in duration, while holy days are single days or two-day breaks including the eve of the day.

Table 6 Length of Trip: 2000-2005

'000 trips

	2000	2001	2002	2003	2004	2005
Length of trip	3,529.9	3,561.9	3,273.1	3,298.7	3,434.5	3,585.2
-Over 7 days	1,703.1	1,765.6	1,645.1	1,673.5	1,672.4	1,561.2
-4-7 days	686.1	719.6	676.2	685.6	707.4	907.7
-0-3 days	1,140.7	1,076.7	951.8	939.6	1,054.7	1,116.3

Source: *Ministry of Industry, Euromonitor International*
Note: *For domestic trips and departures by destination*

Table 7 Seasonality of Trips: 2005

	2005
Seasonality of trips ('000 trips)	-
-January (% of trips)	5.1
-February (% of trips)	4.4
-March (% of trips)	6.1
-April (% of trips)	8.5
-May (% of trips)	7.9
-June (% of trips)	9.8
-July (% of trips)	13.5
-August (% of trips)	12.9
-September (% of trips)	10.1
-October (% of trips)	11.7
-November (% of trips)	5.4
-December (% of trips)	4.6

Source: Ministry of Industry, Euromonitor International
Note: For domestic trips and departures by destination

5. TOURISM PARAMETERS

5.1 Balance of Tourism Payments

From 2001 onwards, the balance of tourism payments was negative. 1999 is remembered within tourism as a record year but after this the situation worsened. The second Intifada broke out in 2000. Consequently, foreigners became afraid of travelling to Israel, while Israelis were keen on leaving. This eroded the balance of payments, which stood in 2005 at a deficit of NIS5 billion.

While incoming tourism collapsed in the middle of the review period, Israelis did little to support domestic tourism, with consumer still flying out in large numbers and spending significant amounts abroad. Domestic problems impacted travel and tourism in two ways, by making Israel unattractive to foreigners and by making Israelis seek to escape and spend their money abroad.

The balance of tourism payments in 2005 still represents a large deficit. However, with the gradual recovery of the both the national economy and tourism since 2003, it is slowly improving.

Table 8 Balance of Tourism Payments: Value 2000-2005

NIS million

	Receipts	Expenditure	Balance
2000	12,770.2	11,432.4	1,337.8
2001	5,796.6	12,384.8	-6,588.2
2002	4,352.6	12,046.4	-7,693.8
2003	4,433.0	9,757.6	-5,324.6
2004	6,953.8	12,971.4	-6,017.6
2005	7,963.5	12,700.0	-4,736.5

Source: Ministry of Industry, Euromonitor International

5.2 Incoming: Arrivals and Receipts

Arrivals

Arrival numbers in Israel reflect the fortunes of the country quite accurately. 2000 was an optimistic year for Israel, featuring a summit conference in Camp David between Israeli PM Ehud Barak, Palestinian Authority Chairman Yasser Arafat and US President Bill Clinton. Arrival numbers were high in this year. However, by the end of the year the peace talks had failed and the second Palestinian Intifada erupted, leading to violent riots, armed clashes with Israeli troops and terrorism. Consequently, incoming tourism in 2001 skydived by 51%, with this followed by 28% decline in 2002 and a new low of only 862,000 incoming tourists, compared to two million in 2000.

In 2003, Israel underwent a vast military action in the West Bank, started to construct a safety wall between Israeli and Palestinian territories and announced its withdrawal from the Gaza Strip. As a result, the terror levels begun to sink and Israel became less associated with war and fighting. 2004 and 2005 saw a continual decrease in terrorism, although it did not completely cease, along with a recovery from a three-year economic recession.

Israel's global image is gradually improving, mainly due to its withdrawal from the Gaza Strip in August 2005, which was praised worldwide. Consequently, the arrival numbers started to rise again. After a 23% growth in 2003 over the previous year, arrivals rose by 42% in 2004 and 35% in 2005. This growth towards the end of the review period brought arrival numbers back to two million.

Incoming receipts

In accordance with growing arrivals, incoming tourism receipts fell and rose by similar rates during the review period. 2001 saw a 55% current value fall in incoming tourist receipts and 2002 saw another 25% decline, leading to a low of NIS4 billion. Meanwhile 2004 featured a rocketing rise of 57% in current value terms over the previous year and 2005 saw 15% current value increase, leading to incoming tourist receipts of about NIS8 billion.

Most tourists that visit Israel are affluent and ready to spend a lot of money during their stay. Compared with other countries, Israel is less sensitive to shifts from exclusive to mass tourism or from expensive adventure trips to affordable backpacking. Consequently, Israel was able to maintain its main tourist base over the review period, with the main problem being a steep drop in the overall number of tourists in the first half of the review period.

Many Jewish tourists go to Israel for specific occasions such as weddings or religious/cultural festivities. During these occasions, visitors often spend a lot of money, with generosity regarded as the sign of a good upbringing and appropriate as a caring family member. For such tourists, tour operators are planning to increase per capita expenditure by offering even more exclusive packages targeting special occasions.

Expenditure per arrival

Incoming per capita expenditure fell from NIS6,251 in 1999 to NIS3,916 in 2005, with a 59% decrease. The shape of tourism changed during the review period and fewer general tourists arrived, prepared to spend on expensive hotels, food and transportation. During the tough times that hit tourism over the early years of the review period, the country saw a greater share of arrivals visiting friends and relatives. Many Jews saw an obligation to visit and support Israel as it was plagued by terrorist acts. However, these often spent less and stayed at friends or relatives' houses, rather than hotels.

Another reason for the decrease is the price competition among travel retailers. This was caused by the recession and reductions in incoming tourist numbers. Despite the improvement in the economy and the rising number of arrivals since 2003, most businesses still need a long period of economic recovery and are thus continuing to struggle over customers.

Table 9 Arrivals: 2000-2005

'000 people

		% growth
2000	2,416.0	-
2001	1,195.4	-50.5
2002	862.1	-27.9
2003	1,063.4	23.3
2004	1,506.0	41.6
2005	2,033.1	35.0

Source: CBS, Euromonitor International

Table 10 Incoming Tourist Receipts: 2000-2005

NIS million

	Current	Constant
2000	12,770.2	12,770.2
2001	5,796.6	5,733.6
2002	4,352.6	4,075.5
2003	4,433.0	4,121.2
2004	6,953.8	6,491.6
2005	7,963.5	7,358.1

Source: CBS, Euromonitor International

Table 11 Incoming Tourist Receipts % Growth: 2000-2005

% growth

	Current	Constant
2000	-11.6	-12.6
2001	-54.6	-55.1
2002	-24.9	-28.9
2003	1.8	1.1
2004	56.9	57.5
2005	14.5	13.3

Source: CBS, Euromonitor International

Table 12 Expenditure per Arrival: 2000-2005

NIS

2000	5,285.7
2001	4,849.1
2002	5,048.8
2003	4,168.7
2004	4,617.4
2005	3,916.9

Source: CBS, Euromonitor International

5.3 Incoming: Country of Origin

Top inbound countries

The most important contributor to arrivals during the review period was the US, with US arrivals totalling 513,000 in 2005. US arrivals rose by 32% in 2003 over the previous year, 49% in 2004 and approximately 26% in 2005 over the previous year. To Israel and its dominant Jewish population, the US is its most important ally. The US gives considerable economic, military and political support to Israel and the Jewish lobby is among the most important pressure groups active in Washington DC. The Jewish population in the US is numerous, especially in areas such as NYC and Florida. Naturally, many US Jews are interested in visiting Israel to visit friends or to learn more about the Jewish state, as many consider it a part of their identity.

The US is also a highly religious country and many US tourists are Christian pilgrims, attracted by sites such as the birthplace of Christ or Golgotha. The Ministry of Tourism also announced in 2005 that a special Christian Evangelist resort would be built near the Sea of Galilee, in an attempt to attract more pilgrims to Israel in the future. Religious Christian, Jewish or Islamic tourists are driven by a stronger incentive than most regular tourists. Consequently, religious tourism showed itself to be more robust than the mass tourism that Israel also offers.

Despite US tourists' cultural and religious ties with Israel, however, the number of US arrivals also dipped dramatically during the perilous times of the review period. There was little difference between the fall in US tourists and the fall in arrival numbers from other countries.

Other important countries for arrivals are France, the UK, Germany and Russia, which provided 334,000, 167,000, 108,000 and 66,000 visitors respectively in 2005. These countries have cultural and business ties with Israel and many tourists arrive from these countries on pilgrimages. From France, there was a wave of pilgrimage arrivals in the second half of the review period following the calming of terrorist activities in Israel. Russian arrivals are linked to the vast Russian immigration to Israel that took place after the collapse of the Soviet Union in the beginning of the 1990s. These are Russian Jews that moved to Israel based on ethnicity and religion.

Growth in nationalities seeking leisure

Alongside the top inbound countries mentioned, the biggest growth in incoming tourists is being seen in countries from which most tourists are seeking leisure holidays. This wide growth, although numbers in 2005 are yet to reach the highs of 2000, is being attributed to the calming of Israel's conflict with Palestine and the renewed legitimacy of Israel as a tourist attraction. The countries include European countries such as Spain, Italy or the Netherlands, as well as countries such as South Africa, Australia, Argentina and Brazil.

Highest spenders

In terms of highest spenders among incoming tourists, country of origin is not the main factor. Due to Israel's special status as the land of the Jewish people, as well as a significant place for Christian pilgrims, the highest spenders in Israel stand out rather by their religiosity.

Jews who come to Israel usually spend more money than other tourists, as many feel patriotic even without actually residing in Israel. Most stays include visits to family, which usually includes more spending and pampering. Many Jews come from abroad especially to celebrate traditional festivities in their holy land, such as Bar Mitzvahs or weddings. Also, most Jewish stays are longer than the average tourist's and therefore cost more. Although no official figures are available on Jewish arrivals' countries of origin, it is evident that most Jews who visit Israel come from the US and France.

Christian pilgrims also tend to spend more money on their pilgrimages, as these visits tend to get very emotional and are perceived as once-in-a-lifetime experiences.

Capital city visitor trends

Jerusalem is Israel's capital city and is one of the country's main attractions, featuring many holy sites for the three major religions, alongside historical sites dating back as far as biblical times. Consequently, while most leisure seekers enjoy Israel's shoreline and upbeat cities such as Tel Aviv, most visitors who come to Jerusalem come for pilgrimages or to see historic sites.

Jerusalem saw a large decrease in incoming and domestic visitors during 2001 and 2002, being a common and easily accessible target for terrorist attacks. Since 2003 construction of a security wall began inside Jerusalem. This helped to keep terrorism levels low and encourage safe city tours. 2005 also featured the launch of a new two-story public bus line for tourists, driving through the main city attractions.

Table 13 Arrivals by Country of Origin: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005
Argentina	22.7	10.6	7.3	10.0	7.8	16.8
Australia	23.4	10.4	8.2	9.9	10.4	21.1
Austria	22.0	9.6	7.6	8.3	9.7	13.5
Belgium	39.9	21.6	15.4	17.8	19.9	27.7
Brazil	25.3	8.7	5.4	7.8	10.0	19.1
Canada	55.0	34.2	25.1	31.3	45.1	55.9

Denmark	24.1	9.5	6.1	6.9	8.9	12.8
Finland	25.7	11.2	3.6	4.3	6.3	8.2
France	202.4	129.3	117.9	174.4	267.0	333.7
Germany	176.0	65.5	38.8	49.0	80.9	108.4
Italy	171.4	25.0	16.9	26.0	35.3	69.5
Netherlands	91.3	43.3	22.8	27.3	28.2	53.1
Norway	12.8	6.4	4.1	4.3	5.8	8.9
Russia	74.6	55.8	36.9	41.3	56.7	66.4
South Africa	20.6	13.4	9.1	9.8	10.1	18.1
Spain	65.6	11.8	8.6	15.9	20.8	44.7
Sweden	37.0	10.8	6.7	8.6	11.5	17.7
Switzerland	32.8	19.6	13.9	17.0	22.8	27.4
United Kingdom	201.2	140.2	97.3	104.2	129.1	166.6
USA	488.5	266.2	206.0	271.9	407.4	513.3
Other countries of origin	603.7	292.3	204.4	217.4	312.3	430.2
Arrivals by country of origin	2,416.0	1,195.4	862.1	1,063.4	1,506.0	2,033.1

Source: CBS, Euromonitor International

5.4 Incoming: Mode of Transport and Purpose of Visit

Mode of transport

The main mode of transport used by incoming tourists is air, with this accounting for almost two million arrivals in 2005. Arrivals by air grew by 48% in 2004 over the previous year and by 32% in 2005 and represented 87% of total arrivals in the latter year. Air dominates arrivals and is likely to continue to do so in the future, especially considering the developing Open Sky legislation.

Within air, there was an increase in the number of flights direct to Eilat rather than to Israel's main airport of Ben Gurion. This is a relatively recent development, with more flights arriving direct to Eilat Airport or to the nearby military base at Ovda.

Few tourists arrive by land, particularly as there are only a few ways of reaching Israel this way. Visitors who come overland generally come from Jordan or Egypt, usually as part of a vast trip around the Middle East.

The intensification of the Israeli-Palestinian conflict in the end of 2000 resulted in a sharp decline in the share of land arrivals, with this dropping from 18% in 2000 to less than 10% in 2002. With the calming of the conflict, the number of land arrivals is slowly rising, with 262,000 land arrivals in 2005 or 13% of overall arrivals. This number is still far below the number of land arrivals in 2000. This is due to developments in other Middle East countries, such as the US presence in Iraq and terror attacks in Egypt, which drove many tourists away from the region. Also, Arab visitors who wish to pass through one of land arrival terminals encounter many difficulties, due to Israeli security considerations.

Although Israel has a developing railway system, its infrastructure is only inside the country and there is no possibility of crossing the country's borders via train. Consequently, there are no arrivals by rail.

Arrivals by sea accounted for a declining share of less than 1% of arrivals throughout the review period. Although a cheap mode of travel, ferries are usually slow. Sea trips to Israel, usually from Athens, can be a long and complicated way to reach the destination. These ferries are typically favoured by backpacker travellers, such as US youths on a one-month Eurorail ticket.

Purpose of visit

Israel is a country that provides many reasons for a visit. Firstly, since 1948 it has served as a refuge for the world's Jews. Secondly, it is the home of some of the holiest shrines of Christianity, Judaism and Islam. Finally, it has a dynamic economy and vital business life, paired with traditional tourist beach destinations and archaeological attractions.

The majority of arrivals in 2005 came in order to visit friends/relatives or for leisure purposes. Out of the total number it is estimated that 683,000 came to visit friends or relatives and 618,000 came for leisure purposes.

This data is based on surveys with incoming passengers. The fastest growing visitor group was leisure, which grew by over 80% in 2003 over the previous year and, after one year of stabilisation, by approximately 64% in 2005. However, this strong growth was largely in response to the collapse in tourism arrivals earlier in the review period, as leisure arrivals are still about two-thirds of its size in 2000.

Over the review period as a whole, leisure arrivals dropped but visiting friends/relatives grew dramatically. This trend had an impact on travel accommodation, as leisure arrivals tend to stay in hotels while those visiting friends/relatives tend to stay with their hosts.

The number of business arrivals continued growing since 2003, with a growth of 41% in 2003 over the previous year, 53% in 2004 and 40% in 2005 over the previous year. This swift recovery is attributed to Israel's strong business connections worldwide, with an emphasis on high-tech industry, in which Israel is considered a world power. The reduction in terrorism made Israel more inviting for business arrivals during the second half of the review period, with the city of Tel Aviv offering facilities and offices of the highest standard.

"Other" purposes of arrivals include pilgrimages. These are highly popular to Israel, which is home to many holy sites for the three main religions of Judaism, Islam and Christianity.

Business trends

Israel's economic recovery since 2003 indicated its return as a world power in certain industries, such as high-tech development, IT, biotech, agriculture and scientific development. Consequently, many ties with foreign companies and industries strengthened towards the end of the review period, increasing the number of business arrivals for work visits and international conferences. Israel's main business area is in Tel Aviv and the surrounding cities. This is an area which is very developed in its facilities and offices, making a business trip as convenient as possible.

Leisure trends

Most leisure arrivals who come to Israel seek developed beach resorts such as Eilat or cities on the Mediterranean shoreline. Many also choose the Israeli Galilee area, which offers a countryside vacation and many historical and religious sites.

Table 14 Arrivals by Method of Transport: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005
Air	1,954.0	1,060.0	778.7	904.0	1,339.1	1,766.3
Land	446.0	129.5	79.9	155.0	162.3	261.8
Rail	-	-	-	-	-	-
Sea	16.0	5.9	3.5	4.4	4.6	5.0
Arrivals by mode of transport	2,416.0	1,195.4	862.1	1,063.4	1,506.0	2,033.1

Source: *CBS, Euromonitor International*
Note: *"Others" includes visits for pilgrimages, conferences, research, health and political purposes*

Table 15 Arrivals by Purpose of Visit: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005
Business	169.1	128.0	112.2	158.0	241.0	337.7
Leisure	942.2	553.2	189.6	344.0	376.5	618.4
Visiting friends/ relatives	410.8	286.2	379.3	409.6	587.3	682.6
Others	893.9	228.0	181.0	151.8	301.2	394.4
Arrivals by purpose of visit	2,416.0	1,195.4	862.1	1,063.4	1,506.0	2,033.1

Source: *CBS, Euromonitor International*

Note:	"Others" includes visits for pilgrimages, conferences, research, health and political purposes

5.5 Outgoing: Departures and Expenditure

Departures

Departure numbers did not fluctuate as much as arrival numbers during the review period. Departures went from 3,530,000 in 2000 to 3,774,000 in 2005. Departures grew by 5% in 2005 over the previous year and by 7% over the review period as a whole. This represents a high level of travel, for a population of seven million people and indicates more than one overseas trip per year for many Israelis.

The crisis that Israel went through in 2001 and 2002 had a few contrasting effects. On the one hand, the economic recession caused many people to reduce their expenses, with leisure and holiday expenditure generally being one of the first to be cut in household budgets. However, increased terrorism in Israel made many seek a quiet escape abroad. 2002, the year when recession and terrorism were at their height, saw an 8% fall in departures, due these reasons and the national low spirit. However, in 2004 departure numbers rose by 9% over the previous year and 2005 saw another rise of 5%.

Outbound expenditure

Outgoing tourism expenditure rose by 11% during the review period. However, there was a 19% fall in 2003, before figures recovered by 33% the following year. Outgoing tourism expenditure stood at NIS13 billion in 2005. Expenditure continues to be restrained by the fact that many middle- and lower-income Israelis continue to be cautious with their spending. In addition, there is a famous Israeli affection for cheap holiday packages.

Expenditure per departure

Outgoing per capita expenditure grew from NIS3,239 in 2000 to NIS3,365 in 2005. Like outgoing tourists and total outgoing expenditure, there was a stagnation in per capita expenditure in 2003. However, expenditure per departure rose again in 2004 and 2005, to a total rise of 4% since 2000 in current value terms.

Table 16 Departures: 2000-2005

'000 people

		% growth
2000	3,529.9	-
2001	3,561.9	0.9
2002	3,273.0	-8.1
2003	3,298.7	0.8
2004	3,584.5	8.7
2005	3,774.2	5.3

Source: CBS, Euromonitor International

Table 17 Outgoing Tourism Expenditure: 2000-2005

NIS million

	Current	Constant
2000	11,432.4	11,432.4
2001	12,384.8	12,250.0
2002	12,046.4	11,279.4
2003	9,757.6	9,071.3
2004	12,971.4	12,109.2
2005	12,700.0	11,734.5

Source: CBS, Euromonitor International

Table 18 Outgoing Tourism Expenditure: 2000-2005

% growth

	Current	Constant
2000	7.6	6.4
2001	8.3	7.2
2002	-2.7	-7.9
2003	-19.0	-19.6
2004	32.9	33.5
2005	-2.1	-3.1

Source: CBS, Euromonitor International

Table 19 Expenditure per Departure: 2000-2005

NIS

2000	3,238.7
2001	3,477.0
2002	3,680.5
2003	2,958.0
2004	3,618.7
2005	3,365.0

Source: CBS, Euromonitor International

5.6 Outgoing: Destination

Top outbound destinations

The US remained the most popular destination overall al through the review period, accounting for 1,140,000 departures in 2005. Although very strict in its visa granting policy, the US offers many leisure and city break attractions, friendly people with sympathy towards Israel and a cultural life that has inspired those in Israel for many years.

The most popular destinations in Europe, which is closer and cheaper than the US, include France, the UK, Germany, Italy, the Netherlands and Spain. Holiday packages to Europe are very common in Israel, aimed at both young people and families.

Local Mediterranean travel to resorts in Turkey, Cyprus and Greece is also popular, with a combined 359,000 departures to these countries in 2005. These resorts are close to Israel, offer relatively cheap prices and include high level beach resorts.

It is customary for young people in Israel to take a long trip abroad after finishing their mandatory army service and before enrolling in universities or starting a career. The two most popular resorts for these trips are the Asia-Pacific area, featuring countries such as Thailand, India and Australia, and South America, featuring countries such as Argentina, Brazil, Peru, Bolivia and more. However, most of these travellers are backpackers, who do not spend much money and focus on trekking and adventures.

Growth across all major outbound destinations

General growth in departures from Israel was seen for almost all destinations in 2005 over the previous year, as a result of the general rise in outgoing Israelis. With the economy in Israel improving, much of the growth was seen in departures to popular European destinations, such as France, Italy, the Netherlands, Austria and Switzerland. Most travellers to these countries follow organised travel packages, such as ski or city break packages.

There was also a constant rise in departures to Thailand during the review period. This country is slowly gaining a special status amongst the young population, offering untouched scenery, treks and adventure tourism and relaxing beaches. Many young people make a wide trip around the area, including at least three or four countries overall.

