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The euro and tourist attractions in the UK

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INTRODUCTION.

The launch of the euro on January 1st 2002 represented the world's largest monetary conversion ever undertaken (The Independent, 2nd January 2002) when twelve European Union countries introduced the single currency (The Economist, 5th January 2002). Despite some initial problems, it is generally accepted that the changeover was successful and today the euro is the national currency of more than 300 million citizens (The Guardian, 14th January 2002). Although the UK is not a member of the euro, the currency has had an impact on this country, particularly in Northern Ireland where cross-border visitors have brought euros to spend in the province. Although the euro is a foreign currency in the UK, major retail businesses in Britain have said they will accept euros (The Independent, 2nd January 2002). These include British Home Stores, Virgin, WH Smith, Marks and Spencer and Dixons. Smaller businesses too have taken steps to accommodate euro-paying customers. For example, the Manager of the Pitfodels hotel in Aberdeen has stated that "Being ready to trade in the euro is a natural progression in our drive to offer a high quality service to our guests" and "The message to other tourism-related businesses which are not yet able to accept euros is not to bury your head in the sand" (www.euro.gov.uk).

This article will discuss the euro and European Monetary Union, UK membership of the euro and strategies for UK Tourist Attractions in dealing with the euro. In addition, a Case Study will be presented which will summarise the findings of a survey undertaken in March 2004 to ascertain the views of financial directors of Tourist Attractions to the euro.

The euro and European Monetary Union.

In 1970 the Werner Report presented a plan to achieve Economic and Monetary Union within ten years. This would be achieved by means of fixed exchange rates, a central monetary authority and centralised fiscal policies (Dinan, 1999 and Pringle and Turner, 1998). Economic and Monetary Union (EMU) would then follow a three-stage approach which would eventually result in a common monetary policy and fixed exchange rates (Eijffinger and de Haan, 2000, p.5). However, the timetable for EMU, as established in the Werner Report, was not met. However, the European Monetary System (EMS) was established in 1979 and this system lasted until 1998 when it was replaced by EMU (de Grauwe, 2000, p.97). At the Madrid Summit in June 1989, the "Delors Report" ("Report on Economic and Monetary Union") was agreed. This outlined three stages for the implementation of EMU (El Agraa, 2000, p.142; Dyson and Featherstone, 1999, p.10). Further discussion eventually lead to the "Maastricht Treaty" ("Treaty on European Union") which was signed on 7th of February 1992 by EU finance and foreign ministers (Scobie, 1998, p.1). At the Dublin Summit Meeting in 1996, the European Council determined the legal framework for introducing the euro (Chesworth and Pine-Coffin, 1998, p.4-5). Under the terms of EMU, the UK is under no obligation to become a member. However, if the UK government decides to join the euro, "…..it can do so at any time after Stage 3 as long as the Council of Ministers accepts that it satisfies the necessary conditions" (Pringle and Turner, 1998, p.11).

Of the fifteen members of the Euopean Union, four countries did not participate in EMU from 1st January 1999, these being Denmark, Greece, Sweden and the United Kingdom (Charlton, 1999, p.14). The United Kingdom, along with Denmark and Sweden, decided not to join the euro despite satisfying the convergence criteria. (de Grauwe, 2000, p.129).

UK membership of the euro.

Although the U.K. has yet to decide when it will make a decision about joining the euro (The Economist, 22nd July 2000, p.71), this does not mean that Britain will be unaffected by the euro. The euro will affect British businesses, organisations and individuals. This has been recognised by Gordon Brown, the Chancellor of the Exchequer, who, in a speech in July 1997, stated that "whether or not the United Kingdom eventually participates in the single currency, it will affect us". The euro will have many impacts. These include:

- Increased price transparency
- Increased competition
- Elimination of barriers to capital flows within the euro-currency area
- Changes in the customer base and supply chain
- Reduction (or elimination) of transaction costs associated with currency conversion
- Reduction (or elimination) of currency risk associated with cross-border investment
- Lower information costs to consumers who are more easily able to compare prices
- Lower inflation and economic stability
- Lower interest rates
- Promoting international travel between member states

