



The future of tourism in Iceland

Part I: Context – Icelandic tourism today

September 2013

THE BOSTON CONSULTING GROUP

Context and structure of document

From October 2012– July 2013, BCG conducted an independent report on the long-term tourism strategy of Destination Iceland. The project, which was carried out in Reykjavik, was commissioned by a consortium of private Icelandic companies, including Icelandair Group, Isavia, Blue Lagoon, and Holdur / Europcar.

This set of documents contains the output from the project. It is structured in 6 parts:

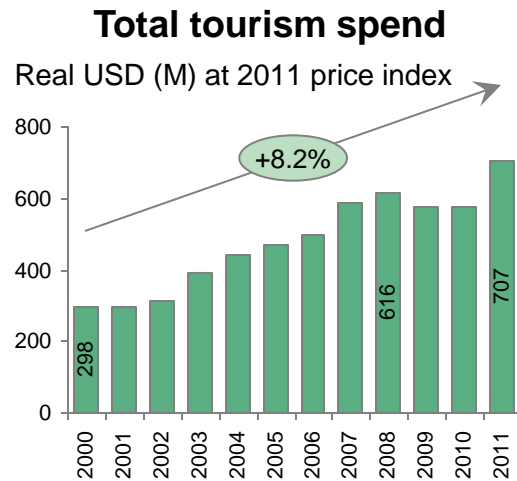
- Part I: Context - Icelandic tourism today
- Part II: Aspiration for destination Iceland and Iceland's target visitors
- Part III: Building the destination
- Part IV: Funding the vision
- Part V: Organising for success
- Part VI: Economic impact

This is the first of the six documents

Agenda

- **Part I: Context - Icelandic tourism today**
- Part II: Aspiration for destination Iceland and Iceland's target visitors
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- Part VI: Economic impact