Another area that is attracted more Israelis in recent years is Eastern Europe, with countries such as Poland and Romania. Many Israelis have family roots in Poland, for example and many schools arrange special trips annually to Holocaust sites in these countries. Furthermore, in recent years tourism in these countries developed vastly, offering classical European landscapes with cheaper prices and less commercialisation than in Western European destinations, alongside attractions such as shopping and casinos.

Long haul vs short haul

Most departures are made to long haul destinations, due to Israel's relatively distant location from Europe, the Far East or America. Popular closer destinations include Turkey, Greece and Cyprus, mainly for short beach holidays. With problematic neighbouring countries, Israelis usually have to fly long distance to get to their favourite destinations.

Highest expenditure destinations

The destinations that prompt the highest expenditure for outgoing Israelis are usually those globally known for their high prices. Among these are cities popular for shopping and city breaks, such as New York, London and Paris. Other high-spending destinations include cities which offer gambling options, as the law in Israel does not allow gambling in its territory. These destinations include Mediterranean countries such as Turkey and East European destinations such as Romania or Bulgaria.

Table 20 Departures by Destination: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005
Austria	15.1	14.4	13.7	15.0	15.2	17.1
Belgium	30.2	28.8	27.3	32.0	33.0	34.0
Cyprus	30.2	30.6	30.9	35.0	38.0	43.3
France	325.0	314.9	304.9	332.0	338.0	373.6
Germany	204.1	197.6	191.1	198.0	204.0	219.2
Greece	52.9	56.5	60.1	67.7	71.0	77.5
Italy	151.2	143.8	136.5	133.0	145.0	164.3
Netherlands	90.7	93.1	95.6	103.0	107.0	119.4
Poland	26.5	29.6	32.8	36.0	40.0	41.5
Romania	22.7	21.3	20.0	24.0	27.0	29.9
Russia	75.6	76.0	76.4	82.0	88.0	94.6
Spain	75.6	80.6	85.5	90.0	98.0	105.1
Switzerland	68.0	66.3	64.6	68.0	70.0	77.4
Thailand	34.0	35.2	36.4	43.0	48.0	55.9
Turkey	196.5	202.9	209.3	214.0	222.0	237.8
United Kingdom	226.8	213.5	200.2	212.0	216.0	222.7
USA	1,096.0	1,038.0	980.0	1,002.0	1,032.0	1,139.8
Other destination countries	808.8	918.8	707.7	612.0	792.3	721.1
Departures by destination	3,529.9	3,561.9	3,273.0	3,298.7	3,584.5	3,774.2

Source: CBS, Euromonitor International

5.7 Outgoing: Mode of Transport and Purpose of Visit

Mode of transport

The dominant mode of transport for departures is air, with this accounting for 3,061,000 departures in 2005, up 6% from the previous year. In 2004, there were several interesting events in the airline industry, including the opening and subsequent closure of a new direct route to the US operated by Israir. There is relatively little Arab travel by air due to the cost. Only affluent Israelis and Arabs travel to long haul destinations and require air transport.

The majority of departures by land are Arabs travelling to neighbouring countries. It is rare for Israeli tourists to travel to other Middle Eastern countries, except Turkey. Hence, the trend among air passengers is more reflective of the travel habits of Israelis, as it excludes much Arab travel.

There was a growing interest in cruises during the review period, though this is still a small niche and not included in the data for outgoing travel by sea. Sea travel includes trips by ferry, usually to Greece but also to other Mediterranean destinations. Ferries offer a cheaper but more time-consuming method of travel. Sea travel was dynamic in 2005 and departures increased by 54% as a result of strong offerings from the companies involved.

Purpose of visit

The dominant purpose for a trip abroad throughout the review period was for a holiday. In 2000, leisure accounted for 76% of departures and by 2005 the share remained 71%. Conversely, the share of trips to visit friends/relatives rose from 10% in 2000 to 13% by 2005. This suggests that more Israelis are choosing cheaper holidays visiting family, instead of taking more expensive leisure trips abroad. Visits to friends/relatives saw a significant growth over the review period, growing by an overall 39% over the review period.

Departures for business purposes saw an even stronger growth, up by an overall 98% over the review period. Tough economic conditions meant that non-essential business travel was postponed or cancelled. However, with the economic recovery there was a rise in business trips, with a 24% growth percentage in 2003 and similar growth rates in 2004 and 2005.

Business trends

The good growth in business departures since 2003 encouraged development in business travel. In accordance with global trends exclusive membership of flight clubs is becoming more popular, with this being offered to Israelis by some foreign airline companies. These clubs offer members a premium flying experience, such as with special waiting lounges in airports, luxuriant flight conditions and the option to collect frequent flyer points. These clubs are aimed mainly towards businessmen, as they tend to be more affluent and to fly more frequently.

Leisure trends

The review period saw an increasing number of Israeli departures made with groups rather than the classic family leisure trips. These might be sports fans travelling together for sport events, such as for the Olympic Games, the World Cup in soccer or the finals of European tournaments. Health seekers meanwhile travel in groups to special international resorts and spas. Adventure lovers meanwhile may go on extreme vacations in groups, taking part in jeep trips or mountain climbing, while bike riders may go for bike rides in famous sites around the world.

Table 21 Departures by Mode of Transport: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005
Air	2,871.8	3,085.4	2,827.7	2,689.2	2,876.4	3,061.1
Land	578.5	395.0	376.9	538.9	616.3	571.4
Rail	-	-	-	-	-	-
Sea	79.6	81.5	68.4	70.6	91.8	141.7
Departures by mode of transport	3,529.9	3,561.9	3,273.0	3,298.7	3,584.5	3,774.2

Source: CBS, Euromonitor International

Table 22 Departures by Purpose of Visit: 2000-2005

'000 people

	2000	2001	2002	2003	2004	2005

Business	43.9	45.9	44.8	55.7	69.1	86.8
Leisure	2,688.0	2,608.0	2,321.2	2,342.0	2,543.1	2,672.1
Visiting friends/ relatives	347.0	349.0	341.3	378.0	456.9	483.1
Others	451.0	559.0	565.7	523.0	515.4	532.2
Departures by purpose of visit	3,529.9	3,561.9	3,273.0	3,298.7	3,584.5	3,774.2

Source: *CBS, Euromonitor International*
Note: *"Others" includes military, diplomatic, sports, study and health tourism, as well as undisclosed departures*

5.8 Domestic: Trips and Expenditure

Trips

The number of domestic trips, excluding same day excursions that are very popular among Israelis, reached about three million in 2005. These trips include at least one night's accommodation.

Over the review period, the number of domestic trips grew slowly and consistently, with annual growth of around 2-5%. Israel is a small country that offers hot weather most of the year and varied landscape. Therefore domestic trips do not require much planning ahead or high expenditure. Despite economic difficulties and terrorism, Israelis enjoy travelling in their country, which offers many attractions and resorts.

Expenditure

Domestic tourism spending reached NIS25 billion in 2005, with a relatively consistent rise through the review period. The exception was in 2002, when expenditures fell by 3%, due to a poor performance of the economy in this year and a high incidence of terrorism. The economic recession made more people restrain their expenditure when sightseeing, while many tourism players lowered prices to combat falling demand and encourage Israelis to spend their vacations in Israel. The terrorist attacks forced people to stay away from the big cities and instead to go to less central attractions that demanded less expenditure. However, overall domestic tourist spending rose by 22% through the review period, indicating the continuing popularity of domestic travelling and sightseeing.

Expenditure per trip

Expenditure per domestic trip accounted for NIS8,351 in 2005, according to data from CBS. The security situation in Israel caused the Israelis to spend more money on their vacations, using safer options for hotels and transportation. These options are also often more expensive. All-inclusive holidays saw increased popularity, especially Eilat, which is remote from troubled areas and heavily guarded. Cheaper domestic trips such as visits to tourist attractions or to Jerusalem became increasingly dangerous during the review period and this deterred many Israelis.

Table 23 Domestic Tourist Trips: 2000-2005

'000 trips

		% growth
2000	2,625.0	-
2001	2,707.0	3.1
2002	2,773.0	2.4
2003	2,902.0	4.7
2004	2,997.6	3.3
2005	2,999.5	0.1

Source: *CBS, Euromonitor International*

Table 24 Domestic Tourist Expenditure: 2000-2005

NIS million

	Value	% value growth

2000	20,550.0	-
2001	22,270.0	8.4
2002	21,630.0	-2.9
2003	23,030.0	6.5
2004	24,620.0	6.9
2005	25,050.0	1.7

Source: *CBS, Euromonitor International*

Table 25 Expenditure per Domestic Trip: 2000-2005

NIS

2000	7,828.6
2001	8,226.8
2002	7,800.2
2003	7,935.9
2004	8,213.2
2005	8,351.4

Source: *CBS, Euromonitor International*

5.9 Domestic: Trips by Destination

Top domestic destinations

Eilat remains the vacation centre of Israel, with over a million domestic trips there in 2005, up by 19% from 2000. In percentage terms Eilat accounted for 42% of domestic trips in 2005. Eilat is a safe and calm beach resort that attracts everyone, from young travellers to families and senior citizens. The resort's hotel and tourist attraction infrastructure is very well developed and the weather is hot through the entire year. During the review period, Eilat was able to avoid some of the problems related to terrorism due to its remote and relatively well-guarded location on the southern tip of Israel.

Jerusalem saw the strongest decline over the review period, falling from 7% of domestic trips in 1999 to less than 6% in 2005. The fall in share was a direct consequence of the terrorist threat towards the capital, which hosts a large number of Palestinians and was the epicentre of the second Palestinian Intifada when it first broke out. In addition, Jerusalem's population is becoming more and more orthodox, which keeps many attractions closed on Saturdays and drives away many secular people.

Growth domestic destinations

Travel patterns within Israel are quite static and do not change much from year to year, with Eilat remaining a firm favourite. Variation is instead sought when travelling abroad and domestic travel seems to be based more upon tradition, historic sites and family attractions and the beaches in Eilat.

Business vs leisure trends

Due to Israel's small size, business conventions are within a maximum drive of few hours and do not demand long stays, even if occurring at either end of the country. However, many business conventions and assemblies take place in hotel facilities, so that employees can feel more relaxed and in a different atmosphere from work.

Another growing trend among domestic businesses is office trips. Office employees will increasingly take a trip together in order to break up the office routine and to get to know each other better.

The main new trends in domestic leisure trips saw the emergence of more specific groups of travellers travelling together, such as sports fans or health seekers.

Table 26 Domestic Trips by Destination: 2000-2005

'000 trips

	2000	2001	2002	2003	2004	2005
Dead Sea	355.0	370.0	380.0	390.0	394.4	395.9
Eilat	1,070.0	1,100.0	1,130.0	1,210.0	1,287.4	1,273.2
Golan Heights	95.0	101.0	105.0	110.0	114.2	121.7
Jerusalem	185.0	180.0	175.0	178.0	173.8	176.5
Netania	88.0	92.0	95.0	96.0	96.8	94.3
North Galilee	250.0	260.0	267.0	275.0	280.8	282.1
Tel Aviv	118.0	123.0	126.0	130.0	130.9	132.8
Tiberias	330.0	340.0	350.0	365.0	367.4	368.5
West Galilee	80.0	83.0	85.0	90.0	90.9	90.4
Other domestic tourism destinations	54.0	58.0	60.0	58.0	61.0	64.1
Domestic tourism by destination	2,625.0	2,707.0	2,773.0	2,902.0	2,997.6	2,999.5

Source: CBS, Euromonitor International

5.10 Domestic: Trips by Mode of Transport

Land trips dominate domestic travel. The bus infrastructure is strong in Israel, alongside a developing railway system that launched new lines annually in recent years. The small distance between many popular cities supports the popularity of land travel, while security threats towards public transport and its absence on weekends, due to the Jewish religion of Israel, makes car travel a favourite option. Land trips amounted to 2,410,000 trips in 2005, totalling 80% of total trips.

There is also a small share for domestic trips by air, with these totalling 506,in during 2005, a 2% rise from 2004. Israel is a small country, enabling convenient land or rail travel to most areas and rendering air travel unnecessary. Therefore, most domestic travel by air is to Eilat’s airport, due to its more remote location from Israel’s centre.

Air travel increased its share somewhat during the review period due to a higher level of competition between the airlines El Al, Sun d’Or, Arkia and Israir. This made flights more accessible, with these airlines providing more flexibility in ticket pricing and a range of cheaper tickets, making flying accessible to a wider target group.

Domestic sea travel in Israel is fairly insignificant, mainly accounted for by private yacht operators and owners. Sea travel in Israel suffered a continuing decline until 2003, also ascribed to its high cost and lack of development, it however returned to grow in 2004 and 2005.

Table 27 Domestic Trips by Mode of Transport: 2000-2005

'000 trips

	2000	2001	2002	2003	2004	2005
Air	577.9	471.4	455.9	485.0	494.2	506.4
Land	1,992.5	2,185.3	2,261.4	2,353.2	2,431.3	2,410.3
Rail	41.2	44.1	52.9	63.3	70.9	81.3
Sea	13.4	6.2	2.8	0.5	1.2	1.5
Domestic tourism by mode of transport	2,625.0	2,707.0	2,773.0	2,902.0	2,997.6	2,999.5

Source: CBS, Euromonitor International

5.11 Tourism Spending

National tourism spending

Tourism spending is mostly concentrated on areas such as shopping and food, with these accounting for NIS9 billion each in 2005. Many Israeli tourists are affluent and incoming tourists are also often keen to spend. Israel is well-equipped with shopping malls, designer stores and restaurants. Israel’s restaurant variety is vast and covers practically every genre, with a unique national cuisine reflecting the many origins of Israelis and fusion between them. The culinary experience is memorable for both foreign and domestic tourists.

Although Jerusalem is a world heritage city for Muslims, Jews and Christians, the other main city of Tel Aviv has a lot to offer in terms of nightlife and shopping. While Jerusalem is a mixed oriental city with a big Arabic population, Tel Aviv is more of a modern Mediterranean seaside city, taking advantage of is beaches and sea views for eateries and shops. Tel Aviv is the centre of tourist spending on food and shopping. Tourists in Israel typically shop for clothes, jewellery and traditional regional products. Gifts for family members, particularly for special occasions such as weddings, can also reach a considerable price.

Outbound tourism expenditure

Outbound tourism expenditures focused mainly on accommodation, at over NIS3 billion, entertainment at almost NIS3 billion and food at NIS2 billion in 2005. Most Israelis are will not compromise when it comes to accommodation and it is popular to enjoy each area's unique cuisine and entertainment offerings when travelling.

Expenditure on shopping reached almost NIS2 billion in 2005. This illustrates that alongside the strong tendency to buy gifts and souvenirs abroad, many Israelis realise that their own country offers a diverse range of products with prices that are usually similar to those abroad and this reduces expenditure abroad.

Table 28 Tourism Spending by Sector: Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Total tourism expenditure by sector	33,320.2	28,066.6	25,982.6	27,463.0	31,573.8	33,013.5
-Accommodation	6,676.4	5,045.8	4,745.7	4,900.7	5,710.8	6,597.3
-Entertainment	5,627.5	4,570.2	3,200.8	2,722.4	3,268.0	3,944.0
-Excursions	589.5	492.5	454.8	555.7	594.5	604.2
-Food	10,001.0	8,522.9	7,143.3	7,253.0	8,829.1	9,045.7
-Shopping	6,109.0	5,714.2	6,899.8	8,697.6	9,419.4	9,136.5
-Travel within country	2,748.2	2,270.0	2,219.1	2,222.4	2,304.9	2,245.0
-Other tourism expenditure	1,568.6	1,451.0	1,319.1	1,111.2	1,447.1	1,440.8

Source: *Ministry of Tourism, CBS, Trade press (Haaretz, Globes, Passportnet), Euromonitor International*
Notes: *Includes incoming tourist receipts and domestic tourist expenditure*
"Others" includes commissions revenue from tourists, medical expenses, gifts and donations
Entertainment includes attractions and evening entertainment
Food includes restaurants

Table 29 Outgoing Tourist Expenditure by Sector 2005

% retail value rsp

	2005
Accommodation	25.3
Entertainment	22.2
Excursions	7.4
Food	15.8
Shopping	14.9
Travel within country	10.1
Others	4.3
Total	100.0

Source: *CBS, Euromonitor International*
Note: *Includes incoming tourist receipts and domestic tourist expenditure*

5.12 Tourism Spending: Method of Payment

The evolution of the credit card in Israel had a profound effect on Israelis since the early-1990s. The Israeli attitude towards credit and banking in general was archaic and restrictive until the mid-1990s, which saw a rise in the use of credit cards in Israel, particularly for large-ticket purchases such as accommodation or car rental, which consumers often choose to pay for over a few months. Credit card penetration had a slower effect on smaller purchases, such as theatre tickets or meals at restaurants. However, credit card usage for these purposes is also growing. Cash also remains popular in Israel, however, particularly for leisure spending.

The increasing use of cards in Israel was partly driven by demand from tourists for ATMs and greater acceptance of credit cards in Israeli stores. As the use of financial cards grew in Israel, the infrastructure for their use also developed. This led to a rise in the use of credit cards among incoming visitors able to withdraw foreign currency from ATMs and to a corresponding fall in the use of traveller’s cheques, which are more restrictive in their use as they often have to be cashed during banking hours.

Debit and prepaid cards are negligible, as they do not exist in Israel.

Table 30 Method of Payments for Tourism Spending: % Breakdown 2005

% Retail value rsp

	Domestic	Outgoing
Cash	38.0	38.0
Credit card	62.0	41.0
Debit card	0.0	0.0
Prepaid cards	0.0	0.0
Traveller's cheques	0.0	21.0

Source: Bank of Israel, Foreign Exchange Club, trade interviews, Euromonitor International

5.13 Forecast Performance

Arrivals and receipts

With the dizzying rate of political, military and economic development accruing in Israel, It is very hard to predict anything for the forecast period. However, it seems likely that travel and tourism in Israel will not decline back to its 2001-2002 low due to promising signs, with tourism instead flourishing,

The Ministry of Tourism has stated some of its goals for the near future. One is reaching five million arrivals annually by 2008. If the Open Skies legislation is fully accepted, more airline companies are expected to initiate regular flights to and from Israel during the forecast period in order to increase competition levels. This should naturally lead to a decrease in prices. Correspondingly, tourism itself is also predicted to develop with key factors including lower pricing, wider offerings, greater capacity and stronger advertising.

With the predicated growth in incoming tourists and industry development, incoming tourism receipts are expected to continue to rise during the forecast period. Incoming tourism receipts are expected to reach the levels seen before the second Intifada broke out and then to reach new highs.

During the forecast period, the number of arrivals is expected to rise constantly, reaching five million around 2010. Incoming tourism receipts are meanwhile expected to reach a new high of NIS14 billion in 2010. However, outbreaks of violence may prevent this positive development if they occur.

Departures and expenditure

The number of departures was quite consistent through the review period and is predicated to continue rising at a similar rate of about 2% CAGR. Israelis have long shown that their urge to travel abroad is stronger than political, military or political events. The number of departures is predicted to grow by a total of 12% by 2010.

Outgoing tourism spending is also expected to see a moderate growth rate of 17% during the forecast period, reaching NIS15 billion by 2010. Growth in disposable incomes over the forecast period will mean that the average expenditure per departure will increase, leading to more rapid growth in constant value than in volume terms. A worsening of the economic or military situation could slow growth down but is not predicted to generate decline during the forecast period.

Table 31 Forecast Arrivals: 2005-2010

'000 people

		% growth
2005	2,033.1	-
2006	2,700.0	32.8
2007	3,250.0	20.4
2008	3,900.0	20.0
2009	4,600.0	17.9
2010	5,100.0	10.9

Source: Euromonitor International

Table 32 Forecast Incoming Tourism Receipts: 2005-2010

NIS million constant 2005 rsp

	Value	% value growth
2005	7,963.5	-
2006	9,258.0	16.3
2007	10,531.7	13.8
2008	11,711.5	11.2
2009	12,928.2	10.4
2010	14,017.0	8.4

Source: Euromonitor International

Table 33 Forecast Departures: 2005-2010

'000 people

		% growth
2005	3,774.2	-
2006	3,860.0	2.3
2007	3,940.0	2.1
2008	4,010.0	1.8
2009	4,120.0	2.7
2010	4,240.0	2.9

Source: Euromonitor International

Table 34 Forecast Outgoing Tourism Expenditure: 2005-2010

NIS million constant 2005 rsp

	Value	% value growth
2005	12,700.0	-
2006	13,200.0	3.9
2007	13,700.0	3.8
2008	14,100.0	2.9
2009	14,500.0	2.8
2010	14,900.0	2.8

Source: Euromonitor International

6. TRAVEL ACCOMMODATION

6.1 Sales and Outlets by Sector

2005 headlines

- Travel accommodation reached value sales of NIS7 billion in 2005, growing by 15% over 2004
- Growth is ascribed mainly to high numbers of incoming tourists
- Highest growing, in actual terms, was hotels in 2005, which holds 91% of accommodation value sales
- Israeli travel accommodation showed growth both in occupancy and profits during 2005

Sales

As in overall Israeli tourism, travel accommodation also saw a great recession during 2001 and 2002. It was on the verge of total collapse but this was prevented due to acute cutbacks and governmental aid. Due to a decline in terror acts and returning tourists, 2003 saw a modest 3% current value rise before 2004 and 2005 presented over 15% current value sales growth each.

However, most of this growth is a recovery from the 2001 downfall, with 2005 showing similar figures to 2000, with NIS6,597 million value sales in 2005 and NIS6,676 million in 2000. Ami Hirschstein, CEO of second-leading player Dan Hotel Corp estimates that growth is due to more efficient management by companies, after they were forced to cut back on expenses during the crisis years.