- Operational cost of the transition to the single currency
- Cost and opportunities of redesigning services and products
- Threat of greater volatility in national economies

(Source: Baimbridge, 2000; Currie, 1997; Charlton, 1999; Chesworth and Pine-Coffin, 1998; Eltis, 2000; Giordano and Persaud, 1998; Holder, 1999; Socher ,1999; Soper, 1999; Templeton and Bond, 1999; Thomas, 1996)

In order to be successful and attract euro-spending visitors, British Visitor Attractions will have to invest in the single currency. They will need to accept the currency and introduce dual pricing (Duff, 1999, p.32). But it is not just dual pricing which needs to be introduced. There are a large number of specific tasks which need to be undertaken. In preparing a British Visitor Attraction for the euro, the key questions which need to be asked include:

- What needs to take place?
- Who will be involved?
- When will the process commence and finish?
- How much will it cost?

Even a simple matter such as printing or displaying two currencies will require major surgery to Information Technology systems.

<u>Case Study: A survey of Finance Directors' (of Tourist Attractions) views on the euro</u>

In order to ascertain Tourist Attraction companies' views on the euro, it was decided to conduct a postal survey using a written questionnaire. This questionnaire was pre-tested before being sent and contained a total of nine questions. It was decided that the questionnaire be sent to the Director of Finance (or person with a similar title) because it was deemed that this person would have a good insight into the company's approach to the single currency. Names and addresses were obtained using the Data Services database of UK Tourist Attractions supplied by VisitBritain (www.visitbritain.org) on the 4th of March 2004 and letters sent in the same month. The names were chosen (from the list) using "Systematic Sampling" (Robson, 1998, p.137). This was considered an appropriate sampling technique as the list was alphabetically arranged. A total of 38 directors responded to the survey from 260 questionnaires sent. Therefore, the response rate was 14.6%. The respondents varied from some of the largest Tourist Attractions in the UK (which attracted 1 million visitors in 2003) to small Tourist Attractions (which attracted less than a thousand visitors in 2003). For the purposes of this research, "Tourist Attractions" are defined as "where it is feasible to charge admission for the sole purpose of sightseeing. The attraction must be a permanently established excursion destination, a primary purpose of which is to allow public access for entertainment, interest or education rather than being primarily a retail outlet or a venue for sporting, theatrical or film performances. It must be open to the public, without prior booking, for published periods each year, and should be capable of attracting day visitors or tourists, as well as local residents. In addition the attraction must be a single business, under a single management, so that it is capable of answering the economic questions on revenue, employment etc, and must be receiving revenue directly from the visitors. (MINTEL, 2002. The results are as follows:

Question 1. *"Do you feel you have sufficient information about the euro?"*

Yes:	**68.4%**
No:	**26.3%**
Not Needed:	**2.6%**
Missing:	**2.6%**

If yes, where did you obtain this information?"

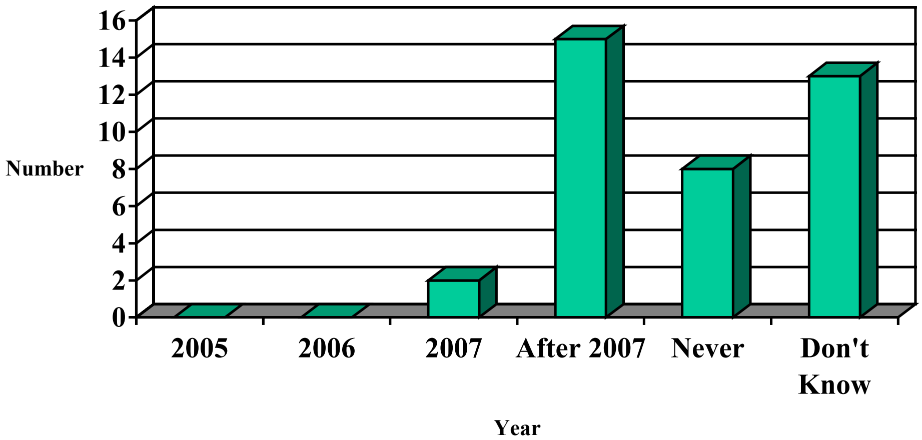
The most popular responses (those mentioned at least twice) were:

Press/Media/Newspapers (x23), Government Literature (x4), Banks (x3).