Total tourism spend increased at 8% over last 10 years



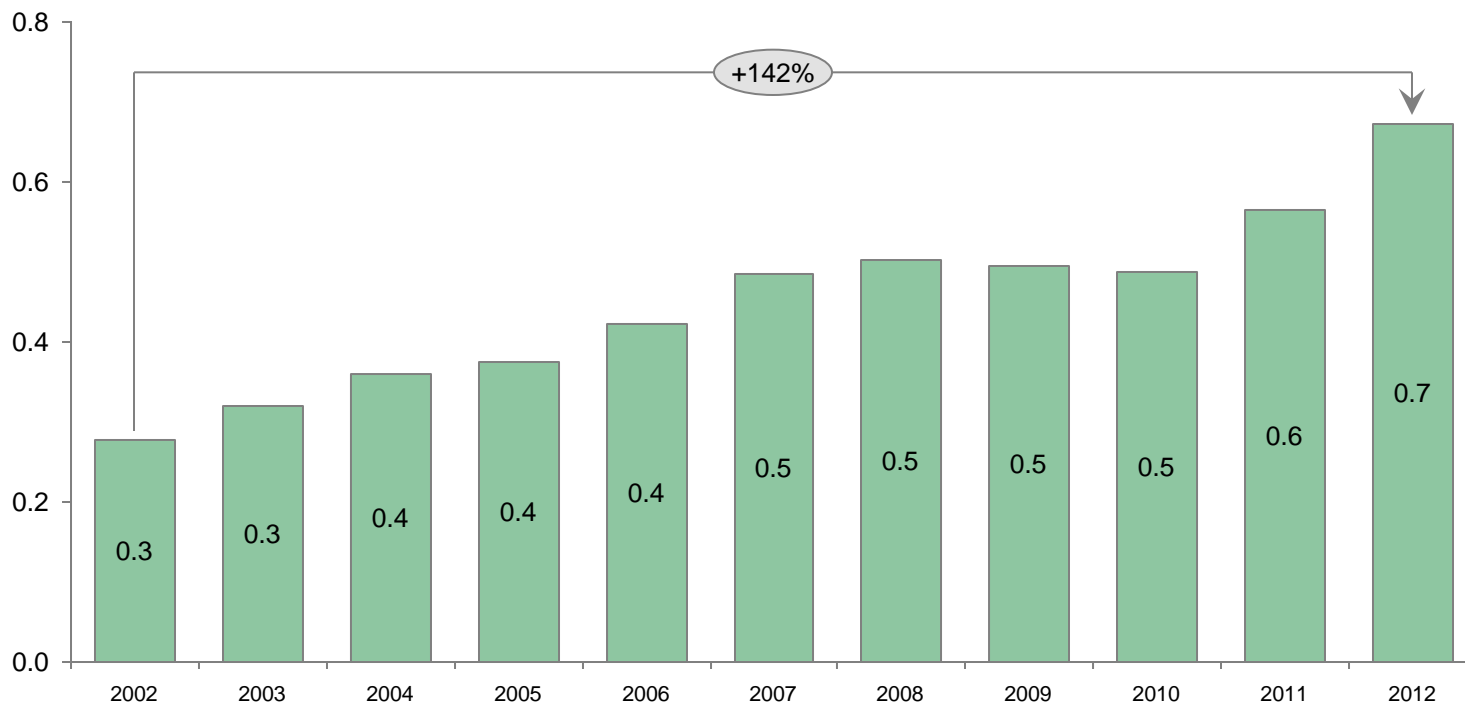
3 Mix of visitors

Note: Tourism spend is international tourism receipts, excluding purchases with Icelandic airlines by foreigners; spend data for '00-'08 from Statistics Iceland, data for '09-'10 from UNTWO
Source: Icelandic Tourist Board, Statistics Iceland, Oanda, EIU, UNWTO World Tourism Barometer

Iceland has succeeded in more than doubling foreign visitors over ten years

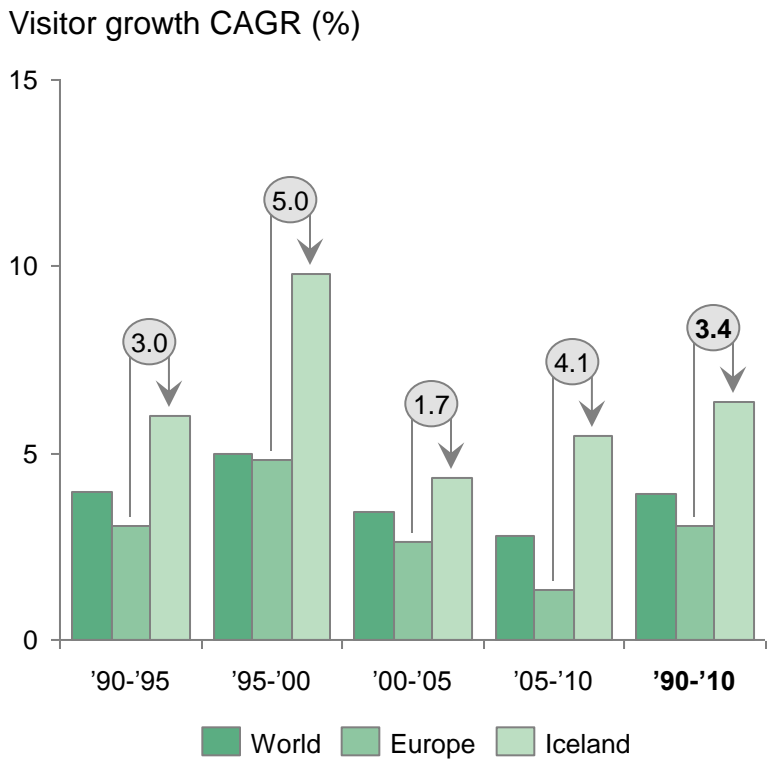
Note: excludes cruise passengers

Foreign visitor arrivals to Iceland (K)