Israeli accommodation is dominated by hotels, which accounted for 91% of total travel accommodation sales with NIS6 billion value sales in 2005. Most hotels are located in central tourist locations and provide convenient services and facilities and therefore are favoured both by incoming tourists and by domestic tourists.

Hostels are favoured by foreign backpackers and young tourists coming to spend a prolonged period in Israel on limited budgets. These tourists are often taking gap years before or after study or long summer breaks to work in a Kibbutz. During their stay they generally take time to travel around Israel. There was a drop in the number of backpackers visiting Israel during the review period, however, because of the perceived threat of terrorist attacks, particularly on cafés and buses. This led to a fall in sales for hostels of 30% in current value terms over the review period. During 2005, hostels reached NIS24 million in value sales.

Chalets showed growth during the review period, with NIS176 million in value sales during 2005, a 5% rise from 2004 and 7% since 1999. Most chalets are located in Kibbutzim and small villages, which are usually located in countryside areas such as Galilee or the Golan Heights. These areas are rural and remote places, safe from terror attacks, which are usually aimed against big cities. Therefore the second Intifada did not affect chalets sales and even enlarged it. Chalets is highly popular among couples, offering a romantic getaway, and among families who go for weekend trips.

Holiday villages, included under “others”, are generally dependent on Israeli tourists, invariably families with young children and foreign guests they are entertaining. However, even these saw a fall in value sales over the review period, as did field schools, also included under “others”. During 2005, holiday villages and field schools reached NIS135 million in value sales, a 1% fall in current value terms over NIS136 during 2004 and a 37% current value fall during the review period as a whole.

Self-catering apartments reached NIS281million sales value during 2005, compared to NIS274 million in 2004. Self-catering apartments is common in whole blocks rather than as isolated apartments. Self-catering apartments tends to attract visitors that are in Israel for longer periods. Some Jewish tourists and Israelis living abroad visit Israel for three or more weeks in a single visit. These tend to be affluent visitors from the US and are often orthodox Jews, who prefer not to stay in hotels because of the prohibitive cost of long stays. Others have numerous children, which makes it impractical to stay in a hotel or with family even for short periods of time.

Outlets

In 2004, the most dynamic form of travel accommodation in terms of outlet volume was self-catering apartments. This saw a growth of 2% on the previous year to reach 2,560 outlets. This occurred as the number of

Jews visiting Israel from countries such as the US increased, thus boosting demand for cheap, long-stay accommodation.

However, most accommodation did not see significant growth in outlet volume during 2005 or during the review period as a whole, as the number of overall accommodation outlets was 3,000, up less than 100 outlets on 2000. Travel accommodation was on the verge of collapse during 2002, with most businesses focusing on surviving economically and thus not able to afford expansion. For example, during the review period dominant hotels grew by only six outlets, reaching 336 in 2005.

In anticipation of a surge in demand in 2000, Israeli operators raised hotel capacity to cater for a new wave of tourist interest in Israel and this was quickly followed by growth in self-catering apartments. The second Intifada left travel accommodation with considerable excess capacity, very low occupancy levels and led to the temporary closure of some outlets since 2001.

Room occupancy declined from 66-68% in the early-1990s to 45% in 2001 and 36% in 2003. However, this figure relates to the number of rooms available in open hotels. In the early-1990s, there were around 30,000 rooms on offer but this number rose in line with investment in new capacity since 1995 to over 43,000 by 2000. By 2005, the number of hotel rooms reached an approximate 45,000.

The number of chalets fell from 120 to 109 over the review period, which represents a loss of around 250 rooms. Chalets located inside Kibbutzim fell from 22 to 18, though there was little net effect to the number of rooms available overall and a nominal increase in the number of beds, as there was some expansion among other successful sites. Kibbutzim and Moshavim generally have fewer capital reserves and many Kibbutzim are in substantial debt. Consequently, they are more inclined to close guest accommodation temporarily if they are incurring operational losses.

Chains

Israeli hotels are varied. There are many small independent hotels in Jerusalem but there are also areas such as Eilat with huge tourism complexes and there is quite a high share of luxury hotels.

Within travel accommodation, the main players are chained hotels. Israel includes nearly 70 chained hotel outlets, the larger of them offering several hundred rooms, swimming pools, discos and several restaurants per outlet. These require considerable investments and thus generally owned by larger players. The main players Dan Hotels Corp and Fattal Hotel Management Ltd operate in several hotel areas, both by the Dead Sea and in Eilat.

Most chained hotels are conveniently located in central locations such as Eilat, the Dead Sea, Tel Aviv and Jerusalem. These facilities are attractive to families and businessmen and conference organisers.

A new trend that helped chained hotels' sales during the review period was Jews travelling to Israel to celebrate traditional ceremonies, such as Bar Mitzvahs or weddings. These events call for large halls and rooms for many guests altogether, a demand that large chained hotels supply with better ease than small private ones.

Due to investments in their outlets in recent years, chained hotel operators generally carry debts that they need to meet despite the low occupancy levels. However, they are working with airlines and tour operators to attract customers in a way that small independents cannot because of their obvious limitations in scope and finance.

During the recession years of 2001 and 2002, the government fund of NIS30 million for marketing hotels proved useful. Due to there being many vacant hotel rooms in luxury hotels during off-seasons, chains owning the most famous luxury hotels started to promote escapes and getaways for couples, including offering spa packages and low prices. This is a way for chained hotels to improve their cash flow, even though it meant possible the possible downgrading of their brands' image due to the reduction of prices.

Independents

Independent hotels accounted for 79% of total hotel outlets, with 267 outlets in 2005, yet only 26% of total hotel sales value. Most independent hotels are located in less central locations compared to chained hotels and offer less in the way of facilities and infrastructure. The main attraction of independent hotels is their lower prices, which explain their low sales value in comparison to chained hotels and niche offerings, such as special hotels for orthodox Jews or Christian pilgrims. Many independent hotels are located in rural or distant locations, offering accommodation for travellers in these areas who prefer hotels over small hostels or intimate chalets.

Table 35 Travel Accommodation Sales by Sector: Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Chalets	171.6	157.6	147.1	154.0	167.7	175.7
Other travel accomodation	718.3	612.0	545.5	579.7	601.0	618.9
Campsites	2.3	2.6	3.1	3.2	3.3	3.4
Guesthouses	-	-	-	-	-	-
Hostels	33.4	28.5	26.2	19.8	20.0	23.5
Motels	-	-	-	-	-	-
Private accommodation	-	-	-	-	-	-
Self-catering apartments	296.8	257.3	238.4	263.0	274.0	281.0
Other other travel accomodation	214.2	166.0	130.6	139.7	136.0	135.3
Hotels	5,958.1	4,433.8	4,200.2	4,321.0	5,109.8	5,978.4
-Chained hotels	4,106.0	3,119.8	3,007.4	2,825.0	3,357.1	4,146.0
-Independent hotels	1,852.1	1,314.0	1,192.8	1,496.0	1,752.7	1,832.4
Travel accommodation	6,676.4	5,045.8	4,745.7	4,900.7	5,710.8	6,597.3

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

Table 36 Travel Accommodation by Sector: Units 2000-2005

Outlets

	2000	2001	2002	2003	2004	2005
Chalets	120	114	111	108	108	109
Other travel accomodation	2,632	2,575	2,642	2,655	2,705	2,716
Campsites	5	5	5	5	5	5
Guesthouses	-	-	-	-	-	-
Hostels	31	30	31	29	29	29
Motels	-	-	-	-	-	-
Private accommodation	-	-	-	-	-	-
Self-catering apartments	2,460	2,410	2,480	2,500	2,550	2,560
Other other travel accomodation	16	16	15	13	13	13
Hotels	340	339	334	335	336	336
-Chained hotels	70	70	69	69	69	69
-Independent hotels	270	269	265	266	267	267
Travel accommodation	2,972	2,914	2,976	2,990	3,041	3,052

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

6.2 Hotels by Region

Star ratings

The Ministry of Tourism abolished the previous hotel grading system in 1992. The new classification system for hotels, previously graded as 1-star to 5- star deluxe, has four levels based on the character of the hotel (recreational or urban) and the average size of a double room. Hence 1- and 2-star hotels tend to fall predominantly into the forth level. 3-star hotels are mainly the third level. 4-star hotels fall between level 2 and level 3, with about two thirds classified as level 2. 5-star and 5-star deluxe hotels fall between the first level and second one, with about two thirds classified as level 1. The proportion of hotels conventionally considered to be 4- and 5-star was around 45% of all hotels in 2005. There was little change in its share over the review period, as expansion occurred across all levels

Rooms and beds

Overall, Israeli travel accommodation consisted of 45,000 rooms and 111,000 beds in 2005. The giant in Israel's travel accommodation in terms of hotel rooms and visitors continues to be Eilat, with its beaches, year-round sunshine and exceptional coral reefs which attract many diving enthusiasts. Eilat offered a total of almost 11,000 rooms in 51 hotels during 2005. Several of these hotels are large tourism complexes with lots of activities attracting families with children. These hotels in total offer 31,000 beds, which is more than 25% of the total beds count.

Considering its religious and historic attractions, many hotels in Jerusalem are smaller and appeal to specific consumer groups, such as orthodox Jews or Christian pilgrims, instead of vacation oriented facilities like Eilat. In terms of hotel volume, Jerusalem led in 2005 with 68 hotels, 17 more than Eilat. However, hotels in Jerusalem are smaller and the capital's room volume was lower than in Eilat, with 9,000 rooms in 2005, compared to 11,000 in Eilat. Jerusalem attracts tourists from all over the world, because the old city has archaeological, religious and cultural interests that appeal to a broad consumer base. However, Jerusalem has a low amount of leisure tourist attractions, such as beaches or shopping centres, and therefore attracts fewer visitors than Eilat.

Tel Aviv, Israel's biggest and most central city, offer 60 hotels with almost 6,000 rooms and 12,000 beds. Some of Tel Aviv's hotels are large and high standard. Most are conveniently located along the city's shores and boardwalk, with generally only smaller and independent hotels in other parts of the city.

Another large hotel concentration is around the Dead Sea. The number of hotels around the Dead Sea reached 15 in 2005 and the number of rooms reached 4,000. The appeal of the Dead Sea will always be strong for many travellers. The Dead Sea itself is a unique experience and its health spas promote famous health and beauty products that attract many tourists. The Dead Sea is also located near to the fortress of Massada, which is an enduring symbol among Jewish people and is visited by most Jews and by all Israelis on a regular basis. Ein Gedi nature reserve is also nearby so the area offers three very different attractions in a small area. Among Israel's Arab population the Dead Sea is one of the favourite destinations.

Occupancy trends

Eilat is the indisputable centre of tourism in Israel, reaching 65% occupancy rate in 2005. Although smaller in volume and territory, the Dead Sea tourist area also reached 64% occupancy rate.

Israel's northern area, which includes North and West Galilee and the Golan Heights, offers smaller hotels that are more secluded and country-oriented. It is considered an area for relaxation and for getting away from the stressful everyday life of Israel's centre. Most holiday seasons in Israel see northern hotels selling out. However, the area is colder and attracts fewer visitors during the winter season. All three areas reached over 40% occupancy rates during 2005, with Golan Heights reaching 54%.

Tiberias, sitting on the shores of the Sea of Galilee, offers another concentration of hotels. However, its occupancy rates remained at 36% in 2005. This is partly due to the high number of chalets in the area and to the problematic infrastructure development of the Sea of Galilee shores, which is far from achieving its tourist potential.

Tel Aviv, Israel's central city, reached a respectable 48% occupancy rate. Jerusalem, although offering the highest rooms and beds volume, meanwhile reached only 35% occupancy rate. Jerusalem was struck badly by Palestinian terror acts and its tourism levels, both incoming and domestic, plummeted during 2001 and 2002. The following years featured a very slow recovery for the city, yet to be fully achieved.

Table 37 Regional Hotel Parameters 2005

Unit

	5-star	4-star	3-star	2-star	1-star	Unrated
Dead Sea	-	-	-	-	-	-
Eilat	-	-	-	-	-	-
Golan Heights	-	-	-	-	-	-
Jerusalem	-	-	-	-	-	-
Netania	-	-	-	-	-	-
North Galilee	-	-	-	-	-	-

Tel Aviv	-	-	-	-	-	-
Tiberias	-	-	-	-	-	-
West Galilee	-	-	-	-	-	-

	Number of rooms	Number of beds	Occupancy rate %
Dead Sea	4.0	9.2	63.9
Eilat	10.8	30.7	65.1
Golan Heights	1.3	3.1	53.9
Jerusalem	8.8	20.5	35.0
Netania	1.7	4.5	34.7
North Galilee	1.9	4.5	43.7
Tel Aviv	5.9	11.9	48.4
Tiberias	3.9	11.2	36.3
West Galilee	2.6	5.8	40.7

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

6.3 Online Sales

Online developments

The internet is becoming more and more important to hotels, above all as a marketing channel. Bookings directly via hotel internet sites are still fairly uncommon, however. In 2005, an approximate NIS334 million of hotel bookings were booked online, generating only 5% of total travel accommodation sales revenue. These figures represent 21% current value growth from 2004 and a total of 456% growth through the review period.

Hotels often cooperate with online travel agencies sites such as lastminute.com, as online agencies save a lot of time for consumers compared with browsing a large number of hotel sites to find the best deal. For hotels, an internet reservation is preferable because they can often charge the card holder at once and the booking involves less cost to them.

However, although slowly expanding, Israeli online tourist reservations are rather restrained. Most people prefer to use the internet as a tool for price comparison before making their reservation via phone or travel agencies.

Direct suppliers performance

Direct online suppliers, meaning the hotels themselves, reached value sales of NIS76 million in 2005, with a 5% current value rise from 2004 and 130% rise through the review period. Some of the slow consistent growth in online accommodation bookings can be attributed to the growing awareness of hotels regarding this sales channel. Only during the review period did most hotels improve their undeveloped websites, with many now offering browsers the chance to view a hotel’s attractions and book online directly. However, this option is mainly available for large hotels and most websites are still less convenient than making a reservation via phone. This resulted in direct suppliers accounting for only 23% of total online travel accommodation sales.

Intermediaries performance

Intermediaries’ internet travel accommodation sales reached NIS258 million in 2005, with a 27% current value rise from 2004 and no less than 852% rise through the review period. Most online accommodation bookings are made through intermediaries by incoming tourists, who need to make arrangements from a distance and come from countries where online bookings are more popular, such as the US. Also, many intermediaries offer travel accommodation booking as part of a package, which can include car rental, visits to tourist attractions or flights. In contrast, most domestic tourists prefer to book travel accommodation face-to-face or over the phone, as this allows them to ask questions, negotiate and to have a contact with which to address any problems.

Table 38 Travel Accommodation Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2000-2005

NIS million	2000	2001	2002	2003	2004	2005

Internet	60.1	76.4	126.9	217.5	275.9	334.1
- Direct suppliers	33.0	41.1	50.9	65.4	72.3	76.0
- Intermediaries	27.1	35.3	76.0	152.1	203.6	258.1
Others	6,616.3	4,969.4	4,618.8	4,683.2	5,434.9	6,263.2
Total	6,676.4	5,045.8	4,745.7	4,900.7	5,710.8	6,597.3

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

6.4 Key Performance Indicators

Sales

Dan Hotels Corp led company ranking in turnover during most of the review period and fell behind Fattal in 2004. Dan Hotels was the second player also during 2005, with an estimated turnover of NIS915 million. The hotel chain has so many outlets and rooms that it managed to use the growth in incoming tourists to grow by attracting the majority of them.

In 2005, the leading hotel group in Israel was Fattal Hotel Management Ltd, with some of the biggest hotels in the country. Being a private company, as are most companies within Israeli travel and tourism, Fattal Hotel Management Ltd is not obliged to disclose its financial results. Nevertheless, in 2004 its owner and managing director David Fattal said that the hotel chain’s annual turnover was over NIS500 million. Its estimated turnover for 2005 was NIS981million, due to the recovery in hotels sales during 2004 and 2005.

The third main player during 2005 was Isrotel Ltd, which doubled its income and reached an approximate NIS502 million during 2005. Nine of Isrotel’s eleven outlets are located in Eilat, so the company is mainly affected by growth and fall in the number of leisure tourists. After the lean years of 2001 and 2002, in which leisure travellers dropped dramatically, Isrotel Ltd is now gaining from the high growth of incoming leisure tourists.

Outlets

In accordance with sales figures, the three largest chains in Israel are Dan Hotels Corp with 15 outlets, Isrotel Ltd with 11 outlets and Fattal Hotel Management Ltd with 10 outlets. All of these companies have outlets in the main tourist destinations, such as Eilat, the Dead Sea and Tel Aviv beach, usually having more than one outlet in these locations. Other companies, most of them part of global chains, such as Africa Israel Hotels Ltd’s Holiday Inn, Sheraton, Accor and Hilton, have one or two outlets in every main location and therefore have 3-5 outlets overall.

Rooms and beds

The number of rooms is higher at large chained hotels, which usually offer a few hundreds rooms in their larger outlets. These large hotels are usually located in Eilat or Tel Aviv. The companies with most rooms are Dan Hotels Corp, Isrotel Ltd and Fattal Hotel Management Ltd, in accordance with their many outlets and large hotels. Other large companies have an average of 150-200 rooms per outlet.

The bed to room ratio is quite similar for all main players, with about 2-4 beds per room, depending on the room kind. All accommodation outlets in Israel, with the exception of hostels and field schools, offer rooms either for couples or for small families.

Occupancy

With the return of incoming tourists to Israel in the past two years, occupancy rates in the main companies reached relatively high figures, with Fattal Hotel Management Ltd leading with 65% occupancy rate, Dan Hotels Corp with 61% and Isrotel Ltd with 59% in 2005. This reflects the fact that most outlets of the big players are located in main locations with high occupancy rates, such as Eilat, the Dead Sea and Tel Aviv. Also, these chained hotels work with travel agencies and many guests come to these hotels as part of a larger tourist package.

RevPAR

The most effective company in upholding its RevPAR was Fattal Hotel Management Ltd, with NIS860, as Dan Hotels Corp and Isrotel Ltd stay right behind. During the review period, many prices were lowered in order to attract visitors due to the tough military and economic situation of 2001 and 2002.

During 2005, hotels once again relied more on incoming tourists than on domestic ones, causing prices to rise back slowly. Smaller players tend to have fewer outlets and a less luxury image, so their RevPAR level is generally lower. However, there are exceptions of smaller groups who prefer to promote their outlets as luxury or who are placed in attractive locations and therefore have a higher RevPAR, such as Rimon Ltd.

Table 39 Hotel National Brand Owners by Key Performance Indicators 2005

Company	Outlets	Rooms '000	Beds '000	% occup-ancy	revPAR (local currency)
Fattal Hotel Managment Ltd	10	2.4	5.4	65.0	860.0
Dan Hotels Ltd	15	3.7	8.0	61.0	553.8
Isrotel Ltd	11	2.4	5.8	59.0	464.0
Africa Israel Investments Ltd	5	1.0	2.3	52.0	733.0
Sheraton Moriah Hotels Ltd	4	0.8	1.7	51.0	754.0
Accor Group	4	0.7	1.3	49.0	659.3
Hilton Israel Ltd	3	0.4	0.8	48.0	715.2
Prima Hotels Israel Ltd	3	0.4	0.8	46.0	708.1
Rimon Ltd	3	0.3	0.6	42.0	615.0

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

6.5 Hotel Market Shares

Second player in 2005 was Dan Hotels Corp, which managed to enlarge its share from 11% in 2004 to 15% in 2005. For most of the review period, Dan Hotels Corp was the leading company, maintaining a share at 11%-15%.

Fattal Hotel Management was the sector leader in 2005, this company expanded dynamically over the review period, with its share growing from 8% in 2001 to 16% in 2005. This growth was achived establishing new hotels and optimising the reservation systems of its owned hotels.

Isrotel Ltd managed to double its share during the review period, rising from 5% in 2004 to 8% in 2005. The company finished the first nine months of 2004 with an overall NIS18 million loss but finished the parallel period in 2005 with a NIS2 million profit, illustrating its strong recovery.

Holiday Inn, operated by Africa Israel Hotels Ltd, was in fourth position followed by Sheraton, ranked fifth overall. The latter achieved this position by acquiring a local chain in 1999, Moriah Hotels. This was acquired through a joint venture with Israeli conglomerate Koor Industries to form an international hotel management company.

Two of the big international chains, Hyatt and Hilton, did not add any capacity in room volume to their existing hotels at the start of the review period. These players were therefore not hit with the relatively low occupancy rates that their competitors suffered. They therefore largely preserved their share during the review period.

Before the tourism crisis in 2001, hotel chains were well positioned with stable client bases and good profits. After the fall in tourism, hotel chains were forced to engage in something close to a price war, with most big chains offering discount hotel rooms outside of the peak season. In spite of this, the hotel sector looks rather consolidated in Israel with the first nine players accounting for 60% of value sales in 2005.

Larger groups benefit from their larger portfolios of hotels and are thus able to balance the effect of regional difficulties. They were thus able to benefit from a recovery in tourism in Eilat since 2003, a recovery which was felt also in other locations during 2005.

Table 40 Hotel National Brand Owners by Market Share 2001-2005

% retail value rsp

Company	2001	2002	2003	2004	2005
Fattal Hotel Managment Ltd	8.4	9.1	9.8	11.6	16.4
Dan Hotels Corp	13.1	12.9	12.8	11.3	15.3
Isrotel Ltd	4.6	4.9	5.0	5.3	8.4
Africa Israel Hotels Ltd	-	-	4.5	4.7	5.5
Sheraton Moriah Hotels Ltd	4.2	4.5	4.6	4.6	4.6
Accor Group	4.6	4.6	4.4	4.2	4.0
Hilton Israel Ltd	1.9	2.0	2.2	2.4	2.4
Prima Hotels Israel Ltd	2.0	1.9	1.7	1.6	1.9
Rimon Ltd	1.0	1.1	1.3	1.4	1.3
Others	60.2	59.0	53.7	52.9	40.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Trade interviews, Ministry of Tourism, the Hotels Association, company research, Euromonitor International

6.6 Forecast Sales and Outlets

Sales

The forecast for travel accommodation is positive but uncertain, as it is related to the general political situation in Israel and the Middle East during the forecast period. As a whole, travel accommodation is expected to continue its growth, though less rapidly than in 2004 and 2005, as these years reflect recovery from a deep crisis.