"If no, what information do you feel you need?"

Only one response was mentioned twice, namely how currency changeover would be managed. Other (single) responses included: how to open euro accounts, how it will affect the UK and the possibility of it being put into circulation.

Question 2. *"The British government has not given a date for UK membership of the euro. When do you think the UK will join the euro?"*



From the bar chart above, it is evident that respondents feel that the euro is a long-term proposition, if ever it were to happen. 34% of respondents did not know when the UK will join the euro.

Question 3. *"Do you support the UK joining the euro?"*

42.1% **Yes**

50.0% **No**

5.3% **Don't Know**

2.6% **Did not answer**

Compared to Finance Directors of public house companies in the UK (Jenkins, 2002, p.315) , Finance Directors of Tourist Attractions in the UK are more likely to be enthusiastic about the euro although half of all Finance Directors of UK Visitor Attractions do not support the UK joining the single currency.

Question 4. *"Have you started preparing your company for the introduction of the euro?"*

13.2% **Yes**

81.6% **No**

5.3% **Did not answer**

"If Yes, what steps have you already taken?"

One response, "Accept euros", was mentioned four times. Other responses (mentioned once) were: "Staff Awareness" and "Prepared an initial scoping paper". The fact that almost 82% of UK Tourist Attractions have not started preparing their company for the euro is a cause of concern as, according to the Chancellor of the Exchequer, Gordon Brown, "whether or not the United Kingdom eventually participates in the single currency, it will effect us".

Question 5. *"What POSITIVE effects do you think the euro will have for your company"*
The most popular responses (those mentioned at least three times) were:
"None" (x12); "Easier for foreign European customers" (x12); "Very little" (x3);

Question 6. *"What negative effects do you think the euro will have for your company"*
The most popular responses (those mentioned at least three times) were:
"None" (x8); "Staff Training" (x3) and "Effects on the economy" (x3).

Question 7. *"Does your company have a policy or strategy relating to the euro?"*

Yes: **15.8%**

No: **84.2%**

The fact that 84% of companies surveyed do not have a policy or strategy relating to the euro is a major concern given that "few, if any, enterprises will be able to completely avoid using the euro before the end of the transitional period" (Charlton, 1999, p.21). Moreover, in order to successfully deal with EMU, a company needs to review its strategic thinking in all areas (Jenkins, 2002, p.316).

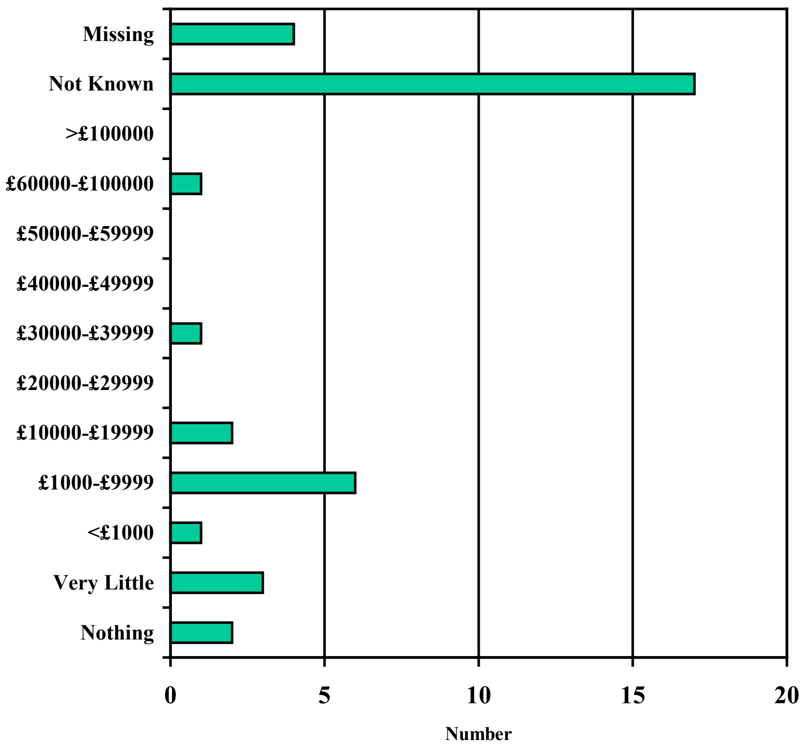
"If yes, please describe this policy/strategy"