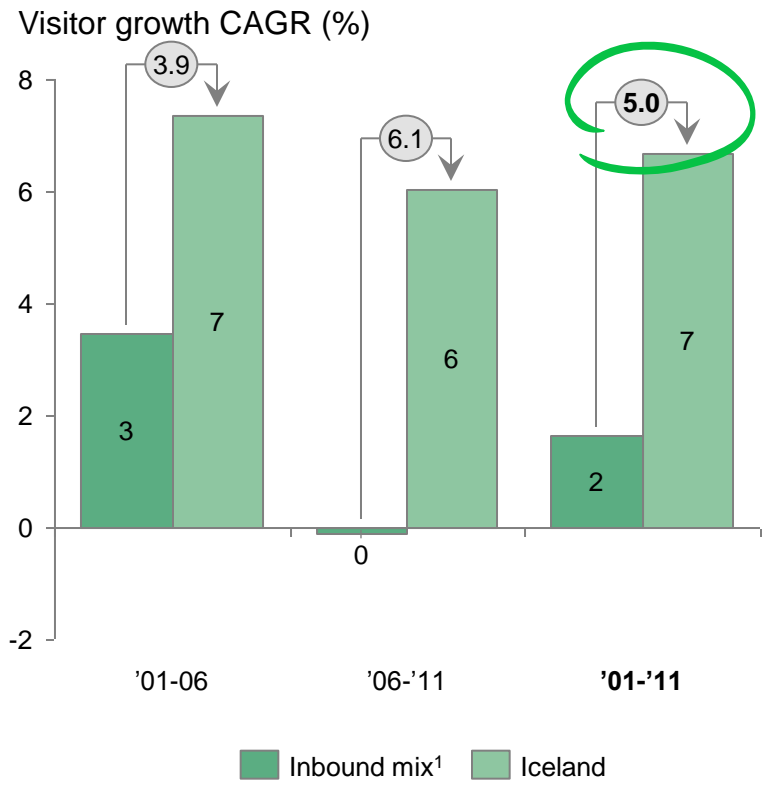


Growth rates have been significantly above world tourism

Iceland outgrowing European and World tourism by 2-5p.p. since 1990



Compared to growth of Iceland's inbound pools, outperforming by 5p.p.



1. Weighted average growth rates for outbound growth of top 12 inbound country flows to Iceland; assumes constant mix over time based off of 2011-12 survey (weighted avg. summer/winter)
 Source: Icelandic Tourist Board, "Visitor Survey Winter 2011/2012", UNWTO Barometer 2030, Euromonitor departures by country

For example, Inspired by Iceland campaign successfully grew tourist volume after Eyjafjallajökull eruption



OBJECTIVES

01. Rapidly increase visitor figures above forecast by 10% between May-Dec 2010.
02. Reverse the negative opinion of Iceland.
03. Drive consideration and show Iceland was a safe place to visit.