After 2005 saw a recovery almost to the figures reached before the outbreak of the second Intifada, the forecast period is expected to see a general growth in sales and occupancy rates, in accordance with the consistent growth expected in incoming tourists figures. This will increase both the number of guests and the prices charged. Overall, value sales are expected to reach NIS8 billion by 2010, a 22% constant value growth compared to 2005.

Outlets

The review period was characterised by a deep recession and afterwards a recovery, which placed outlet volume in 2005 at a similar level to 2000. As a result, accommodation outlet figures did not change dramatically during the review period.

Despite this recovery, occupancy rates show that the current travel accommodation supply is yet to reach its potential. Therefore, the forecast period is unlikely to show any aggressive expansion of outlets. Outlets are expected to increase by 2% during the forecast period, reaching a total of three million outlets. This will be slower than the growth rate seen over the review period. Naturally there is a time lag between times of economic hardship and the planning of new outlets.

Hotels is anticipated to focus more on increasing quality and on differentiating offerings to fit more target groups during the forecast period, rather than focusing on an expansion of the number of units. Hotels also saw consolidation during the review period, with groups satisfying expansion plans via acquisitions. As a result, the number of hotels will only grow by 1% over the forecast period reaching 341 by 2010.

Chalets located inside Kibbutzim is expected to see the most dynamic growth over the forecast period of the major types of travel accommodation, with a growth rate of 6% to 115 outlets. If the political situation worsens, as it did in 2001 and 2002, chalets will grow more rapidly, as tourists seek to get away from crowded locations. The relative relaxation in terror levels against Israeli targets would slow down growth in chalets but this type of travel accommodation will still develop, as the popularity of quiet countryside locations continues and the opening of new chalets is relatively cheap and easy.

Online trends

Online travel accommodation booking in Israel is still rather undeveloped and is expected to grow consistently in the following years. Until travel accommodation companies improve and develop their websites and their price offerings, however, it is expected that domestic tourists will not change their habits quickly. Most will continue to prefer to use the internet mainly as a tool for price comparison rather than for booking travel accommodation. Incoming tourists are expected to continue to be the main users of online booking, as internet retailing is growing more rapidly in other countries. In addition, due to the distance of incoming travellers, this is often the easiest method of booking travel accommodation. Overall, travel accommodation internet sales are expected to grow by 112% and reach an approximate NIS707 million by 2010.

Table 41 Forecast Travel Accommodation Sales by Sector: Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Chalets	175.7	182.0	188.5	194.5	201.0	207.5
Other travel accomodation	618.9	634.0	648.6	663.7	678.8	693.9
Campsites	3.4	3.5	3.6	3.7	3.8	3.9
Guesthouses	-	-	-	-	-	-
Hostels	23.5	26.0	28.5	30.5	32.0	34.0
Motels	-	-	-	-	-	-
Private accommodation	-	-	-	-	-	-
Self-catering apartments	281.0	285.5	289.0	294.0	299.0	303.5
Other other travel accomodation	135.3	137.0	139.0	141.0	143.0	145.0
Hotels	5,978.4	6,450.0	6,750.0	6,900.0	7,100.0	7,350.0
-Chained hotels	4,146.0	4,425.5	4,556.3	4,623.0	4,750.0	4,917.5
-Independent hotels	1,832.4	2,024.5	2,193.7	2,277.0	2,350.0	2,432.5
Travel accommodation	6,597.3	7,084.0	7,398.6	7,563.7	7,778.8	8,043.9

Source: Euromonitor International

Table 42 Forecast Travel Accommodation by Sector: Units 2005-2010

Outlets

	2005	2006	2007	2008	2009	2010
Chalets	109	110	112	113	114	115
Other travel accomodation	2,716	2,728	2,740	2,753	2,760	2,766
Campsites	5	6	6	7	7	7
Guesthouses	-	-	-	-	-	-
Hostels	29	29	29	30	30	30
Motels	-	-	-	-	-	-
Private accommodation	-	-	-	-	-	-
Self-catering apartments	2,560	2,570	2,580	2,590	2,595	2,600
Other other travel accomodation	13	13	13	13	14	14
Hotels	336	337	338	339	340	341
-Chained hotels	69	70	70	70	71	71
-Independent hotels	267	267	268	269	269	270
Travel accommodation	3,052	3,065	3,078	3,092	3,100	3,107

Source: Euromonitor International

Table 43 Forecast Travel Accommodation Internet Sales by Sector: Internet Transaction Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Internet	334.1	403.5	475.0	568.5	624.0	707.0
- Direct suppliers	76.0	81.5	96.0	103.5	113.0	130.0
- Intermediaries	258.1	322.0	379.0	465.0	511.0	577.0
Others	6,263.2	6,680.5	6,923.6	6,995.2	7,154.8	7,336.9
Total	6,597.3	7,084.0	7,398.6	7,563.7	7,778.8	8,043.9

Source: Euromonitor International

7. TRANSPORTATION

7.1 Sales by Sector

2005 headlines

- Growth continues in 2005, with sales growing in current value terms by 5% over 2004
- Israeli national airline El Al improving performance with new ownership
- Rail most dynamic in 2005 despite distressing events
- Low cost carriers yet to reach Israel

Sales

Due to the high price of tickets and high volume of travellers, air dominates sales in transportation, reaching value sales of NIS11 million in 2005 after experiencing a dip in sales during the middle of the review period.

The review period was probably one of the most volatile episodes in Israeli air travel history. National airline El Al was sold to private investors in 2003, although the state still holds a significant share and a golden stock giving them special rights to intervene in company affairs. The Israeli government earlier privatised some of the air routes operated by El Al and granted permission to smaller competing Israeli companies to fly these routes or other routes that El Al no longer wishes to fly. This was done in order to make the sale of El Al smoother.

Unlike other countries, Israeli air travel has not experienced a major impact from low cost airlines. There are so far no low cost carriers operating in Israel and this spared the leading companies from facing low-price competition. Instead, companies such as Israir attempted to challenge El Al on quality and price terms and simultaneously compete with buses in terms of convenience and security. Air saw stiff price competition since 2003 but compared with European countries, where players such as Ryan Air challenge the leaders with rock-bottom prices, the situation in Israel cannot yet be called a price war. El Al showed good results since its privatisation, with the company seeing profit for the first time in many years in 2003 and in 2004 enlarging that profit by over 400%.

Bus/coach saw revenue fall during 2001 and 2002, when many Palestinian terror acts were aimed against public buses, driving away many potential passengers. The relative calmness in terror acts since mid-2003 saw a consistent rise in bus revenue, with current value growing by 5% in 2004 and 2005 over the previous years, to reach NIS3 billion value sales. In 2005, national public bus company Egged gave up on certain municipal areas and was replaced by small bus companies, which offered lower prices and attracted more passengers.

The Israeli National Railway Company continued its growth in 2005, reaching annual revenue of NIS466 million during 2005, with a 15% current value rise compared to 2004. The railway company, supported by the Ministry of Transportation, constantly develops and builds new lines in order to connect rural cities to Israel's centre. 2005 saw the launch of new rail lines to Jerusalem, Ashkelon and Dimona, for example.

However, the Israeli railway company also suffered a rough year during 2005, with a lethal accident involving seven casualties in June, ongoing complaints about delays and over-crowdedness and many attacks against the efficiency of some lines, like the one to Jerusalem. Most of these faults received vast exposure by the media but rail sales continued to grow, as rail still offers quick and direct travel from many satellite towns to Israel's centre.

Cruise travel was badly affected by the increase in terrorist activities during 2001 and the increasing threat of international terrorism after the Al Qaeda attack on the US in September 2001. There was also a focused terror warning against Israeli cruise ships sailing to Turkey in 2005. As a result, value sales fell during the review period by 60% in current value terms, down to NIS14 million during 2005. However, cruise sales recovered somewhat during 2004 and 2005, as cruise holidays began to be marketed as easy and convenient breaks once more.

Table 44 Transportation Sales by Sector: Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Air	8,103.9	7,978.2	9,004.3	9,125.0	10,113.1	10,618.8
Other transportation	2,985.1	2,927.4	2,854.0	2,987.5	3,180.6	3,377.9
Bus/coach	2,752.0	2,667.7	2,548.3	2,627.1	2,761.9	2,897.9
Chauffeur-driven car	-	-	-	-	-	-
Cruise	35.0	25.0	15.0	8.0	13.6	14.1
Ferry	-	-	-	-	-	-
Rail	198.1	234.7	290.7	352.4	405.1	465.9
Transportation	11,089.0	10,905.6	11,858.3	12,112.5	13,293.7	13,996.7

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.2 Airline Capacity and Utilisation

Capacity

Available seats reached almost 24 million in 2005. This is similar to the level seen in 2000, after which the number dropped and recovered only in 2004 and 2005. The drop in seat availability was caused as airlines streamlined operations and increased cabin factor for some destinations. The outsourcing that El Al undertook for some of its licensed destinations contributed to more efficient operations and a greater flexibility in terms of fleet, as carriers were able to optimise the use of smaller aircrafts on less important destinations.

Also as a result of El Al’s expansion, during the review period, charter seats decreased from 4,800,000 to 4,150,000, while scheduled seats grew from 18,900,000 to 19,400,000.

Utilisation

Although the number of available seats in 2005 regained the levels seen at the start of the review period, the number of seats sold is yet to fully recover, being 15% lower than 2000 figures. The main fall was in scheduled operators, with 8,250,000 seats sold in 2005 in comparison to 9,900,000 in 2000. Charter carriers were able to make better use of their fleets during the review period, with the number of sold seats growing from 1,600,000 to 1,700,000 over the review period.

Table 45 Airline Capacity: 2000-2005

'000 seats

	2000	2001	2002	2003	2004	2005
Airline capacity	23,700.0	23,200.0	22,100.0	20,900.0	21,700.0	23,550.0
-Schedule (capacity)	18,900.0	18,300.0	17,800.0	16,800.0	17,400.0	19,400.0
-Charter (capacity)	4,800.0	4,900.0	4,300.0	4,100.0	4,300.0	4,150.0
-Low cost carriers (capacity)	-	-	-	-	-	-

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Table 46 Airline Utilisation: 2000-2005

'000 seats

	2000	2001	2002	2003	2004	2005
Airline seats sold by type	11,700.0	10,200.0	9,200.0	8,500.0	9,300.0	9,900.0
-Schedule (utilisation)	9,900.0	8,100.0	7,500.0	7,000.0	7,600.0	8,250.0
-Charter (utilisation)	1,800.0	2,100.0	1,700.0	1,500.0	1,700.0	1,650.0
-Low cost carriers (utilisation)	-	-	-	-	-	-

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Table 47 Airline % Utilisation 2000-2005

% airline utilisation

	2000	2001	2002	2003	2004	2005
Airline seats sold by type	49.4	44.0	41.6	40.7	42.9	42.0
-Schedule (utilisation)	52.4	44.3	42.1	41.7	43.7	42.5
-Charter (utilisation)	37.5	42.9	39.5	36.6	39.5	39.8
-Low cost carriers (utilisation)	-	-	-	-	-	-

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.3 Airline Seat Class and Distance

Seat class

Most passengers choose economy tickets, due to the high cost of other classes. Economy ticket sales reached 8,100,000 in 2005, up from 7,700,000 million in the previous year. Many travellers are very price-sensitive when it comes to flights and few are prepared to pay full price to fly to or from Israel.

Tickets to Israel tend to be expensive compared to those to European destinations. This is partly because Israel attracts affluent travellers and partly because El Al set a high-price benchmark in the 1950s, at a time when there was little competition and other airlines were happy to follow. This contributed to consumers' long-established price-sensitivity with regards to flights. It was only in the 1990s that charter flights became more commonplace in international flights, which introduced a degree of price competition.

Business class is rarely purchased by Israelis and is more popular with foreign businessmen seeking to fly long haul at their company's expense. As the number of business trips fell since 2000, so did the number of business seat bookings. In a more recessionary climate, business travellers travelling short haul do so in economy class.

First class was the least significant in 2005 and its value sales did not reach noticeable figures. It followed a similar pattern to business class seats, as the economic climate forced Israeli travellers to cut costs. The decline in sales of business and first class seats over the review period also reflected a drop in overall passenger numbers and a fall in long haul flights in favour of short haul destinations. However, some long haul travellers are still prepared to pay for first class comfort for long journeys or honeymoons.

Distance

Both short haul and long haul seat figures dropped during the review period, in accordance with the overall fall in number of seats sold. However, the ratio between short haul and long haul remained rather constant, with these accounting for 39% and 62% of share respectively in 2005.

The explanation for this relatively consistent level of demand is bound up in several factors. Short haul flights cover flights to Western European, destinations that are less than four and a half hours long. The increase in city breaks since the early-1990s raised the level of short haul European flights. Local Mediterranean travel to resorts in Turkey, Cyprus, Spain and Greece is also popular among Israeli youths. While visits to family and friends in other countries represents much of the non-business travel to the US, meanwhile, France and the UK account for most European family visits, business travel and city breaks.

The US remains the most popular long haul destination and is likely to remain so for the foreseeable future. Since the rapid mass immigration of over a million people to Israel from Russia, Ukraine and the former Soviet Union, there also is a rising level of travel to Eastern Europe by former immigrants. After settling in Israel and taking several years to become economically and financially secure, these consumers sought to travel initially to “Western” countries, particularly the US. In line with increasing wealth, they are now venturing back to their former countries to visit friends and family and to conduct business.

Young Israelis tend to take long trips abroad after finishing army service or after studying. These can exceed a year and usually involve long haul destinations such as the US, Latin America, South Africa or Asia-Pacific. There were less long haul flights from 2002 onwards among families and adults because economic pressures forced some travellers to seek cheaper, often short haul holiday. However, the economic improvement in Israel since 2004 is helping these figures to slowly grow back again.

Table 48 Airline Volume Sales by Seat Class: % Breakdown: 2000-2005

%	2000	2001	2002	2003	2004	2005
Airline seats sold by class	100.0	100.0	100.0	100.0	100.0	100.0
-Economy class (utilisation)	81.2	82.4	82.6	82.4	82.8	81.8
-Business class (utilisation)	18.8	17.6	17.4	17.6	17.2	18.2
-First class (utilisation)	-	-	-	-	-	-

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Table 49 Airline Volume Sales by Distance: % Breakdown: 2000-2005

%	2000	2001	2002	2003	2004	2005
Airline seats sold by distance	100.0	100.0	100.0	100.0	100.0	100.0
-Short haul (utilisation)	29.9	35.6	40.2	37.5	39.5	38.5
-Long haul (utilisation)	70.1	64.4	59.8	62.5	60.5	61.5

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.4 Online Sales

Online developments

Online sales in transportation reached NIS1,690 million in 2005, with a 52% current value rise from 2004. Internet transport retailing sites exist in Israel but are less developed than in other parts of the Western world such as the US or in Scandinavia, where computers and the internet have a higher penetration. Israel has a strong domestic IT development industry but this is dedicated more to research and development and less to providing internet retailing services to Israelis. At the moment, there are no internet sales for public buses or rail and there are no signs of this starting soon.

Therefore, almost all transportation sales made online are bookings of airline companies. The most important online travel agencies in Israel are international brands Expedia and LastMinute.com. Other internet players include the big Israeli travel agents such as Natour and Arkia, which offer online transportation sales. However, this is considered to be a very small part of their business.

One aspect of Israeli consumer behaviour constitutes a problem for internet transportation sales, which tend to focus on lower prices. Consumers often look for a more exclusive product and a higher service level, even when seeking lower prices. Websites are a popular tool for price comparison but purchases continue to be mainly made by phone or personally

Direct suppliers performance

Most airline companies have a website that enables online reservations, although this is generally automated. While airline companies' websites offer stiff prices and many times deny availability, in addition, travel agents manage to offer better prices, promotions and more possibilities. Consequently, it is no surprise that direct suppliers' sales accounted for just 2% of total transportation sales in 2005, at NIS338 million.

Intermediaries performance

Online sales through intermediaries are higher than those through direct suppliers, with intermediaries accounting for 80% of total online sales and NIS1,352 million in value sales in 2005, at 62% current value growth from 2004. Most online intermediaries in Israel who offer flight tickets are websites of travel agencies or global websites such as Expedia and LastMinute.com. These websites are generally more user-friendly than those of direct suppliers and emphasise special offers and promotions. Some also combine online reservations with order tracking and the help of company representatives via the phone or personal meetings. However, a survey conducted in Israel during 2004 showed that while 36% of travellers make price comparisons using the internet, only 3% actually make reservations via the internet.

Table 50 Transportation Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Internet	162.1	319.1	510.3	758.3	1,112.3	1,690.0
- Direct suppliers	82.7	143.6	186.1	237.5	278.0	338.0
- Intermediaries	79.4	175.5	324.2	520.8	834.3	1,352.0
Others	10,926.9	10,586.5	11,348.0	11,354.2	12,181.4	12,306.7
Total	11,089.0	10,905.6	11,858.3	12,112.5	13,293.7	13,996.7

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.5 Key Performance Indicators

Sales

The leading player in air is El Al, which was privatised during 2003, which reached NIS5.1 billion value sales during 2005, a 15% rise from 2004 in current value terms. This airline was launched in 1948 and has strong links to the Israeli sense of independence and national pride. The airline ran at a loss for many years, with losses worsened by the effects of the second Intifada and the 9/11 terror attacks. However, the Airline returned to positive net profits after 2003 and continued to perform strongly over 2004 and 2005, when development in tourism started to look brighter once again.

The review period showed growth in other Israeli companies, who are trying to offer a cheaper alternative to El Al and offer mainly charter flights. The most important among these companies is Arkia Israeli Airlines, which managed to consistently grow its sales and become the second biggest airline in Israel. The third leading airline, Israir, is also expanding. In 2005, for example, the company launched flights to New York and Thailand.

Foreign airline companies are relatively restrained in Israel, due to Israel's bilateral agreements with most countries. These specify that each country will have only one nominal company operating regular lines to Israel. Some agreements, such as with the US, England, France, Germany and Turkey, allow more than one operator. These agreements in general, however, alongside vast jurisdiction and tight inspection by the Ministry of Transportation, keep El Al far ahead of foreign companies.

Fleet size

In 2005 the biggest fleet size among airlines operating in Israel belonged to El Al, with 32 airplanes and two more used by its charter subsidiary Sun d'Or. Arkia, as part of its slow expansion, meanwhile reached a fleet size of 10 airplanes. Foreign companies who operate a small and constant number of flights use no more than five airplanes each.

Load factor

Most companies have a relatively high load factor, generally selling 70-90% of seats. Both Sun d'Or and Israir are charter companies that appeal to customers looking for cheaper prices rather than service and brand names. These each sell 60% of seats.

Revenue passengers-kms

The highest RPK is attributed to El Al, as it leads the list both in number of passengers and in number of kilometres travelled. El Al operates the highest number of flights and flies further than any of the other companies, whether Israeli or foreign. The other Israeli companies have fewer passengers and mostly operate charter flights to short haul destinations, while foreign companies are limited to certain routes and cannot operate flights from Israel to other destinations in the world.

Passengers flown

As the main airline of Israel, El Al was the leading player also in terms of passengers carried, with 44% of total passengers flying to and from Israel during 2005. El Al is considered the safest airline companies worldwide and therefore many Israelis feel comfortable flying with it. This is especially the case in times of heightened terrorist threat.

Even though many Israelis are affluent and not very price sensitive, there are also many consumers looking for a more basic airline service at a more affordable price. Because of this, charter operators Arkia, Israir and Sun d'Or attract many passengers on holidays.

Foreign carriers are less engaged in price competition but benefit from strong brand name. Also, often a foreign player will be the only alternative to El Al to a specific destination, as there is no other big Israeli airline company.

Sales per passenger

Sales per passenger are similar for all schedule operators, as there is no real price war ongoing in Israeli air transportation and the prices charged tend to be fairly similar. Apart from El Al, the three other Israeli companies (Sun D'Or, Arkia and Israir) operate mainly charter flights and position themselves as cheaper alternatives, therefore making lower profits per passenger.

Table 51 Airline National Brand Owners by Key Performance Indicators 2005

Company	Fleet size	Passengers carried (millions)	Revenue passenger kms (million)	% average load factor
El Al Israel Airlines Ltd	32	2.55	14,364	90
Arkia Israeli Airlines Ltd	10	0.5	2,035	70
Israir Ltd	7	0.35	1,546	55
British Airways Plc	5	0.2	1,829	80
Sun D'Or International Airlines	2	0.3	2,150	60
Deutsche Lufthansa AG	4	0.16	1,570	90
Alitalia SpA	5	0.15	1,621	70

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.6 Airline Market Shares

El Al was the leading player in air with a 49% value share in 2005. The second most important company in terms of value share was Arkia in charter air with 8% of overall value in air the same year. Arkia benefited from a total growth of 180% during the review period and the launch of the first Israeli alternative to El Al for locations such as New York and Thailand. The other two Israeli charter companies, Israir and Sun d'Or, also increased their share during the review period, reflecting the growing awareness in Israel of cheaper charter flights.

Foreign carriers performed quite consistently during the review period. These have very little expansion space due to Israel's bilateral agreements and harsh governmental limits set for foreign airline companies.