- "Wait and see"
- "We want nothing to do with it"
- "We do not accept it"

- “We trade with euro customers in the same way that we trade with US customers”
- “The euro rate is circulated each week. We only accept euro notes. Change is given in Stirling. We do not work as a Bureau de Change. You have to purchase something on site to use euros”
- “The policy is only Sterling in cash”

Many of the above answers, such as “Wait and see” and “We want nothing to do with it” display a reactive approach to the single currency. In order to develop a successful strategy to currency changeover, the business should be “proactive rather than reactive” (Jenkins, 2001p. 232).

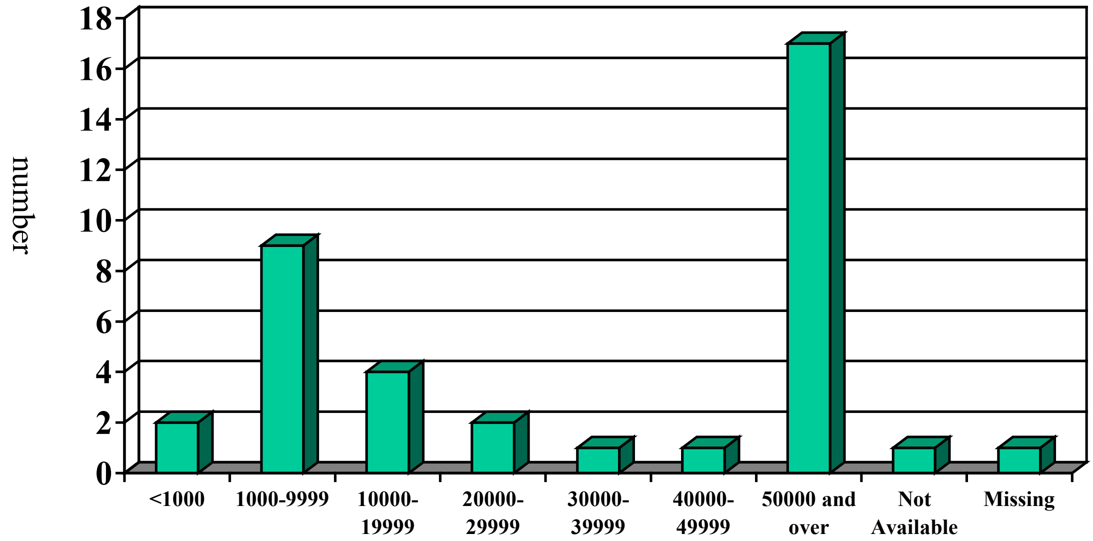
Question 8. “How much will it cost your business to develop and implement procedures



and systems related to the introduction of the euro?”

From the bar chart for Question 8 it is clear that many UK Tourist Attractions do not know the costs associated in preparing the company for the euro. Establishing the cost of currency changeover is an important activity and a full assessment will need to be undertaken in order to determine the implications for processes and systems (Jenkins, 2002, p.316). Furthermore, a small number of businesses believe that the introduction of the euro will cost nothing. These businesses should consider their position, as some costs are inevitable (Jenkins, 2002, p.316)

Question 9. *"Number of visitors to the attraction in 2003"*



As can be seen from the above bar chart, "large" Tourist Attractions (those which attracted more than 50,000 visitors in 2003) represented 44.7% of the sample. Therefore, this will undoubtedly affect the overall results as it may be anticipated that the larger the business, the more exposure it will have had to the euro (Jenkins, 2002, p.317).