Primary objective to increase visitor numbers

Success measured on visitor numbers

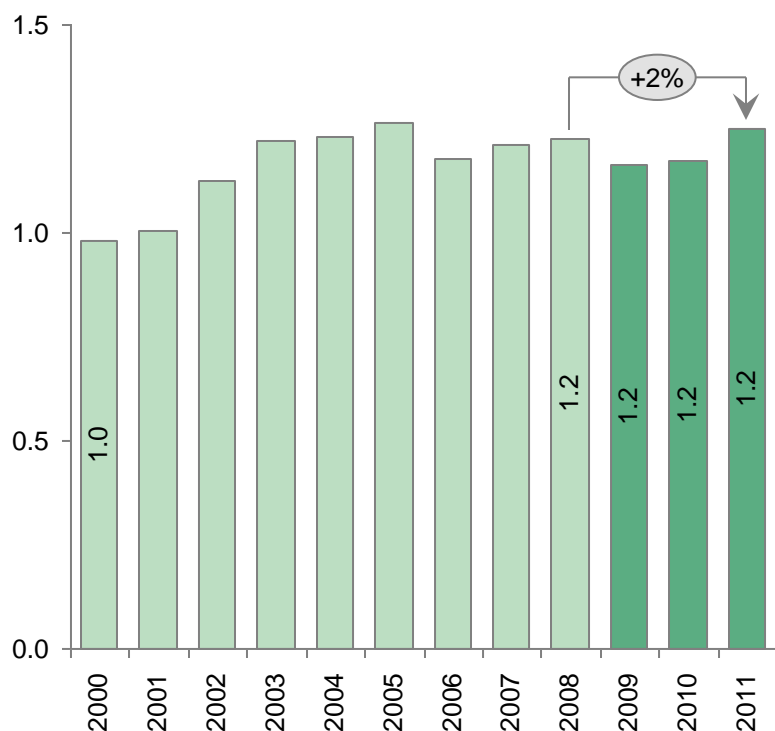
RESULTS

The 'Inspired by Iceland' campaign has exceeded expectations. Visitor numbers were up 27% against forecast, negative online sentiment towards Iceland was reversed and within just 10 weeks, the country was perceived as a safe place to visit in its key European markets. The idea also created longer-term effects with Iceland experiencing its best ever first quarter results.

However since 2008 visitors staying longer but not spending more...

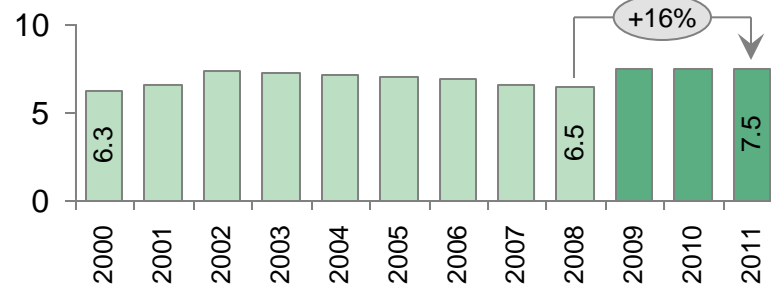
Visitors spending ~the same...

Real USD (K) at 2011 price index



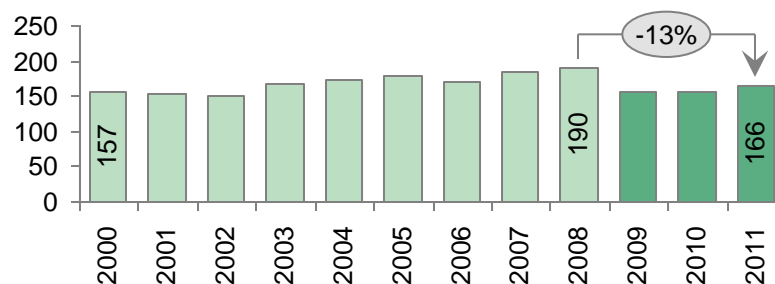
...while staying ~15% longer...