Table 52 Airline Market Shares 2001-2005

% retail value rsp

Company	2001	2002	2003	2004	2005
El Al Israel Airlines Ltd	38.0	40.3	40.5	44.2	48.5
Arkia Israeli Airlines Ltd	3.8	4.9	7.0	8.1	8.0
Israir Ltd	1.9	2.8	4.2	4.8	5.2
British Airways Plc	4.3	4.0	4.2	4.6	4.7
Sun d'Or International Airlines	2.0	2.7	3.7	3.9	4.4
Deutsche Lufthansa AG	3.0	2.8	2.9	3.2	3.9
Alitalia SpA	4.0	2.9	3.3	3.2	3.4
Others	43.0	39.6	34.2	28.0	21.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

7.7 Forecast Sales by Sector

Ongoing growth with considerable potential to expand

Air is set to grow by 28% over the forecast period in constant value terms, to reach almost NIS14 billion by 2010. A legislative fight is being led by the Ministry of Tourism towards the implementation of the Open Skies agreement and a lifting of the harsh laws that limit new operators and lines. Consequently, it is hoped that Israel will allow a higher number of companies to operate more lines. This would initiate a price war in air and increase the number of passengers and sales.

However, this legislation will not be passed easily, as many wish to defend El Al's status as the national airline company. As the legislation process is expected to take a few years to be finalised, no dramatic growth in flight sales is expected during the forecast period.

Bus/coach and train transportation are also expected to grow, with predicted joint value sales of NIS4 billion by 2010. Many commuters are dependent on bus/coach and rail for their everyday travel. While bus/coach sales are expected to grow at a constant and slow pace, rail is expected to increase its sales more rapidly. This will occur as more new rail lines are expected to be launched during the forecast period, including an express line to Jerusalem, a direct line to Eilat and lines to rural areas in northern Israel.

Online trends

Besides air, there are no signs of online transportation sales emerging in Israel and these are not expected to emerge during the forecast period.

In air, online sales are expected to continue growth, however. Direct suppliers, meaning the airline companies' websites, are expected to increase their sales less rapidly than intermediaries will. This will occur, as customers are expected to continue to prefer to make internet travel purchases via travel agencies, who often offer special prices and packages.

Intermediaries' internet transportation sales are expected to grow by 177% by 2010 in constant value terms and reach NIS4 billion in that year, as the trend of booking through websites is expected to increase and be developed by players. Sales will still not reach online sales figures similar to those in countries such as US, however, with Israeli customers expected to continue to prefer direct communication with a salesperson.

Table 53 Forecast Transportation Value Sales by Sector: Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Air	10,618.8	11,149.7	11,707.3	12,292.6	12,907.7	13,552.6
Other transportation	3,377.9	3,554.1	3,731.0	3,910.9	4,102.0	4,311.8
Bus/coach	2,897.9	3,028.3	3,164.2	3,306.6	3,455.4	3,610.9
Chauffeur-driven car	-	-	-	-	-	-
Cruise	14.1	14.5	14.8	15.3	15.6	15.9
Ferry	-	-	-	-	-	-
Rail	465.9	511.3	552.0	589.0	631.0	685.0
Transportation	13,996.7	14,703.8	15,438.3	16,203.5	17,009.7	17,864.4

Source: Euromonitor International

Table 54 Forecast Transportation Internet Sales by Sector: Internet Transaction Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Internet	1,690.0	2,301.9	2,898.5	3,491.0	4,035.4	4,500.0
- Direct suppliers	338.0	450.0	542.0	641.0	695.3	750.0
- Intermediaries	1,352.0	1,851.9	2,356.5	2,850.0	3,340.1	3,750.0
Others	12,306.7	12,401.9	12,539.8	12,712.5	12,974.3	13,364.4
Total	13,996.7	14,703.8	15,438.3	16,203.5	17,009.7	17,864.4

Source: Euromonitor International

8. CAR RENTAL

8.1 Sales by Sector and Location

2005 headlines

- 2005 sees continued slow growth from 2004 to reach NIS1,204 million
- Most car rentals for business purposes, with business revenues double leisure revenues
- Companies continuously shifting towards car leasing, at the expense of car rental fleets
- Both leisure and business rentals show minor growth of 2-3%
- Average value per transaction grew after the decrease recorded in 2004

Sales

After a few years of declining sales, car rental sales started to rise again in 2004 and 2005 over the previous years in current value terms, reaching total revenue of NIS1,204 million in 2005. After the internal security crisis in Israel in 2001, both volume and value sales within car rental fell in line with the decline in tourism and the poor economic conditions.

The initial effect in 2001 was an immediate fall in transactions of almost 15%, predominantly due to a decrease in incoming tourists. In 2002, there was also a decrease in business and domestic tourism usage, as the country braced itself for a further downturn in economic conditions and spending on car rental was cut. 2003 recorded another poor performance, until the market started to recover in 2004.

Business rentals dominated in 2005, with NIS797 million in value compared with NIS366 million for leisure rentals. Non-airport rentals are by far the most important, with NIS751 million in business rental value and NIS350 million of leisure rental value. Insurance replacement is also important with NIS41 million in sales in 2005.

Car rental is heavily reliant on business rentals. Business rentals accounted for more than 60% of total car rental value in each year of the review period, with its share peaking in 2002 at 69%, as that was a weak year for leisure rentals.

Business rentals are less volatile than leisure rentals. During the review period, medium and long-term leases to companies fell because of worsening economic conditions, however, which forced domestic companies to cut spending. Also, the review period saw the emergence of the car-lease trend, in which companies sign lease contracts for a total fleet for its workers. This trend strengthened with the blooming of the technology industry in Israel, setting a norm of supplying a car for almost every worker. This trend, which includes many big companies, shifted most car rental players' attention away from car rentals, as car leasing creates more revenue and longer-term contracts. During 2005, for example, leasing companies had three times the total revenue of car rental. However, car rental to foreign companies for employees on temporary placement in Israel remained relatively unchanged during the review period.

Leisure rentals saw the most severe decline in current value sales of almost 33% during the review period. The lowest leisure rental rate was during 2002, in the middle of the overall tourism crisis in Israel. Since then leisure rentals rose slowly and are far from reaching the level seen in 2000.

The slow rise in leisure rental value sales can be attributed to a number of factors. There was a steep rise in gas prices since the US invasion of Iraq, making car rentals more expensive than before. In addition, players' increased focus on car leasing came at the expanse of car rental marketing and development. Meanwhile, improvement in public bus and rail infrastructure attracted a number of consumers away from car rental to public transport. Finally, Israel's small territory works against growth in car rental. Most locations are close to each other and it is easy to commute without a rented car.

Table 55 Car Rental Sales by Sector and Location: Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Business	923.7	848.2	822.0	755.9	783.6	797.1
-Airport business	78.0	63.9	50.2	42.3	44.9	46.1
-Non-airport business	845.8	784.3	771.7	713.6	738.7	751.0
Insurance replacement	41.0	38.1	45.6	42.0	41.5	40.5
Leisure	542.2	399.5	325.1	338.3	355.3	365.9
-Airport leisure	51.9	30.8	18.5	14.5	15.7	16.1
-Non-airport leisure	490.3	368.7	306.6	323.8	339.6	349.8
Car rental services by sector	1,506.9	1,285.8	1,192.6	1,136.2	1,180.5	1,203.5

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

8.2 Market Structure

Fleet size

The resurgence of terrorist activity in late-2000 had a strong impact on car rental fleet size in 2001. This occurred as there was a temporary excess in fleet capacity, as fleet sizes had been expanded due to a rise in demand in 1999 and 2000. The decline in tourism was foreseen by car rental companies early in 2001 and they tried to downsize by ending short leases on cars that they took from leasing companies and pushing more of their fleet into operational leasing.

However, this had limited effect. The large fleets that were taken on in 2000 on three-year contracts for the projected boom required renewal in 2003 and some replacement was unavoidable. Although fleet replacement was kept to a minimum, the total fleet size rose as a result in 2003.

Over the review period as a whole, there was a fall in both business and leisure transactions. Consequently, major companies strove for flexibility and sought to service its fleet without excessive cost. There were fewer vehicle replacements and maintenance expenses were kept low by taking some older vehicles out of circulation. With the improvement in tourism figures during 2004 and 2005, fleet sizes stayed relatively the same, with a small rise of 1,000 vehicles in each of these years, reaching 45,000 cars in 2005.

Operators

Although there was a general decline in transactions and fleet size during the review period, the number of operators grew annually from 31 in 2000 to 39 in 2005. This can be explained by the growth in car leasing, which attracted more companies. Most companies that offer car lease services put aside a certain percent of their fleet for car rental. The share of fleet being given over to car rental by such players was lowered constantly during the review period, resulting in the number of operators growing while fleet size and transactions fell.

Transactions

transactions plummeted overall by 30%. When Israel’s tourism was in crisis, transactions fell as low as 633,000 transactions during 2003 in comparison to 968,500 during 2000. 2004 and 2005 saw an improvement, with a total of 722,400 transactions during 2005, although with a rather slow growth rate.

The slow rise rate can be attributed to a number of reasons. The steep rise in gas prices since the US invasion of Iraq in 2003 deterred many from renting cars. Meanwhile, companies’ focused on growing car leasing and thus scaled back car rental marketing. In addition, there were improvements made to the public transportation infrastructure, which attracted many travellers. It is fairly easy to get around Israel without a permanent car.

Table 56 Structure of Car Rental Market: 2000-2005

	2000	2001	2002	2003	2004	2005
Fleet size '000	45.0	42.0	41.5	43.0	44.0	45.0
Operators	31.0	33.0	35.0	37.0	39.0	39.0
Transactions mn	1.0	0.8	0.7	0.6	0.7	0.7

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

8.3 Rental Duration and Time of Booking

Rental duration

The average number of rental days saw a minor growth in 2005 over 2004 to above eight days. Business car rentals saw a slight rise, while insurance replacement saw consistent average rental duration of about seven days.

In leisure rentals, rental duration was limited by the length of the average foreign tourist holiday, which rose during the review period. However, this did not translate to a similar rise in car rental duration. This is partly due to the high proportion of holidays taken in Eilat, where a car is less of a necessity. It was also due to consumers seeking to cut the cost of holidays by limiting their spending on car rental, especially in light of the high gas prices since the US invasion of Iraq. The average leisure rental duration suffered an overall decline during the review period from six days in 1999 to four days in 2005.

The average rental duration for business was 3.8 days in 2005, a small rise from 2004. Business rentals are for a variety of time periods. Some foreign businessmen visit Israel for a short period and rent a vehicle for a weekend only. However, business rentals can last for several months if companies or independent businessmen are on a temporary assignment to an Israeli subsidiary. Many multinationals have research centres in Israel attracting staff for longer stays. In addition, while the average rental duration for business grew, business transaction volume declined as Israeli businesses increasingly choose use car lease services rather than car rental.

Time of booking

The majority of rental transactions are pre-booked, with this representing 84% of transactions in 2005. Much of this is due to business rentals working through a system of vouchers purchased in advance from the country of origin, either directly or via a travel agent.

Most car rental is pre-booked through a travel retailer, with this accounting for 43% of all bookings in 2005. Most leisure rentals are booked as part of a holiday package or additional services offered by travel agencies. It is rare to find tourists or families visiting Israel without preparing all arrangements ahead of arrival.

27% of car rentals were made through partnerships in 2005, such as with airlines or hotels. Many car rental companies choose to make such agreements and thus attract customers who have not purchased holiday packages, such as businessmen or travellers visiting relatives. This percentage also includes pre-bookings made via the internet, which accounted for 13% of transactions in 2005. All international players have online booking facilities, which are used for both information and booking, although many consumers continue to prefer more traditional booking methods.

Some travellers choose to reserve their cars when they reach their destination, with this accounting for 16% of transaction volume in 2005. Many tourists visiting family in Israel tend to hire cars at their destination for short trips when not spending time with family and friends. The great availability of rental cars in Israel, with a large numbers of operators, makes it easy and affordable to book cars at one’s destination.

13% of car rental transactions in 2005 were pre-booked directly through a car rental company. This option is convenient for many, as companies’ offices can offer the most accurate information and the most reliable booking.

Table 57 Average Car Rental Duration by Sector 2004-2005

Average rental days

	2004	2005
Business	3.6	3.8
Insurance replacement	7.4	7.4
Leisure	4.2	4.0

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Table 58 Average Car Rental Duration: % Share 2004-2005

% transactions

	2004	2005
0-3 days	41.2	41.5
4-7 days	51.3	51.2
Over 7 days	7.5	7.3
Total	100.0	100.0

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

Table 59 Time of Booking: % Breakdown 2005

% transactions

	2005
Booked at destination	16.0
Pre-booked direct with car rental company	13.7
Pre-booked over the Internet	12.8

Pre-booked via airline/hotel/other partnership	26.9
Pre-booked with travel retailer	43.4

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

8.4 Online Sales

Online developments

Car rental internet sales grew intensively during the review period, from only NIS30 million in 2000 to NIS240 million in 2005. The largest leaps were made during 2002, 2003 and 2004, as companies recognised the potential of the internet and improved their websites and online booking systems. 2005 featured another 14% rise in current value terms over the previous year.

The internet is becoming increasingly important in car rental, both as a channel for information and for booking. All major car rental companies in Israel, as well as some smaller ones, operate effective websites that offer booking online. Most interfaces are convenient for the average tourist, although the internet lacks the advantages of a sales representative, who can offer special prices and offerings. Also, while the internet may seem user-friendly for consumers, travel agencies with a large volume of bookings to handle complain that booking car rental online is time consuming.

Direct suppliers performance

Direct suppliers' car rental internet sales reached NIS61 million in 2005, after a 13% current value rise from 2004. Car rental companies in Israel did not offer any online booking options until 2001, when the first steps were made by global brands, which followed their parent companies' lead. During 2003 many other companies joined and direct suppliers' sales grew by 190% in current value terms over the previous year.

Intermediaries performance

Online car rental bookings through intermediaries reached NIS179 million in 2005, with a 14% current value rise from 2004. Only 14% of car rental bookings were pre-booked through car rental companies in 2005 and a similar share is also evident in car rental internet sales, as 75% of value stemmed from internet sales through intermediaries. As with total sales, most online car rentals are made as part of flight packages or through partnerships with airline or hotel companies and are offered on these companies' websites.

Table 60 Car Rental Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2000-2005

NIS million	2000	2001	2002	2003	2004	2005
Internet	30.1	42.0	84.0	161.0	210.2	239.9
- Direct suppliers	-	5.0	13.5	39.1	53.6	60.8
- Intermediaries	30.1	37.0	70.5	121.9	156.6	179.1
Others	1,476.8	1,243.8	1,108.6	975.2	970.3	963.6
Total	1,506.9	1,285.8	1,192.6	1,136.2	1,180.5	1,203.5

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

8.5 Key Performance Indicators

Sales

The leading player in Israeli car rental in 2005 was Shlomo Sixt, with almost NIS300 million in sales in 2005. The second most important player was the international chain Avis, run in Israel by Dan Vehicle & Transportation, while the third largest is Eldan Rent-A-Car.

Shlomo Sixt, the Israeli operator of the global Sixt franchise, was an emerging player during the review period, recording a growth in its shares each of the years in the review period. 2005 saw another 8% growth in current value sales in comparison to 2004, with a 20% current value rise through the review period. The company's main activity is in car leasing, working under the brand name New-Koppel Sixt with contracts with major and governmental players. Its car rental success is directly connected with the company's success in car leasing.

Avis' NBO, Dan Vehicle & Transportation, is a daughter company to DAN, which runs commuter buses in the Tel Aviv area. However, the companies operate separately. This company led Israeli car rental through most of the review period. However, its sales declined each year in current value terms, reflecting a general decline in car rental. The company's sales revenue reached NIS283 million in 2005, with its share losing 0.5 percentage points on 2004.

Eldan is an Israeli company with a strong brand name and consistent sales rates through the review period. Eldan's car rental sales revenue also fell during the review period, along with overall car rental's performance and with the company's growing focus on car leasing. Eldan is popular with drop-in clients that rent a car on the spot but is less popular than international companies such as Avis with foreign clients without ties to Israel. Compared with its closest competitor Avis, Eldan has less developed marketing and order systems. Most importantly, its internet presence is much less developed.

Budget Israel is secondary to the leading three companies, yet stands out among the many smaller companies. During most of the review period the company maintained a fairly consistent sales revenue of NIS170-NIS188 million annually. Budget managed to increase its revenue in 2005 over the previous year, with an 11% current value rise to reach NIS209 million.

Fleet size

With the blooming of car leasing in Israel during the review period, many companies chose to shift some vehicles to car leasing at the expanse of their rental fleets.

Shlomo Sixt owns the biggest rental fleet, with 8,800 vehicles, alongside 28,000 vehicles for leasing. Dan Vehicle & Transportation (Avis) had a rental fleet of 9,600 vehicles, as it focuses to a great extent on car leasing deals with larger corporations, particularly multinationals. Not far behind is Eldan, with 9,300 vehicles for rent and Budget with a total fleet of 7,500 cars.

The large fleets of the leading players illustrate their commitment to providing a sufficient choice of vehicles from multiple sites. The leading operators tend to have many more sites than small operators. This is partly due to their commitments linked to fulfilling ties with package companies that organise or include car rental within package holidays.

Transactions

As most prices in car rental are fairly similar, the number of transactions reflects the value share that each company holds. Shlomo Sixt led with 175,000 transactions in 2005, while Dan (Avis) followed with 166,000 and Eldan with 156,000. Budget finished 2005 with a total of 130,000 transactions.

Average rental duration

The average rental duration is fairly similar for all companies, including smaller companies, as rental duration trends are general and are not linked to any particular company. Also, most companies offer comparatively similar rental options, so the rental duration is not affected by differing options. All companies range between eight and nine days in average rental duration, with Eldan leading the list and leading player in value terms Shlomo Sixt falling behind.

Average transaction value

Average transaction values are almost identical among the leading four companies, with all at approximately NIS1,650. This clearly reflects the similarity between the prices and revenue in car rental, as the main price war is taking place in car leasing rather than car rental. These figures also show that the value share differences between companies are not a result of different revenues per transactions but solely due to different levels of transaction volume.

Table 61 Car Rental National Brand Owners by Key Performance Indicators 2005

Company	Fleet Size	000 transactions	Average rental duration (number of days)
Shlomo Sixt Ltd	8,800	174.6	3.9
Dan Vehicle & Transportation (Avis) Ltd	9,600	166.2	3.8
Eldan Rent-A-Car Ltd	9,300	155.7	4.1
Budget Israel Ltd	7,500	130	4.3

Source: *Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International*

8.6 Market Shares

The leading share belongs to Shlomo Sixt, which reached a 24% value share in 2005. The company advanced greatly during the review period, further advancing from 23% share in 2004. Shlomo Sixt's growth came at expanse of both Dan (Avis) and Eldan, which led through most of the review period. Dan fell from 26% share in 2000 to 24% in 2005 while Eldan maintained with a fairly similar share, moving from 23% in 2000 to 21% in 2005. Budget is rather new alongside the top companies, as its share grew consistently from 14% in 2000 to 17% in 2005, with this leaving Budget still behind the top three companies.

Table 62 Car Rental Market Shares 2001-2005

% retail value rsp

Company	2001	2002	2003	2004	2005
Shlomo Sixt Ltd	19.0	20.0	22.0	23.0	24.3
Dan Vehicle & Transportation (Avis) Ltd	26.0	25.0	25.0	24.0	23.5
Eldan Rent-A-Car Ltd	23.0	22.0	22.0	22.0	21.3
Budget Israel Ltd	14.0	15.0	15.0	16.0	17.4
Others	18.0	18.0	16.0	15.0	13.5
Total	100.0	100.0	100.0	100.0	100.0

Source: *Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International*

8.7 Forecast Sales by Sector

Slow growth due to car leasing focus

The review period saw a decline in car rental sales from 2001 to 2003. After this, sales started to rise again moderately. This growth rate is predicted to continue, with sales expected to rise steadily over the forecast period but without achieving by 2010 pre-2001 levels.

Sales will overall grow as tourist numbers are expected to grow in the following years. If incoming tourist numbers outgrow predictions, therefore, car rental sales are expected to rise more rapidly as well.

Car rental will not develop quickly, as companies are predicted to further focus on car leasing. Many businesses that rent cars for their employees will be attracted by lucrative offers and lease cars instead of renting them. Also, 2005 saw a lowering of car purchasing tax, which will encourage more citizens and companies to buy cars rather than to choose car rental. The further development of the public transportation infrastructure, with an emphasis on a railway to Eilat, will also make commuting more easily without a vehicle.

Overall, car rental sales are predicted to grow by 6% by 2010 in constant value terms, reaching NIS1,274 million. Growth will be higher if car rental companies take advantage of the improvement in incoming tourism and shift focus and investment back from car leasing to car rental.

Online trends

Online car rental is predicted to continue its high development rate, growing by 88% in constant value terms by 2010. Many car rental companies already offer online booking, generally in a form that is later manually processed by human employees. However, it is predicted that technological innovations will improve this area and enable reservations through companies' websites to become easy and swift during the forecast period.

However, the major share of car rental internet sales will continue to be through intermediaries, as overall online travel retail is predicted to grow. Most people prefer to pre-book online through intermediaries as many will be renting car as part of a vacation package or taking advantage of special offers from car rental partnerships with airline and hotel companies. Many are also happier dealing with travel retailers that they are already aware of, rather than researching the leading car rental companies in Israel before making a booking.