A strategy for currency changeover in UK Tourist Attractions

In developing an effective strategy on the euro, Economic and Monetary Union (EMU) should be seen as an opportunity, rather than a threat as "….it involves the removal of a significant barrier between countries: the currency" (Charlton, 1999, p.46). In preparing for the euro, a UK Tourist Attraction should consider using a Strategic Management approach. This would involve scanning the environment, formulating strategy and implementing strategy (Wheelen and Hunger, 2004, p. x-xiii). Moreover, a UK Tourist Attractions' strategic objectives should respond to the fundamental change in business environment ushered in by currency changeover (Jenkins, 2002, p.317). But many British Visitor Attractions have yet to consider the strategic implications of the euro. Although British businesses are starting to consider operational issues related to the euro, "…..if there is a common criticism of corporate readiness, experts say too little thought has been given to the strategic implications of EMU" (Barkin, 1998, p.99). The euro will change the environment for UK Tourist Attractions and this should provoke "…..a thorough review of corporate strategy to embrace economies of scale" (Duff, 1999, p.32).

UK Tourist Attractions should develop a strategy on the euro in order to gain Competitive Advantage. This strategy corresponds to the government's advice that "…..the public sector and business should make active preparations now" (The Bank of England, 1999, p.91). Furthermore, sustainable competitive advantage can be achieved by the business obtaining and managing knowledge on the single currency (Jenkins, 2002, p. 318). This would require the business establishing what knowledge is required and then conducting an external and internal assessment. The strategic options will then need to be evaluated and the favoured strategy implemented (Jenkins, 2001, p.232). A suitable approach for managing currency changeover is to apply Project Management principles as "…..any euro-related changes should be regarded as a programme of work and should follow a standard project life cycle" (Sear, 1998). The rationale for using project management would be to "……focus the responsibility and authority for the attainment of the goals on an individual or small group" (Meredith and Mantel, 1995, p.9). However, a project management approach is not without its disadvantages as it is "a step into the unknown, fraught with risk and uncertainty" (Lock, 2000, p.4). Therefore, it is important that the UK Tourist Attraction to perform a comprehensive Risk Analysis of accepting the euro, especially when the UK remains outside the “Eurozone”. A suitable management structure for euro projects would be the Matrix Structure which is “a type of organizational design that combines two different, traditional types of structure……which results in an employee being part of both a functional department and a project team, having two reporting relationships” (Buchanan and Huczynski, 1997, p. 224). An important activity in developing a strategy for the euro would be to establish a project team. This would be complemented by a euro steering committee (Charlton, 1999, p.220) which would consist of senior management and would obtain information about the single currency, assess the impacts of the currency on the company and develop and implement a strategy for currency changeover.

The British tourism industry will have to get used to the euro. Not only will “Eurozone” visitors wish to use the single currency but non-“Eurozone” visitors travelling to Europe will want to use one currency (Jenkins, 2001, p.233). An option for businesses not wishing to accept the euro is to concentrate on the local market (Bieger and Laesser, 1999, p.13). However, this would severely limit options for income generation and growth.

It appears that UK Tourist Attractions are not adequately prepared for the euro. Many attractions have not developed the necessary systems to cope with the single currency, let alone started to address the strategic issues that currency changeover will bring. But the task facing the industry should not be underestimated as “Euro conversion is likely to be more expensive, more time consuming and more complex than many companies realise” (Management Accounting, July 2000, p.5). It is evident that developing and implementing systems for the introduction of the euro will be both time-consuming and expensive. As far as costs are concerned, it would seem prudent that Finance Directors of British Tourist Attractions re-assess these as one director stated that it predicts currency changeover to cost the company more than £100,000.

There is undoubtedly much opposition to the euro in the UK, both amongst the general public, politicians and business people. Love it or hate it, its effects will be felt far outside the “Eurozone”. Whether the UK joins or not. The euro should be seen as an opportunity. Not as a threat.

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