Table 63 Forecast Car Rental Sales by Sector: Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Business	797.1	800.3	807.9	812.5	815.6	817.7
-Airport business	46.1	46.3	46.9	46.5	46.6	46.7
-Non-airport business	751.0	754.0	761.0	766.0	769.0	771.0
Insurance replacement	40.5	41.5	42.0	41.5	42.5	41.5
Leisure	365.9	375.2	384.8	395.4	403.9	414.3
-Airport leisure	16.1	17.2	17.8	18.4	18.9	19.3
-Non-airport leisure	349.8	358.0	367.0	377.0	385.0	395.0
Car rental services by sector	1,203.5	1,217.0	1,234.7	1,249.4	1,262.0	1,273.5

Source: Euromonitor International

Table 64 Forecast Car Rental Internet Sales by Sector: Internet Transaction Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Internet	239.9	275.0	307.1	350.0	395.0	450.0
- Direct suppliers	60.8	69.0	76.5	87.5	99.0	112.5
- Intermediaries	179.1	206.0	230.6	262.5	296.0	337.5
Others	963.6	942.0	927.6	899.4	867.0	823.5
Total	1,203.5	1,217.0	1,234.7	1,249.4	1,262.0	1,273.5

Source: Euromonitor International

9. TRAVEL RETAIL

9.1 Market Size

2005 headlines

- Travel retail sales grew by 2% in 2005, continuing to recover from the tourism crisis, although recording a poorer performance than 2004
- Overall improvement in tourism boosts sales, with more incoming and outgoing tourists
- Cruise most dynamic in 2005, despite declining over the review period
- Average sales per outlet during 2005 fairly steady
- Travel retail continues its slow recovery from the tourism crisis during 2001-2003

Sales

The size of travel retail is fairly large in comparison with many other countries, given the size of Israel's population. The reason for this is that Israel is an attractive tourist destination in times of relative calm and its population is keen on tourism and international travel. Many Israelis also have families in other countries.

Travel retail in Israel had to face major challenges during the review period. The first was the crisis in tourism from 2001-2003, with frequent terror attacks inside Israel and the economic recession hitting both consumers and businesses. This problem affected travel retail, which fell by 13% in 2001 over the previous year in current value terms and 10% in 2002.

However, travel retail was affected less severely than in other areas of tourism such as hotels. This can be attributed to the insistence of many Israelis on continuing and fly abroad despite the difficult economic situation. Many therefore continued to use travel retail services.

Travel retail also had to face emerging internet competition, which evolved worldwide during the review period, as consumers began to book their own accommodation, car rental and travel online. This hurdle was also crossed rather well during the review period, as most Israelis only use the internet for price comparison and still prefer to use regular travel retail services.

During 2005, travel retail value sales grew by 2% in current value terms over the previous year, continuing from 3% current value growth in 2004, and reached NIS6 billion. However, the recovery from the crisis is yet to be fulfilled, as this figure is still 21% less than it was in 2000 in current value terms.

Outlets

Outlet volume also suffered over the review period, dropping from 855 in 2000 to 781 units in 2005. In terms of outlet volume, the recovery was much slower and outlet volume rose only by 1% in 2004 and in 2005. This was partly due to the rapid expansion in outlet volume in the early-1990s, when Israelis increasingly sought foreign travel on a more regular basis. Some larger companies opened satellite offices in numerous towns and these were the first to be closed as the need for cutbacks emerged during the crisis of 2001-2003. The companies that survived the fall in tourism in the middle of the review period were unwilling to open new offices towards the end of the review period. Instead, they are focusing on regaining profitability, rather than on reaching new groups of customers.

In 2005 Israel had 651 travel agents, 91 tour operators and 39 banks with special lines providing exchange services.

Travel agents deal with both incoming and outgoing tourism. Over the review period, outgoing tourism was the most reliable source of revenue. Consequently, many travel agencies switched focus during the review period, acquiring more knowledge about destinations abroad and gaining foreign partners.

Economic difficulties and the slump in incoming tourism caused by internal security concerns forced many travel agencies to close during the review period. These closures were most evident among travel agencies dealing predominantly with outgoing tourism. However, there was also a degree of structural change, as larger outlets thrived and smaller agencies with less choice and scope are being forced out. In 2001, 31 travel agencies closed, followed in 2002 by a further 16. Around half of these closures were branch offices and half were head offices.

Israeli travel agencies trading solely in internal tourism and domestic tours saw a fall in sales since the re-emergence of terrorist activity. However, this resulted in little real change in the number of outlets for domestic tour operators, while incoming tour operators suffered more dramatically.

Due to reports in the international media about poor security in Israel, many visitors were reluctant to visit Israel or to buy from incoming tour operators. This had a severe consequence in the short-term for the major operators that rely on overseas bookings from first time visitors. Tour operators declined from 94 outlets in 2000 to 91 outlets in 2005. Unlike many other countries, tour operators almost exclusively sell their trips via travel agents, since they do not operate sales offices. However, tour operators do offer direct sales via the internet.

The number of banks providing exchange services was not affected by the crisis in tourism and outlets rose by 8% through the review period. Although incoming tourist figures were lowered, exchange services thrived thanks to growth in outgoing tourists and mainly to high foreign currency rates. During the economic recession the dollar rate, for example, reached a high of over NIS5, causing many to buy and invest in foreign currencies.

Table 65 Travel Retail Value Sales: 2000-2005

NIS million

	Value	% value growth
2000	7,488.0	-
2001	6,492.0	-13.3
2002	5,804.0	-10.6
2003	5,598.0	-3.5
2004	5,774.3	3.1
2005	5,900.0	2.2

Source: Trade interviews, company research, Euromonitor International

Table 66 Travel Retail Outlets by Sector: Units 2000-2005

Outlets

	2000	2001	2002	2003	2004	2005
Travel retail services by outlet	855	824	808	771	775	781
-Exchange services	36	38	38	38	38	39
-Tour operators	94	95	98	89	90	91
-Travel agents	725	691	672	644	647	651

Source: Trade interviews, company research, Euromonitor International
Note: Tour operators refers to outlets dealing specifically in domestic tourism and tours in Israel
Dedicated currency exchange outlets only; excludes hotels, banks and post office outlets

9.2 Sales by Product

Accommodation only

Accommodation only is the fourth most popular product at travel retailers, with 13% value share in 2005 and sales of NIS767 million. Accommodation only packages are preferred by tourists who like to plan their time on their own and not to chain themselves to set packages, along with those who are combining a holiday with visits to relatives or friends. This product is also popular among business travellers, who come for specific purposes and only need a place to stay.

Accommodation only packages are traditionally popular and growth or reduction in its value sales mirrors the general status in travel retail. This resulted in decline from 2001-2003 and a slow rise in 2004 and 2005.

Adventure/trekking holiday

Adventure/trekking holidays became very popular during the review period and accounted for 5% of value in 2005, with this share remaining fairly steady. However, adventure/trekking holidays also suffered from the crisis in tourism, with an overall 21% current value decrease during the review period, reaching NIS295 million in value sales in 2005.

Many Israelis are keen on adventure/trekking. However, of these, many prefer to organise such trips themselves and not take special packages, based on their experience of army service and other trekking trips. The most popular organised adventure/trekking packages are therefore to remote locations such as Africa or the Far East or on complicated routes, such as rafting on rivers in South America or Australia.

The growth rates in adventure/trekking holidays mostly reflect the general performance of travel retail. However, it was also impacted by the recession in Israel during the review period, as these packages naturally cost more than regular travel packages.

City break

City breaks represented 17% of value sales in 2005, reaching NIS1 billion. City breaks appeals to many consumers who are looking for the convenience of a packaged holiday and also favour the convenience of city breaks. European city breaks retain their appeal, partly because they remain affordable and also because many Israelis prefer not to take long breaks or package holidays, giving precedence to city breaks instead. As city breaks retained a similar share throughout the review period, the changes in its value sales reflected the overall changes in travel retail.

Cruise

Cruise travel in Israel is niche, representing 2% of travel retail value sales in 2005 with NIS118 million in value sales. Cruise sales fell by 68% during the review period in current value terms. Although the major decrease happened during the crisis in Israeli tourism, it started before the outbreak of the second Intifada in late-2000. As cruises from Israel are mainly to Greece, Cyprus and Turkey, sales were hindered by a boom in charter flights, which offer a cheaper and quicker way to get to these destinations. Also, terror threats hit the cruise industry, with September 2005 seeing a further focused threat to Israeli cruise ships sailing to Turkey.

Despite the decline in cruise travel, it managed to survive partly thanks to the Israeli law forbidding gambling. In recent years, many players began to offer special casino ships which sail just outside Israel's territorial waters, where gambling is not illegal. These companies also combine organised parties with gambling cruises.

Flight only

Flight only is the most popular travel retail product, representing a third of share in 2005 with NIS2 billion in value sales. During the review period it maintained its share, with annual changes similar to overall shifts in sales.

Flight only is very popular for a number of reasons. It is common for young Israelis, after finishing army service or after studying, to travel abroad for a few months or more. These trips are often sold on a flight only basis, as most of these travellers prefer to keep costs as low as possible.

In addition, the economic recession in Israel during the review period caused many tourists to switch from organised packages to DIY holidays, with travellers booking flights and accommodation separately to suit their budget or travel timetable. With the emergence of internet travel retailing, which offers many details and sometimes online booking options, such arrangements are easier to do personally.

Finally, there was an increase in the proportion of travellers visiting family or friends abroad, with this accounting for 13% of Israeli departures in 2005. This also added to the popularity of flight only bookings, as these trips usually involve accommodation with friends or family.

Other transport

Other transport packages are insignificant in Israeli travel retail, as Israel does not have rail or public transportation connecting it with its Arab neighbours. There are still a very few packages that offer travel by bus to Jordan, with whom Israel has a peace agreement. However these almost vanished after the second Intifada and the hostility displayed against Israel across the Arab world. The only popular neighbouring tourist destination is the Sinai Peninsula, which is located near Eilat. However, all tourists travel from Eilat in Egyptian taxis to reach this destination rather than using organised transportation.

Fly-drive

Fly-drive holidays became very popular since 1999, growing by 27% in spite of the crisis in tourism. During 2005, sales reached NIS354 million, representing 6% of total travel retail sales. Fly-drive became popular during the review period as it offers convenience, better time usage and planning and better access to more remote regions. It is highly popular among people who like to see scenery and take hikes but, unlike many young Israeli travellers, do not wish to move along carrying heavy haversacks and being dependent on public transportation.

Package holiday

Package holidays is the second most popular travel retail product, accounting for 21% of the total with NIS1,200 million in value sales in 2005. During the review period, however, its sales fell at a 3% CAGR. As travel agencies offer both international and domestic holidays, domestic packages are included in this figure. However, they do not account for a significant share, because most domestic holidays require accommodation only.

The classic package holiday is a good solution for many tourists seeking convenient package tours that do not require time and trouble in detailed organising. These package holidays are naturally more expensive and their main consumers are families and affluent customers.

However, most consumers are aware that they could save money by buying travel and accommodation separately. Package holidays, which are often to beach or long haul destinations, were shunned by consumers when the economic downturn affected consumer leisure spending most, from 2001-2003. Israelis preferred to visit their own beaches in these years or chose cheap deals to local Mediterranean resorts in Turkey, Cyprus and Greece rather than longer distance travel to destinations such as Miami or Thailand. As the recession improved since 2004, package holiday's value sales rose in accordance.

Travel insurance

Despite changes in tourism, travel insurance kept its value sales constant between 1999 and 2005, with an overall marginal decrease. In 2005, its value sales reached NIS59 million sales. This consistency is explained by the fact that the number of outgoing Israelis remained high throughout the review period. No matter what changes occurred during this time, the majority of outgoing tourists still require travel insurance.

Foreign currency

Foreign currency requirements also remained rather consistent between 1999 and 2005, with an insignificant 1% current value decrease. During 2005, tourism foreign currency value sales reached NIS89 million. The only noticeable change in foreign currency sales happened during 2002, as value sales were lowered by 13%, due to the plummeting incoming tourist figures and the high foreign currency rates as result of the economic recession, driving many Israelis away. The figures grew again during 2004, when the tourists came back and exchange rates became more balanced.

Traveller's cheques

Traveller's cheques lost share during the review period, declining by 27% and reaching NIS30 million in 2005. This can be explained by the flourishing of credit cards in Israel during the review period, as many Israelis nowadays prefer to travel with an international credit card rather than with traveller's cheques, which require the use of local bank services.

Table 67 Travel Retail Sales by Product: Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Travel retail services by product	7,488.0	6,492.0	5,804.0	5,598.0	5,774.3	5,900.0
-Accommodation only	973.4	844.0	758.5	727.7	746.5	767.0
-Adventure/trekking holiday	374.4	324.6	291.2	279.9	288.7	295.0
-City break	1,272.9	1,103.6	989.7	951.7	975.8	1,003.0
-Cruise	372.6	129.8	97.9	106.2	109.7	118.0
-Flight only	2,471.1	2,142.3	1,931.2	1,850.3	1,918.3	1,947.0
-Other transport	-	-	-	-	-	-
-Fly-drive	376.7	389.5	348.7	338.7	346.5	354.0
-Package holiday	1,445.2	1,363.2	1,219.9	1,175.6	1,209.8	1,239.0
-Travel insurance	63.7	58.4	56.4	56.0	57.7	59.0

-Foreign currency	97.6	97.4	84.2	84.0	92.4	88.5
-Traveller's cheques	40.4	39.2	26.3	27.9	28.9	29.5
-Others	-	-	-	-	-	-

Source: Trade interviews, company research, Euromonitor International

9.3 Sales by Destination

Most travel agencies deal with both international and domestic travel, which tends to cause a degree of blurring when analysing sales by destination. Around half of travel agency holidays are for beach destinations, with value sales of NIS3 billion in 2005. This includes not only to package holidays to foreign beach resorts but also domestic holidays to Eilat, Tel Aviv shores, the Dead Sea or Tiberias, which is considered a beach resort. It also includes holidays to resort destinations irrespective of whether there is cultural interest or attractive countryside to view locally.

Culture was able to grow in share over the review period, from 21% share of travel retail value sales in 2000 to 23% in 2005. Culture includes all city breaks and package holidays to cities that are considered to own a cultural interest.

The lure of mountains is not strong in Israel, as Israel offers only one ski resort in Mount Hermon located on the northern tip of Israel. Other mountains in Israel are located in the Galilee area, which is more appealing for its countryside qualities; in Jerusalem, which is more appealing for its historical and cultural qualities; and in the Judea and Samaria areas, which are located in problematic areas near the Palestinian authority territories. The majority of travellers who travel abroad and seek mountain or countryside breaks tend to travel flight only and spend longer trips hiking and exploring, often in Latin America. Conversely, those who seek ski holidays tend to take package holidays that include the flight and the ski resort booking.

Many Israelis have families abroad, such as in the US and Russia, and there is a dynamic business environment in the country with many international contacts. Consequently, many Israelis travelled abroad to visit families or on business trips, resulting in "other" destinations accounting for 21% of travel retail value sales in 2005.

Table 68 Travel Retail Sales by Destination: %Value Breakdown 2000-2005

% value

	2000	2001	2002	2003	2004	2005
Travel retail sales by destination	100.0	100.0	100.0	100.0	100.0	100.0
-Beach	54.0	52.4	50.1	49.1	50.2	50.5
-Countryside	3.7	2.5	3.1	3.8	2.9	3.0
-Mountain	2.3	2.4	2.4	2.3	1.8	1.9
-Culture	20.6	22.0	22.5	22.6	24.2	23.6
-Other destinations	19.4	20.7	21.9	22.2	20.9	21.0

Source: Trade interviews, company research, Euromonitor International
Note: Others includes business and visiting friends and relatives

9.4 Travel Agencies: Exchange Services

According to the law in Israel, travel agencies cannot provide exchange services. Consequently, outgoing tourists use banks or exchange shops to exchange money before leaving the country. As a result there are no travel agent outlets with exchange services and all exchange services are provided by "others".

Table 69 Travel Agencies Offering Exchange Services 2000-2005

% sites/outlets

	2000	2001	2002	2003	2004	2005
Travel agent outlets with exchange services	0.0	0.0	0.0	0.0	0.0	0.0

Others	100.0	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Trade interviews, company research, Euromonitor International*

9.5 Exchange Services by Outlet and Type

Outlet sales

Exchange services in Israel consist of banks and licensed bureaux de change. Bureaux de change are almost always family-owned and almost entirely independent.

Israeli travellers tend to rely on banks to change currency and banks thus account for almost 80% of domestic currency exchange. The remainder is generally through bureaux de change.

Foreign tourists have very different habits. Around half of tourist exchange is through bureaux de change because these outlets are located in all the popular tourist areas. A further 30% of incoming currency is changed through banks, all of which have exchange counters and multilingual cashiers. However, banks are most popular with young people on a regional or world tour, who require new currency before they set off on the next leg of their journey. Most foreign tourists change currency within hotels either with the cashiers at reception or in gift shops or jewellery boutiques in the hotels.

Overall, therefore, banks accounted for 50% of the value of exchange services in Israel in 2005. Bureaux de change followed closely with a share of 45%, while “others” tailed behind with a share of 5%. Travel agencies are not permitted by law to operate a currency exchange service in Israel.

Product type

The infrastructure for credit cards is well developed in Israel. Consequently, the use of traveller’s cheques declined during the review period and consisted of 30% of value sales in exchange services by 2005. Very few Israelis use this option and those that do use traveller’s cheques tend to order them through banks rather than through bureaux de change.

Among foreign tourists, meanwhile, the use of financial cards is having a huge impact and severely impacted the use of travellers’ cheques during the review period. Most travellers can now withdraw Israeli currency from any ATM in Israel and there is therefore little need to change currency. However, visitors from less-developed countries, such as in Eastern Europe, still carry both traveller’s cheques and cash.

Table 70 Exchange Services: Sales by Outlet 2005

% retail value rsp

	2005
Banks	50.0
Bureaux de change	45.0
Travel agents	0.0
Others	5.0
Total	100.0

Source: *Trade interviews, company research, Euromonitor International*

Table 71 Exchange Services: Sales by Type 2005

% retail value rsp

	2005
Foreign currency	70.0
Traveller’s cheques	30.0
Total	100.0

Source: *Trade interviews, company research, Euromonitor International*

9.6 Online Sales

Online developments

Travel retail internet sales in Israel reached NIS2 billion during 2005, with a 50% rise from 2004. Travel retail internet sales in Israel developed during the review period but are far from reaching their full potential. A survey conducted in 2004 showed that 36% of Israeli internet users looked up information regarding tourism, with a rise from 25% during 2002.

The main reason for this is the undeveloped state of Israeli internet travel retail, which makes most Israelis untrusting of this channel and encourages them to stick to their old purchasing patterns. Most Israeli travel retail websites are run by regular travel agencies, which also offer office and telephone booking centres. Consequently, all internet travel retail products offered are similar to telephone offerings, with similar prices and packages. Unlike the US, for example, companies do not give generous discounts for online reservations. In addition, most clients prefer having an address with which to come with problems and also to have the option to cancel or change their reservation, which many websites do not have.

Direct suppliers performance

Direct suppliers dominate online travel retail in Israel, with an approximate 75% of the total value of internet sales, reaching NIS1,533 million during 2005. Most Israeli tourist retail websites are owned by regular travel agencies and no major online Israeli travel retailer has yet emerged. Internet travel retailing in Israel is far from reaching its full potential and currently offers the same packages and prices as phone and office travel retailing.

Intermediaries performance

Travel retail internet sales through intermediaries reached NIS506 million during 2005. As no major Israeli travel retail internet companies emerged during the review period, intermediaries in 2005 was made up only of foreign internet retailers that sell travel retail products relating to Israel.

In 2004, Yahoo! made its first direct entry into Israel, buying Israeli-US start-up FareChase, which attempts to offer the best travel deals online. The website compares prices of flights, hotels and car rental services. According to estimates, Yahoo! paid more than US$20 million for the company. FareChase, considered very similar to shopping.com, another Israeli website that compares prices online, was established in 1999. At the start of the review period, FareChase, like many internet companies, suffered and recorded revenues of only a few hundred thousand dollars in 2004. However, Yahoo! sees great potential in the company, which caters to private consumers, airlines and travel operators.

Israelis also have other options when buying travel retail products online, including international players such as Expedia.com and Lastminute.com who also provide Israelis with internet travel retailing. However, there are limitations on buying flights from Expedia due to ticketing regulations.

Table 72 Travel Retail Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Internet	161.7	291.3	542.3	709.4	1,363.6	2,038.7
- Direct suppliers	114.7	210.0	407.8	493.5	1,028.9	1,533.1
- Intermediaries	47.0	81.4	134.5	215.9	334.7	505.6
Others	7,326.3	6,200.7	5,261.7	4,888.6	4,410.7	3,861.3
Total	7,488.0	6,492.0	5,804.0	5,598.0	5,774.3	5,900.0

Source: Trade interviews, company research, Euromonitor International

Table 73 Travel Retail Internet Sales by Broad Sector: Internet Transaction Value 2000-2005

NIS million

	2000	2001	2002	2003	2004	2005
Travel retail internet transaction sales by broad sector	161.7	291.3	542.3	909.4	1,363.6	2,038.7
-Accommodation only	27.1	35.3	76.0	152.1	203.6	258.1
-Flight only	79.4	175.5	324.2	520.8	834.3	1,352.0
-Other transport only	-	-	-	-	-	-
-Car rental only	30.1	37.0	70.5	121.9	156.6	179.1
-Dynamic packaging	-	-	-	-	2.3	16.5
-Traditional package holiday	24.3	42.1	69.4	111.4	162.7	225.0
-Others	0.8	1.4	2.2	3.1	4.1	8.0

Source: Trade interviews, company research, Euromonitor International

9.7 Key Performance Indicators

Sales

The leading travel agency is Tzabar Travel & Tours, with annual sales of NIS767 million in 2005, up from NIS750 million in the previous year. Tzabar's main strength is domestic tourism, as it is the only big company that deals with domestic tourism. During the tourism crisis in the middle of the review period, when incoming tourism was damaged, domestic tourism helped to soften the impact of the downturn. Nowadays, as incoming tourists returned, Tzabar benefits from offering products tailored to arrivals as well.

ISSTA Lines Cooperative is the largest outbound travel agency in Israel as a result of acquisitions and reached a turnover of NIS354 million in 2005. ISSTA is more focused on affordable prices, as many of its customers travel on limited budgets. Therefore, its turnover is lower despite a high volume of sales. Ophir Tours is the third ranking player and is quite similar to Tzabar in its full range of often family-oriented travel packages

The largest of the tour operators in Israel is Natour, with a dynamic development and turnover of NIS531 million in 2005. Ganden Group, a leading holding company, owns 46% of Natour, through its subsidiary, Ganden Tourism & Aviation Ltd. Natour is the leading wholesale travel agent and operates and manages organised tours. During 2005, Natour was taken out of the stock exchange and purchased the shares of Unital, which is one of Israel's largest charter tourism and aviation companies. It is expected that Natour and Unital will merge into one company.

Geographic Tours Ltd specialises in organising adventure and exotic tours to unique and remote sites across the world. The company also offers Special Interest Tours, which are tailored to specific events and dates according to destination. In terms of sales, the company managed to grow constantly during the review period, in spite of the tourism crisis, reaching NIS413 million in 2005.

Other leading tour operators include Ofakim Tours Ltd and Rimon Tours Ltd, which focus on operating organised tours abroad for Israeli tourists. Ofakim Tours reached NIS295 million during 2005, while Rimon Tours achieved NIS177 million value sales.

Banks are the main source of foreign exchange in Israel and are used predominantly by Israelis, as consumers tend to go to their own banks to change currency. All the major banks saw declines in 2001-2003, however, with the worst experienced by Discount Bank and Mizrahi Bank. In 2005, the leading exchange services bank in terms of revenue was Hapoalim Bank with NIS147 million, followed by Leumi Bank with NIS88 million.

Clal Marketing & Commerce Ltd is under the ownership of IDB Holding Corp Ltd, which also owns the Israel Discount Bank. Clal includes Accor-Clal Hotels (a joint venture with Accor), Clal Aviation and Diesenhaus. Its connections with air transportation and accommodation provide the company with key logistical advantages for its travel retail brand, Diesenhaus. Its sales during 2005 reached an approximate NIS295 million.

Outlets

Reviewing the number of outlets that each company offers can be problematic, as the figures do not give enough information, such as the size of each outlet and the number of clients it deals with.

The leading travel agency in outlet numbers is ISSTA Lines, with 50 outlets. ISSTA benefits from an appeal to wider crowds, with a focus on young people and students. These consumers are generally less affluent and therefore the company's share in value sales is lower. Ophir Tours offer 33 outlets all over Israel, while Tzabar, the leader in value sales, has only 16 outlets.

The leader in outlets among tour operators is Rimon Tours, with 70 outlets. However, many of its outlets are actually small private travel agencies, which mainly offer Rimon Tour's organised tours abroad. Natour, the leading tour operator in value sales, offers 53 outlets across the country. Geographic Tours and Ofakim Tours are not present in the whole country and account for 11 and nine outlets respectively, which are located mainly in major cities in central Israel.

Banks in Israel proved very successful during the review period and have many branches across the country. This also helps incoming tourists, as the infrastructure for banking facilities and ATM machines is highly developed. Bank Hapoalim, the leading bank in value sales, owns 251 outlets, while Leumi Bank has 197 branches.

Web platforms

Internet travel retail services in Israel are still undeveloped when it comes to special offers and prices and consumer mistrust of internet retailing is still high. In terms of websites, however, some companies offer websites that are more sophisticated such as Geographic Tours' website, while some are plainer such as Ofakim tours. However, these nuances are increasingly superficial, as all companies now offer online services based on similar principles.

Table 74 Travel Retail National Brand Owners by Number of Outlets 2005

Company	2005
Tzabar Travel & Tours Ltd	16
Natour Ltd	53
Geographic Tours Ltd	11
ISSTA Lines Cooperative Ltd	50
Ofakim Tours Ltd	9
Ophir Tours Ltd	33
Rimon Ltd	70
Arkia Travel Ltd	10
CTO Consolidated Ltd	3

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

9.8 Market Shares

With strong fragmentation in travel retail, no big revolutions occurred in terms of share during the review period. All the major players largely maintained their relative shares, with only slight changes. This reflects conservatism among Israeli companies and consumers.

The leader in share in travel agents is Tzabar Travel & Tours, which kept a firm 13% value share in overall travel retail throughout the review period. The other leading travel agencies, ISSTA Lines and Ophir Tours, manages to grow share by almost a percentage point each during the review period, with ISSTA Lines reaching 6% share during 2005 and Ophir Tours reaching 5% share.

Smaller niche players impacted upon sales overall and caused some contraction within travel retail as a whole, mostly among the more old-fashioned and obsolete agencies. However, these are not among the major players.

The leader among tour operators in Israel is Natour, with a wide range of offerings. Natour has been Israel's leading and largest outgoing tourism wholesaler for the last 25 years. The company's business takes in all elements of tourist activity and the entire spectrum of its tourism products is marketed to the general public by means of Israel's travel agents, with whom Natour enjoys a close relationship in order to reach all types of consumers.

Table 75 Travel Retail Market Shares 2001-2005

% retail value rsp

Company	2001	2002	2003	2004	2005
Tzabar Travel & Tours Ltd	13.0	13.0	13.0	12.5	13.0
Natour Ltd	7.0	8.0	8.0	8.5	9.0
Geographic Tours Ltd	6.0	6.0	7.0	7.5	7.7
ISSTA Lines Cooperative Ltd	5.0	5.0	6.0	5.8	5.7
Ofakim Tours Ltd	4.0	4.0	5.0	5.2	5.4
Ophir Tours Ltd	4.0	4.0	5.0	4.8	4.5
Rimon Ltd	2.0	3.0	3.0	3.8	4.5
Arkia Travel Ltd	1.0	2.0	2.0	2.2	2.3
CTO Consolidated Ltd	1.0	1.0	1.0	1.1	1.1
Others	57.0	54.0	50.0	48.6	46.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), company research, Euromonitor International

9.9 Forecast Sales and Outlets

Sales

Sales of travel retail are expected to grow by 17% over the forecast period in constant value terms. This improvement will be due to the increasing numbers of incoming tourists, which will increase value sales of domestic tour operators. In addition, an improvement in internet travel retailing is inevitable, especially for travel agencies. Assuming the political situation will not deteriorate, tourism in Israel is expected to grow as a whole, with travel retail following suit.

Travel agents will have to closely re-examine consumers' motives for travelling and re-invent their offerings accordingly during the forecast period. Currently, travel agents are trapped in a wholesaler role and could suffer from a development similar to that seen in the US and Europe, where travel discounters increased their share. This might only leave room for a few exclusive travel agents selling the most expensive products. Improvement in online sales mechanisms could create a positive wave that would enlarge companies' revenue, as happened in other developed countries, such as the US.

As tour operators seek to save on administration, travel agents will get increasingly similar products, where the only difference will often be the price. This will prove an unattractive development for all except the big volume players who may be able to make increasing profit margins, killing competition with low prices.

Outlets

While travel retail constant value is expected to grow over the forecast period, the number of outlets is predicted to rise less rapidly, as recovery from the crisis of 2001-2003 is still not complete. Quick growth in outlet figures is expected only when new outlets have become profitable and existing branches are no longer enough to handle all customers. This situation is still far from being reached and outlet growth will remain moderate during the forecast period. Travel agents, exchange services and tour operators are expected to grow outlet volume by 4-5% each during the forecast period.

Online trends

Over the forecast period improved online booking systems and special prices and discounts offered for online reservations are expected to attract increasingly more customers to purchase travel retail services via the internet. As a result, travel retail internet sales are expected to grow by 162% in constant value terms and reach NIS5 billion by 2010.

The forecast period could also see the possible emergence of Israeli internet travel agencies, able to compete with Expedia and the other foreign online intermediaries active in the countries. At the moment, there are no signs of this but with Israeli entrepreneurs' tendency towards high-tech investments such a development is likely. However, such a company would take time to create a customer base and to fight the big travel agencies and the international competitors. Overall, intermediaries' travel retail internet sales are expected to rise to NIS2.8 billion by 2010, thus overcoming direct suppliers' online sales by the end of the forecast period.

Table 76 Forecast Travel Retail Sales: 2005-2010

NIS million constant 2005 rsp

	Value	% value growth
2005	5,900.0	-
2006	6,100.0	3.4
2007	6,300.0	3.3
2008	6,500.0	3.2
2009	6,700.0	3.1
2010	6,900.0	3.0

Source: Euromonitor International

Table 77 Forecast Travel Retail Outlets by Sector: Units 2005-2010

Outlets

	2005	2006	2007	2008	2009	2010
Travel retail services by outlet	781	786	793	799	806	812
-Exchange services	39	39	40	40	41	41
-Tour operators	91	92	93	94	95	96
-Travel agents	651	655	660	665	670	675

Source: Euromonitor International
Note: Tour operators refers to outlets dealing specifically in domestic tourism and tours in Israel
Dedicated currency exchange outlets only; excludes hotels, banks and post office outlets

Table 78 Forecast Travel Retail Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2000-2005

NIS million

	2005	2006	2007	2008	2009	2010
Internet	2,038.7	2,847.7	3,402.7	4,041.5	4,660.3	5,339.7
- Direct suppliers	1,533.1	2,115.6	2,358.2	2,578.2	2,636.5	2,579.2
- Intermediaries	505.6	732.1	1,044.5	1,463.3	2,023.8	2,760.5
Others	3,861.3	3,252.3	2,897.3	2,458.5	2,039.7	1,560.3
Total	5,900.0	6,100.0	6,300.0	6,500.0	6,700.0	6,900.0

Source: Euromonitor International

Table 79 Forecast Travel Retail Internet Sales by Broad Sector: Internet Transaction Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Travel retail internet transaction sales by broad sector	2,038.7	2,699.6	3,357.3	4,041.5	4,700.4	5,339.7
-Accommodation only	258.1	322.0	379.0	465.0	511.0	577.0
-Flight only	1,352.0	1,851.9	2,356.5	2,850.0	3,340.1	3,750.0

-Other transport only	-	-	-	-	-	-
-Car rental only	179.1	206.0	230.6	262.5	296.0	337.5
-Dynamic packaging	16.5	32.2	59.5	105.9	175.0	281.6
-Traditional package holiday	225.0	277.7	319.9	344.2	362.4	374.7
-Others	8.0	9.8	11.9	13.9	15.9	18.8

Source: Euromonitor International

10. TOURIST ATTRACTIONS

10.1 Sales and Visitors by Sector

2005 headlines

- Good growth during 2005, with improvement over 2004 in revenue
- Sales boosted by relative calm in terror acts and rising numbers of incoming and domestic visitors
- Highest growth rate in historic buildings/sites
- Prices and sales per visitor steady in 2005
- After crisis in tourism during the review period, tourist attractions regaining pre-crisis figures

Sales

Israel can be considered the cradle of both Christianity and the holy land of Judaism. The country also has a rich historic heritage and many places with names famous from the Bible and legends. Israel has a rich treasure trove of tourist attractions, most based on archaeology and history. The region’s history and the rich and also horrifying history of the global Jewish community also provide material for many attractive museums in Israel.

However, the crisis in tourism during 2001-2003, following the outbreak of the second Palestinian Intifada at the end of 2000 and the economical recession of 2002, affected tourist attractions deeply. After reaching NIS128 million sales revenue in 2000, 2001and 2002 saw sales decline to NIS87 million. While security concerns drove incoming tourists away from the region, terror acts executed in crowded public places and an economic recession also caused many Israelis to stay in their homes.

As the situation in Israel improved both economically and in terms of security in 2003, an immediate growth in tourist attraction sales followed, as Israelis returned. This led to sales revenue improving in current value terms by 26% in 2003 alone over the previous year. 2004 and 2005 also saw growth in incoming tourism, growing current value sales by 9-10% each year and reaching a total of NIS131 million in 2005, exceeding 2000 figures for the first time in the review period.

The three main sources of value sales during 2005 were museums, national parks and historic sites.

Museum sales in 2005 reached NIS45 million, growing by 6% in comparison to 2004. Museums is popular with domestic tourists and tends to be part of the Jewish education curriculum. As such, museums maintained a consistent interest from both Israeli and international Jewish visitors, who constitute the bulk of museum visitors. All domestic tourists visit the Tower of David and the Israel Museum at least once, as their exhibits form an integral part of Jewish heritage. Other museums, including the home of the Dead Sea Scrolls and holocaust memorial museum Yad Vashem, are important sites for international tourists.

As museums work constantly with the education system and because sites are usually located in secure and closed buildings, the fall in museums' sales was less dramatic than in other tourist attractions during the review period. Also, recognised museums receive funding from the Ministry of Education And Culture, which helped to maintain its performance during the economic recession.

The second most significant within tourist attractions is national parks/areas of natural beauty, which reached NIS43 million in value sales in 2005. Sales declined in current value terms between 2000 and 2002 but in 2003 rose by 61% over the previous year. 2004 saw an 11% current value rise, while 2005 featured fairly steady sales with a minor decrease. The steep rise during 2003 reflects the immediate return of Israelis to the country's national parks as soon as the terror levels were lowered. While other businesses rose more slowly in accordance with the economic situation, visits to national parks are not expensive and therefore the high growth rate was possible. Also, national parks received much government attention during the last few years of the review period, as many sites were renovated and were able to receive more visitors.

Historic buildings/sites is also significant with value sales of NIS39 million in 2005. Israel has hundreds of ancient sites, both historical such as Massada and religious such as the Wailing Wall. Some historic buildings/sites have an integrated on-site museum and therefore value sales are attributed to museums rather than to the site itself. This tends to cause some distortion of the data if site entry is free and the museum charges a fee. Other sites charge for entry but allow access to the on-site museum for free.

Historic buildings/sites suffered dramatically from the crisis during 2001 and 2002, as sales decreased by 52% and 29% respectively in these years in current value terms over the previous years. This is attributed to these sites' dependence on incoming tourism, which fell, and to their lower level of security, with terrorists often focusing on grouped crowds such as guided tourists. Also, many historic buildings/sites are located in the Judea and Samaria areas, which were the focus of military clashes between Israelis and Palestinians during the review period, and in Jerusalem, which suffered many terror attacks in these years.

After the steep fall, sales in historic buildings/sites improved in the latter half of the review period, with a 164% current value growth since 2002. Unlike national parks, sales at historic buildings/sites rise more in line with the overall status of incoming leisure tourism and therefore rose less abruptly in 2003.

There are very few zoos or aquariums in Israel. Zoos are not viewed as tourist attractions and are visited mostly by school children or families. Because zoos are aimed at children, the average cost of a visit is quite low, especially because of reductions in price for group bookings. The main aquarium in Israel is in Eilat and prices are kept low to attract visitors.

Other attractions include theatres and art galleries, all keeping a relatively steady sales value during the review period. However, these suffered minor declines in current value terms due to the economic recession, which made many Israelis cut back on leisure expanses.

Visitors

The ranking of tourist attractions by visitors largely mirrors the value ranking, with a similar dominance for national parks, museums and historic buildings/sites. As seen in sales value, the crisis in tourism affected visitor figures across tourist attractions, especially those that are less secure. Since 2003 most tourist attractions saw growth in the number of visitors but not all managed to reach their 2000 figures. Overall, the number of visitors during the review period suffered a 13% decline.

National parks/areas of natural beauty, which ranked second in sales value, lead in visitor numbers, with well over three million visitors in 2005. Many national parks do not charge much money or none at all for entrance, as sales come from food kiosks, optional guided tours and nearby museums. Consequently, its share in visitor numbers greatly outstrips its share in value. As seen with its sales value, national parks saw a steep rise in number of visitors as soon as the terror levels decreased in 2003, as most visitors are domestic.

Museums had almost three million visitors in 2005, with a 7% rise in comparison to 2004 but an overall 29% fall throughout the review period. Although the economic recession during 2001-2003 had its effect, it is noticeable that the descent began in 2000, before the outbreak of the second Intifada.

Historic buildings/sites benefited from the rise in cultural tourism and saw above two million visitors in 2005, with a 30% rise in comparison to 2004. As with sales value, historic buildings/sites saw a slower growth from the 2002 crisis, as it is more dependent on incoming tourists and the economic situation in Israel.

Table 80 Tourist Attractions by Sector: Value 2000-2005

NIS million	2000	2001	2002	2003	2004	2005

Art galleries	0.9	0.7	0.5	0.5	0.5	0.5
Casinos	-	-	-	-	-	-
Circuses	-	-	-	-	-	-
Historic buildings/sites	42.8	20.7	14.8	21.2	29.9	39.1
Industrial tourism	-	-	-	-	-	-
Museums	53.2	45.1	44.8	46.2	42.9	45.4
National parks/areas of natural beauty	27.0	26.2	24.4	39.3	43.7	42.8
Theatres	1.8	1.3	1.0	0.9	1.0	1.4
Theme/amusement parks	-	-	-	-	-	-
Zoos/aquariums	1.8	1.4	1.2	1.0	1.2	1.6
Other tourist attractions	-	-	-	-	-	-
Tourist attractions	127.5	95.4	86.7	109.1	119.1	130.8

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), Euromonitor International

Table 81 Tourist Attractions by Sector: 2000-2005

'000 visitors

	2000	2001	2002	2003	2004	2005
Art galleries	51.0	36.0	26.0	22.2	23.0	26.0
Casinos	-	-	-	-	-	-
Circuses	-	-	-	-	-	-
Historic buildings/sites	3,030.0	1,464.0	1,020.0	1,272.0	1,779.3	2,321.9
Industrial tourism	-	-	-	-	-	-
Museums	3,523.0	2,547.9	2,359.3	2,314.0	2,345.4	2,512.8
National parks/areas of natural beauty	2,764.2	2,261.0	2,016.3	3,053.5	3,375.2	3,405.6
Theatres	68.0	48.0	38.0	35.0	39.0	42.0
Theme/amusement parks	-	-	-	-	-	-
Zoos/aquariums	440.0	331.0	295.0	259.0	279.0	289.0
Other tourist attractions	-	-	-	-	-	-
Tourist attractions	9,876.2	6,687.9	5,754.6	6,955.7	7,840.9	8,597.3

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), Euromonitor International

10.2 Online Sales

Online developments

Tourist attraction internet sales reached NIS5 million during 2005, with a 17% current value rise from 2004. Internet sales for tourist attractions in Israel are highly undeveloped, as practically no tourist attractions offer online sales. Most attractions are small organisations with little knowledge of the internet and a lack of resources to invest in a complex e-commerce solution, particularly when it is uncertain if an online presence would be a successful strategy for growth.

If Israel had large theme parks with huge volumes of visitors such as Disneyland, a strong internet presence would be more relevant. However, tourist attractions are fragmented and small. As a result, all online sales that do occur are indirect and made through tourist retailers who offer whole tourism packages that also include tours and offer the option of online booking.

Table 82 Tourist Attractions Internet Sales by Direct Suppliers and Intermediaries: Internet Transaction Value 2001-2005

NIS million

	2001	2002	2003	2004	2005
Internet	1.4	2.2	3.1	4.1	4.8
- Direct suppliers	-	-	-	-	-
- Intermediaries	1.4	2.2	3.1	4.1	4.8
Others	94.0	84.5	105.9	115.0	126.0

	2001	2002	2003	2004	2005
Total	95.4	86.7	109.1	119.1	130.8

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), Euromonitor International

10.3 Key Players: Visits

The most popular tourist attractions are historic buildings/sites, museums and national parks. This reflects Israel's main appeal in tourist attractions: its unique history, culture and scenery. All sites saw a general rise in second half of the review period, since the recovery from the crisis in tourism began. Historic buildings/sites is greatly dependant on incoming visitors, as can be seen by the high growth percentages of Massada or Ceaserea, while national parks and museums also rely highly on domestic visitors.

The leading site is Tower of David, with almost half a million visitors in 2005. The site combines archaeological remains from many periods of Jerusalem with a museum of the city's history. It is located near the ancient city of Jerusalem, thus appealing to many tourists who visit the area. Other leading historical sites include Ceaserea and Massada, which had 418,000 and 358,000 visitors accordingly. Both sites are archaeological sites built by King Herod at around 30BC.

Leading national parks include Gan Hashlosha, a park of natural pools and springs that includes an archaeology museum and another park dedicated to Australian wildlife. En Gedi (Nahal David) is an oasis near the Dead Sea that offers hiking tracks, natural springs and archaeological remains. The Banyas Spring, located in Golan Heights, includes a hiking track, waterfalls and archaeological remains. Meanwhile, Ma'arat Avshalom is a stalactite cave of dripstones located not far from Jerusalem.

Major museums include The Israel Museum in Jerusalem, the Tel Aviv Museum of Art and The Bible Lands Museum in Jerusalem. Despite the overall decline in number of visitors to museums during the review period, The Israel Museum ranked second overall among the most visited attractions in 2005, with 456,000 visitors.

Table 83 Leading Tourist Attractions by Visitors 2001-2005

'000

	2001	2002	2003	2004	2005
Tower of David	452.3	441.0	454.0	480.0	492.0
The Israel Museum	356.2	347.1	353.2	413.4	456.1
Massada	225.6	240.3	244.3	320.2	418.8
Ceaserea	203.2	141.1	170.2	265.0	358.5
Gan Hashlosha	254.3	221.9	267.8	303.2	332.0
Tel Aviv Museum of Art	256.7	210.4	260.1	276.0	285.3
Ein Gedi (Nahal David)	244.8	220.1	239.1	264.6	285.2
Banyas Spring	203.4	183.2	201.9	204.2	225.8
Me'arat Avshalom (stalactite cave)	166.9	150.5	173.5	185.5	209.1
Bible Lands Museum	46.1	37.4	44.3	74.1	96.2

Source: Trade interviews, Trade press (Haaretz, Globes, Passportnet), Euromonitor International

10.4 Forecast Sales and Visitors

Sales

Given optimistic forecasts concerning the number of incoming tourists, tourist attractions is predicted to further grow sales during the forecast period, reaching a 16% constant value growth rate and a total of NIS152 million by 2010. Within tourist attractions, national parks and museums are predicted to grow at a moderate rate, while historic buildings/sites' sales value is predicted to grow more rapidly in accordance with a rising number of incoming tourists and thus gain the lead. Zoos/aquariums, theatres and art galleries are predicted to largely maintain their relative shares.

However, sales growth could be higher than predicted during the forecast period if creative initiatives and new attractions are developed. A proposal is currently waiting for parliamentary debate and approval, focusing on legal authorisation to open a casino in Israel. Israeli businessman Shmuel Plato-Sharon aims to bid for the construction of a casino in Eilat, operating jointly with US investors. As of 2005, the proposal received support from Israel's Minister of Finance, Ehud Ullmert and Minister of Tourism, Avraham Hirschzon.

Meanwhile a museum is being planned aimed at Evangelist Christians. This is planned for construction on the shores of the Sea of Galilee, where Jesus spent his youth, and is expected to draw many visitors from the US. Currently, the museum is set to be open in 4-5 years.

Visitors

The development of visitor figures is expected to follow the same pattern as constant value sales. Ticket prices are not expected to change much, as in many cases they are already low and often set to simply cover the slight cost of a visit. Similarly to value sales, historic buildings/sites is predicted to have the highest growth rate, as it will benefit most from the rising numbers of incoming tourists. By 2010, historic buildings/sites is forecast to account for 36% of all visitors to tourist attractions.

Online trends

A noticeable development in internet sales is not expected in tourist attractions. It is highly improbable that many sites will develop an online sales system, due to their relatively small budgets and the lack of need to pre-order tickets in order to visit. All online sales will continue to be through intermediaries, mainly tour operators and travel agencies that will include these costs as part of wider packages. Therefore, the growth in online sales will be a result of the total growth in travel retailers' internet sales.

Table 84 Forecast Tourist Attractions by Sector: Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Art galleries	0.5	0.5	0.6	0.6	0.7	0.8
Casinos	-	-	-	-	-	-
Circuses	-	-	-	-	-	-
Historic buildings/sites	39.1	42.5	45.0	47.5	50.0	52.5
Industrial tourism	-	-	-	-	-	-
Museums	45.4	46.5	47.5	48.5	49.5	49.8
National parks/areas of natural beauty	42.8	43.4	44.0	44.4	44.9	45.4
Theatres	1.4	1.4	1.5	1.5	1.6	1.6
Theme/amusement parks	-	-	-	-	-	-
Zoos/aquariums	1.6	1.6	1.7	1.7	1.7	1.8
Other tourist attractions	-	-	-	-	-	-
Tourist attractions	130.8	136.0	140.3	144.3	148.4	151.9

Source: Euromonitor International

Table 85 Forecast Tourist Attractions by Sector: 2005-2010

'000 visitors

	2005	2006	2007	2008	2009	2010
Art galleries	26.0	27.0	29.0	30.0	31.0	32.0
Casinos	-	-	-	-	-	-
Circuses	-	-	-	-	-	-
Historic buildings/sites	2,321.9	2,650.0	3,050.0	3,300.0	3,550.0	3,800.0
Industrial tourism	-	-	-	-	-	-
Museums	2,512.8	2,550.0	2,571.0	2,594.0	2,615.0	2,652.0
National parks/areas of natural beauty	3,405.6	3,460.0	3,500.0	3,520.0	3,540.0	3,560.0
Theatres	42.0	44.0	45.0	46.0	47.0	48.0
Theme/amusement parks	-	-	-	-	-	-
Zoos/aquariums	289.0	293.0	300.0	310.0	320.0	330.0
Other tourist attractions	-	-	-	-	-	-

Tourist attractions	8,597.3	9,024.0	9,495.0	9,800.0	10,103.0	10,422.0

Source: *Euromonitor International*

Table 86 **Forecast Tourist Attractions Internet Transaction Value Sales by Sector: Internet Transaction Value 2005-2010**

NIS million

	2005	2006	2007	2008	2009	2010
Internet	4.8	6.0	7.5	9.0	10.5	13.0
- Direct suppliers	-	-	-	-	-	-
- Intermediaries	4.8	6.0	7.5	9.0	10.5	13.0
Others	126.0	130.0	132.8	135.3	137.9	138.9
Total	130.8	136.0	140.3	144.3	148.4	151.9

Source: *Euromonitor International*

11. DEFINITIONS

11.1 Tourism Parameters

Travel and tourism is an industry encompassing markets as diverse as transportation (airlines, rail and ferry companies), travel retail, travel accommodation, tourist attractions and car rental as well as standard tourism parameters.

Arrivals

Refers to international tourists, i.e. any person visiting another country for at least 24 hours, for a period not exceeding 12 months and staying in collective or private accommodation. Each trip is counted separately and thus includes people travelling more than once a year and people visiting several countries during one holiday. Unless otherwise stated, arrival figures exclude same-day visitors and transit and cruise passengers, as this can distort arrival figures in important cruise destinations. It also excludes those in paid employment abroad. The country of origin of the inbound arrival is referred to as the source country.

Arrivals are measured in '000 people.

Please note: international arrivals (given in terms of number of people) is not the same as international trips because during the course of one trip abroad, there may be numerous visits to different countries which would then be recorded separately in the international arrivals figures of each country visited. Therefore, one international trip does not equal one international arrival.

Departures

Refers to the number of trips undertaken by national residents to another country (destination country) for any other reason than to carry out an activity remunerated in the country of destination.

Data includes foreigners residing permanently in the country of departure.

Departures are measured in '000 people.

Incoming tourist receipts

These are classified as payments by international inbound tourists, including fares paid to national carriers for international transport and any other prepayments made for goods or services received in the country of destination. This should also include receipts from day visitors from abroad, although there are exceptional cases that are recorded separately.

Outgoing tourism expenditure

This is expenditure by outbound tourists abroad, including their payments to foreign carriers for international transport. Again, this should also include expenditure on day visits abroad, except in certain cases when these are recorded separately. Data thus excludes international transport fares purchased within the country of origin.

Domestic tourists

This varies from country to country and can refer either to actual tourists (measured in terms of people) spending one night or more away from home within their normal country of residence or to the number of stays by residents within their normal country or residence. Most national statistics on domestic tourism expenditure exclude that on travel to and from the destination.

Domestic trips

The number of trips taken by residents of the country within the country. The definition of the length of a trip varies from country to country.

Trips are measured in terms of '000 trips.

Domestic tourist expenditure

The spending on travel and tourism services by domestic visitors on their trips.

Tourism spending

This analyses tourism spending by foreign and domestic tourists on the following sectors:

- Accommodation: includes all forms of travel accommodation namely campsites, hotels, motels, self-catering, chalets, guesthouses, hostels, private accommodation and other;
- Entertainment: includes evening entertainment and tourist attractions such as casinos;
- Travel within the country: includes spending on all local transport such as rail, bus/coach, ferry, air, chauffeur driven car, cruise etc;
- Excursions: within the country; may be for one day or over;
- Food: spending on retail food as well as foodservice; includes full-service restaurants and other foodservice formats such as cafés/bars, fast food, 100% home delivery/takeaway, street stalls/kiosks and self-service cafeterias;
- Shopping: includes food and non-food purchases. May also include duty-free purchases;

Outbound tourism spending by sector is reviewed separately.

Method of payment

- Cash: money in note or coin form which is used to pay for goods and services at the time of purchase;
- Credit card: a card that allows a retail or business consumer to make small purchases using a card and account where there is a predetermined borrowing arrangement up to a fixed monthly level;
- Debit card: a card that allows a retail or business consumer to make small purchases using a card that debits from a bank account;
- Prepaid debit card: a card offered by a service provider that uses a prepaid e-cash card as a payment vehicle;
- Traveller's cheques: these are cheques issued by banks, credit card and charge card companies that allow the holder to buy goods and services in a foreign country.

11.2 Travel Accommodation

The travel accommodation market covers the main types of accommodation used by incoming tourists and domestic tourists. The market is broken down into nine principal sectors.

Travel accommodation value is measured in terms of the price paid for accommodation by the consumer and may include foodservice (food and drinks).

Travel accommodation volume is measured in terms of number of outlets and specifically for hotels, in number of rooms, number of beds and bed nights.

Campsites

Covers areas set aside for camping and caravans.

Chalets

Rented accommodation in mountain or country areas; may include meals; includes lodges and inns.

Guesthouses

Rooms within officially-recognised private accommodation, for the purpose of tourism; rented to tourists on a nightly or weekly basis; often with breakfast included.

Hostels

Outlets providing low cost/budget accommodation, often in dormitories; includes youth hostels.

Hotels

Hotel outlets providing lodging and optional meals, includes independent and chained operators as well as all company owned, leased, managed and franchised outlets.

Motels

Roadside hotel accommodation for motorists.

Private accommodation

Privately-owned houses or individual rooms rented to tourists on an unofficial basis and not always authorised by tourist authorities.

Self-catering apartments

Providing lodging in allocated tourist apartments, not providing meals.

Other

Smaller types of accommodation, such as holiday camps, not listed above but included in country statistics.

Specific data indicators for the travel accommodation market are as follows:

Hotel chains

Hotel operators that run a number of outlets, usually with a degree of specialisation in service or product positioning. The number of branches required to be termed a chain varies from country to country but is usually 10 or more. The chain usually trades with the same fascia, format and identity.

If a hotel forms part of a regional or international chain network and has less than ten outlets in a particular country, it is still counted as a chain.

Hotel independents

Hotel operators that own and operate one or more (but fewer than 10) outlets not affiliated to any other business. Mainly relates to family businesses or partnerships.

Number of bed nights

Refers to the total number of beds in travel accommodation occupied over the year.

Occupancy rates

This expresses the relationship between available capacity and the extent to which it is used. It may refer to either the use of rooms or of beds. Occupancy rates are based on the number of nights of both domestic and international tourists. Occupancy rates are taken at the year end.

RevPAR

This signifies revenue per available room in the travel accommodation market. It is calculated by occupancy multiplied by the average daily room rate per company. RevPAR is based on rooms available for use by domestic and international visitors. Euromonitor International measures system-wide revPAR i.e. for company-owned, company operated, licensed and franchised outlets. RevPAR is taken at the year end.

Number of rooms and beds

The number of rooms and beds per hotel that are available for use by consumers.

Tourist locations

A client has specified that they would like to know the number of mid-price to premium hotels in tourist locations, such as in tourist resorts such as sea, mountain, lakes and country locations as well as in art and city break cities. This therefore excludes all non-tourist locations such as hotels at airports, service stations and non-city/-art or tourist resort locations.

11.3 Transportation

The transportation market covers the mode of transport used by tourists going to their holiday destination and within the country. It covers sales for outgoing travel by country residents and internal travel by foreign and domestic tourists. Car rental market is analysed separately.

Transportation value is measured in terms of the price paid (fare) for the mode of transport by the consumer. Air is also measured in terms of the number of available seats and seats sold.

The transportation market assesses seven main modes of transport:

Air

Includes schedule, charter and budget airlines; national flag carriers as well as low cost carriers.

Bus/coach

Encompasses overland travel by bus or coach.

Chauffeur-driven car

Passengers driven to their destination by a hired third party. Excludes taxis.

Cruise

Travel by cruise ship.

Ferry

Travel by ferry.

Rail

Travel by passenger train, excluding freight and car transport.

Specific data indicators for the travel accommodation market are as follows:

Airline capacity

Capacity is based on the number of seats available for sale based on the number of potential enplanements.

Airline utilisation

Euromonitor International considers airline capacity and utilisation in terms of enplanement over origin-destination, whereby the number of enplanements are based on flights, as defined by the airlines and assigned flight numbers. For example, a passenger whose flight stops mid-route to pick up more passengers but continues with the same aircraft/flight number would be counted as one enplanement. A passenger who switches flights to another airline or aircraft with a new flight number mid-journey would be considered as two enplanements.

11.4 Car Rental

The car rental market covers the hire of passenger vehicles including small vans by both business and leisure users and whether from the airport or downtown locations, in the context of the total short-term rental fleet. This excludes businesses that hire cars for long term leasing. Car rental covers sales to incoming tourists and domestic users including domestic tourists and general nationals. Car rental also excludes commercial vehicles, trucks and motorbikes.

Car rental value covers the price of car hire to the consumer. Volume of car rental is provided by the number of car hire transactions, fleet size and number of car rental operators.

Sectors

Business: for the purpose of a business trip either arranged on behalf of the customer by work or arranged personally.

Leisure: for personal trip or holiday, visiting friends/family or any other non-work related activity such as moving house.

Insurance replacement: where domestic residents use a rental car paid for by an insurance company as a replacement vehicle, while their own car is repaired following an accident.

Location

Airport: is defined by car rental POS/counters/offices based at an airport either within the terminal or next to the airport. This includes POS located in close proximity to the airport, i.e. everything that is not counted as downtown.

Non-airport: is what the car rental companies refer to as downtown locations so these include high street/retail parks i.e. everything except POS located in or by airports. Internet sales would therefore fall into this category by default.

Transactions

Car rental transactions i.e. rental volume measures the exchange between a rental firm and consumer/business of a rental vehicle for 1-3 days, 4-7 days, 7+ days for the sectors reviewed: business, leisure, insurance replacement, excluding all trucks and commercial vehicles.

Transactions can be booked in advance or on the day of usage; booked direct with the car rental firm or through an intermediary on- or off-line.

Transactions exclude the sale of old cars to consumers.

Fleet size

Fleet size refers to the number of cars at the car rental company's disposal including all operational cars at the annual year end for rentals in the business, leisure and replacement market for passenger vehicles.

This does not reflect any fluctuations in size through down/upsizing the fleet throughout the course of the year.

11.5 Travel Retail

The travel retail market covers companies that put package holidays together for the general public, companies that sell them to the public and those that supply foreign currency. The market for travel retail covers sales to outgoing and domestic tourists and internal use by incoming tourists.

Travel retail value is measured by the price paid by the consumer (leisure and business) for travel retail services online and offline. Seeing as the price is what the consumer pays for a holiday, this includes fare or flight supplements, airport tax, booking fees and commissions paid by the consumer direct to the travel retailer as part of the purchase.

Travel retail volume is given in the number of travel retail outlets including the sectors of travel agents, tour operators and exchange services.

Travel agents

Retail outlets that sell holidays and holiday services. Travel agents sales are based on sales i.e. gross revenue and equal the total transaction value sold to the consumer (i.e. including the price of the product and commission), not on pure agent income which includes only commissions (i.e. gross margins on gross revenue).

Tour operators

Companies that organise holiday packages and sell them either directly to the public or through travel agencies. Tour operators' sales include direct sales to the consumer. Sales of tour operators' products that are sold through travel agents direct to the consumer are instead included under travel agents.

Exchange services

This term refers to dedicated currency exchange outlets only. It therefore excludes banks and travel agencies.

Due to the difficulty of establishing sales by sector as a result of the overlap of business between the sectors above, value by sector will not be given and will be provided at total market level only.

As mentioned, travel retail total is not the sum of the sectors of travel agents, tour operators and exchange services, rather it reflects the overall sales to the consumer i.e. direct sales to the consumer via travel agents, direct sales to the consumer by tour operators whether online or offline and exchange services, excluding tour operator to travel agent dealings.

Travel retail product breakdowns

Accommodation only: sales of accommodation services through tour operators and travel agents including hotels, motels, self-catering, guesthouses and all other forms.

Adventure/trekking holiday: sales of adventure/trekking holidays via tour operators and travel agents.

City break: sales of city breaks through tour operators and travel agents.

Cruise: sales of cruises through tour operators and travel agents.

Flight only: sales of airline tickets only (on their own rather than as part of a package deal or city break) via tour operators and travel agents.

Other transport: other forms of transport excluding airline tickets sold via tour operators and travel agents such as rail, ferry, bus/coach. Car rental is included under "others".

Fly-drive: includes the sales of holiday packages which include the return flights and car rental once arriving in the destination country through tour operators and travel agents.

Package holiday: includes traditional package holidays which are fixed by tour operators and travel agents and include transportation, accommodation along with a choice of food options ranging from B&B, mid to full board. Also includes dynamic package holidays that are sold online by companies such as Expedia, which allow the consumer to combine travel components such as transportation and accommodation.

Travel insurance: sales of travel insurance sold via exchange services, which may be located within travel agents.

Foreign currency: foreign currency purchases sold via exchange services, which may be located within travel agents.

Traveller's cheques: traveller's cheques sold via exchange services, which may be located within travel agents.

Others: others include tourist attraction entrance fees, car rental hire and such products/services.

By destination

Travel retail sales by destination includes all product sectors of travel retail, excluding the sectors that apply to financial services conducted by exchange providers i.e. excludes travel insurance, foreign currency and traveller's cheques.

Beach: holidays to beach and coastal areas/resorts.

Countryside: holidays to all countryside locations, except mountainous terrain.

Mountain: holidays to mountain areas, particularly mountain ranges.

Culture: includes city breaks and art trips.

Others: such as jungle, rainforest and other locations not covered in the above.

Online booking sites are included under the market value sales for travel retail, however, are not included in the number of outlets as these do not apply.

Online travel retail refers to the sales of travel retail services over the internet. It includes the sales of all travel products/services of travel accommodation, hotels, transportation, airlines, car rental, tourist attractions, package holidays and tours, etc via online booking sites as well as travel retailer websites.

There will therefore be double-counting with the intermediaries' sales of travel accommodation, hotels, transportation, air and car rental as these are reviewed in their respective market or sector sections.

11.6 Tourist Attractions

The tourist attractions market covers the sites visited by tourists, covering sales to incoming and domestic tourists.

Value sales should as far as possible include all entrance fees but exclude business-to-business activities such as hospitality and conferences. Where possible, expenditure on food and drinks is excluded, unless specified. Tourist attractions volumes are measured by the number of visitors.

The market consists of the following sectors:

Art galleries

Includes all forms of art galleries including modern, traditional, national, private and avant-garde as well as contemporary: indoor and outdoor.

Casinos

Includes consumer spending at casinos, not casino revenues.

Circuses

Includes all forms of travelling and permanent circuses.

Historic buildings/sites

Includes palaces, monuments, castles, historic birthplaces, landmarks, temples, religious sites etc.

Industrial tourism

Includes visits to past and present factories and company sites, as well as visits to company headquarters, such as power stations, mines, forestry, factories, businesses etc. Spin-off activities from industrial tourism do not apply such as activity or restoration programmes.

Museums

Includes all national and privately-owned museums.

National parks/areas of natural beauty

National parks as defined by the government; areas of interest include gardens and areas of natural beauty that have not been allocated the title of national parks.

Theatres

Theatres excludes cinemas.

Theme/amusement parks

All permanent theme and amusement parks generally found in out-of-town locations. Excludes travelling fairs.

Zoos/aquariums

Includes all national and privately-owned zoos and aquariums. Waterparks are included under theme/amusement parks.

Others

Others includes other types such as themed tourist attractions such as wax work museums and Ferris wheels such as the London Eye which do not fit in the above sectors.

11.7 Internet Sales

Direct suppliers

Direct suppliers refer to companies providing a service or product direct to the consumer without the aid of an online travel agent of intermediary.

Travel accommodation direct suppliers (including hotels) includes hotel operators such as Hilton or InterContinental which offer an online payment system for the reservation and booking of hotel rooms over the Internet.

Transportation direct suppliers (including airlines, rail companies, ferry companies etc) encompasses companies such as low cast carriers, scheduled airlines and national carriers along with other transport operators that provide a payment system for consumers to book direct, eg British Airways online payment provision, Ryanair etc.

Car rental direct suppliers are car rental companies that themselves that provide an online booking (involving payment) website, eg Avis, Hertz, Europcar.

Travel retailers direct suppliers refers to traditional travel retailers (including travel agents, tour operators along with exchange service providers where applicable) that sell their services direct to consumers via the internet, eg Thomas Cook and TUI web platforms.

Tourist attractions direct suppliers are attractions that offer a web platform for the purchase of tickets.

Intermediaries

Online intermediaries sell products and services indirectly on behalf of a third party such as a hotel, airline, tour operator, travel agent or car rental company to the consumer via the internet. Typically, intermediaries are online travel agents, such as Expedia and Lastminute, which have developed the format of dynamic packaging, allowing consumers to customise their holidays. Typically, online intermediaries have not developed from bricks and mortar companies. Instead they have developed from internet start-ups.

11.8 Internet Sales: Dynamic Packaging

This concept was pioneered by Expedia and was originally the domain of online travel agents. However, now traditional travel retailers (direct suppliers) have launched their own versions of dynamic packaging. Essentially, dynamic packaging allows consumers to build their own trips by offering a combination of different travel components such as flight/hotel/car rental etc at different price levels. Therefore it is dynamic and customised, rather than offering fixed or pre-arranged traditional holiday packages.

11.9 Internet Sales: Traditional Package Holiday

Traditional package holidays are a fixed package, usually all-inclusive, combining transportation and accommodation components in a resort or location either pre-selected by the consumer or allocated upon arrival. Traditionally offered by tour operators and travel agents, these are also offered on the internet by travel retail direct suppliers, although package holidays differ from dynamic packages in that the consumer has no flexibility or customisation in the choice of travel components such as flight or accommodation.

11.10 GDS

GDS (global distribution systems) companies are exemplified by Amadeus, Galileo, Sabre and Worldspan. GDS companies provide travel reservation systems and technology to the travel trade, allowing travel agents and airlines to book airline seats and access to hotels, car rental, cruise and transportation companies, etc, to make reservations.

11.11 Sustainable Tourism

Sustainable tourism aims to maintain the integrity of local culture and heritage combined with conserving local resources for the benefit of the community in the long run without causing damage to the social fabric and local environment.