Nights



...but spending ~15% less per day

Real USD at 2011 price index



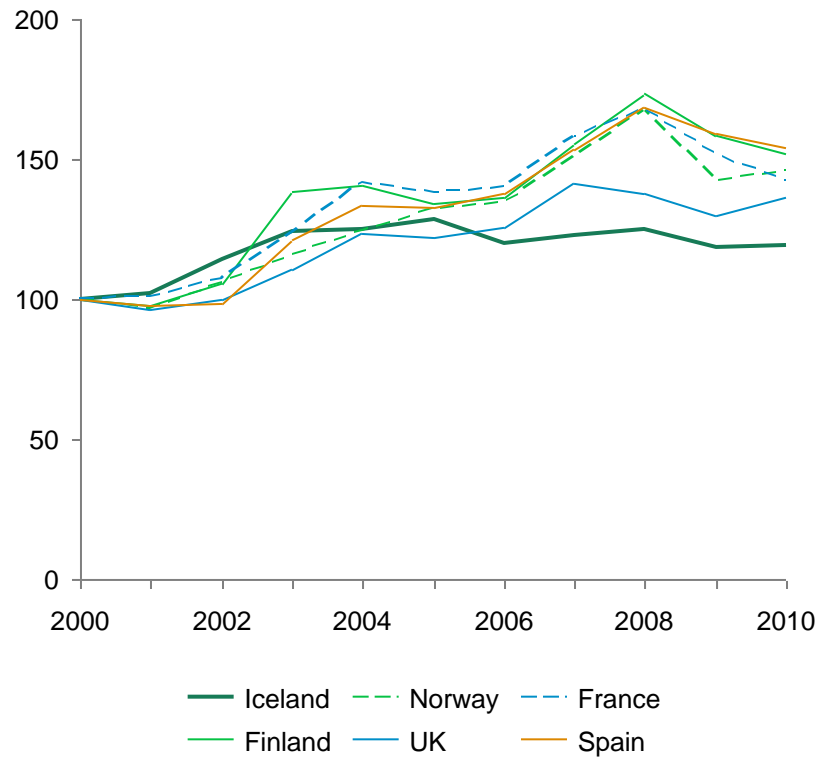
Note: Tourism spend is international tourism receipts, excluding purchases with Icelandic airlines by foreigners; spend data for '00-'08 from Statistics Iceland, data for '09-'10 from UNTWO
Source: Icelandic Tourist Board, Statistics Iceland, Oanda, EIU, UNWTO World Tourism Barometer

...compared to other countries, Iceland has grown spend / visitor slower over the last 10 years

2010 data

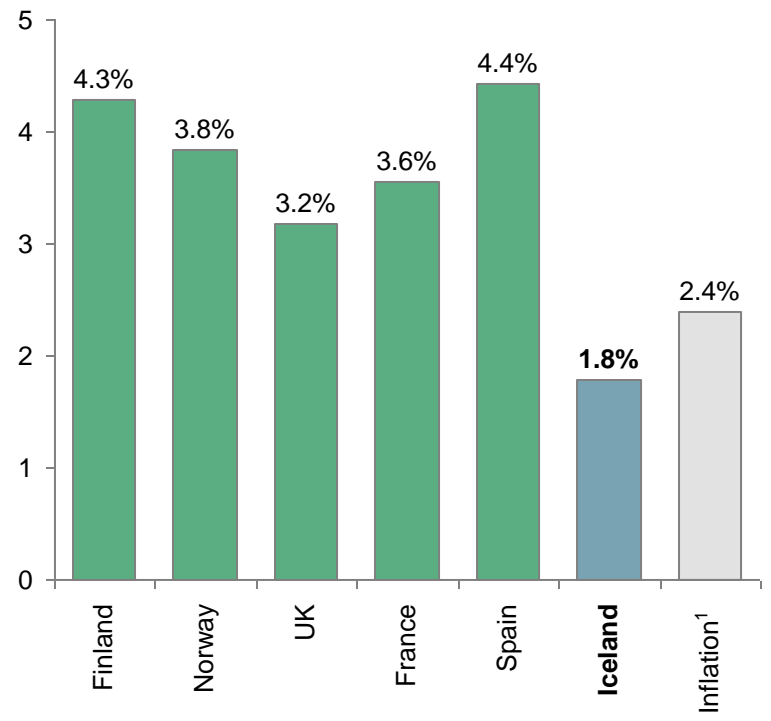
Other countries have been increasing spend / visitor while Iceland stagnates

Normalised tourism spend / overnight visitor, USD (100 = spend/visitor in 2000)



Iceland spend / visitor growing slower than inflation

CAGR in tourism spend / overnight visitor, USD, 2000 – 2010 (%)

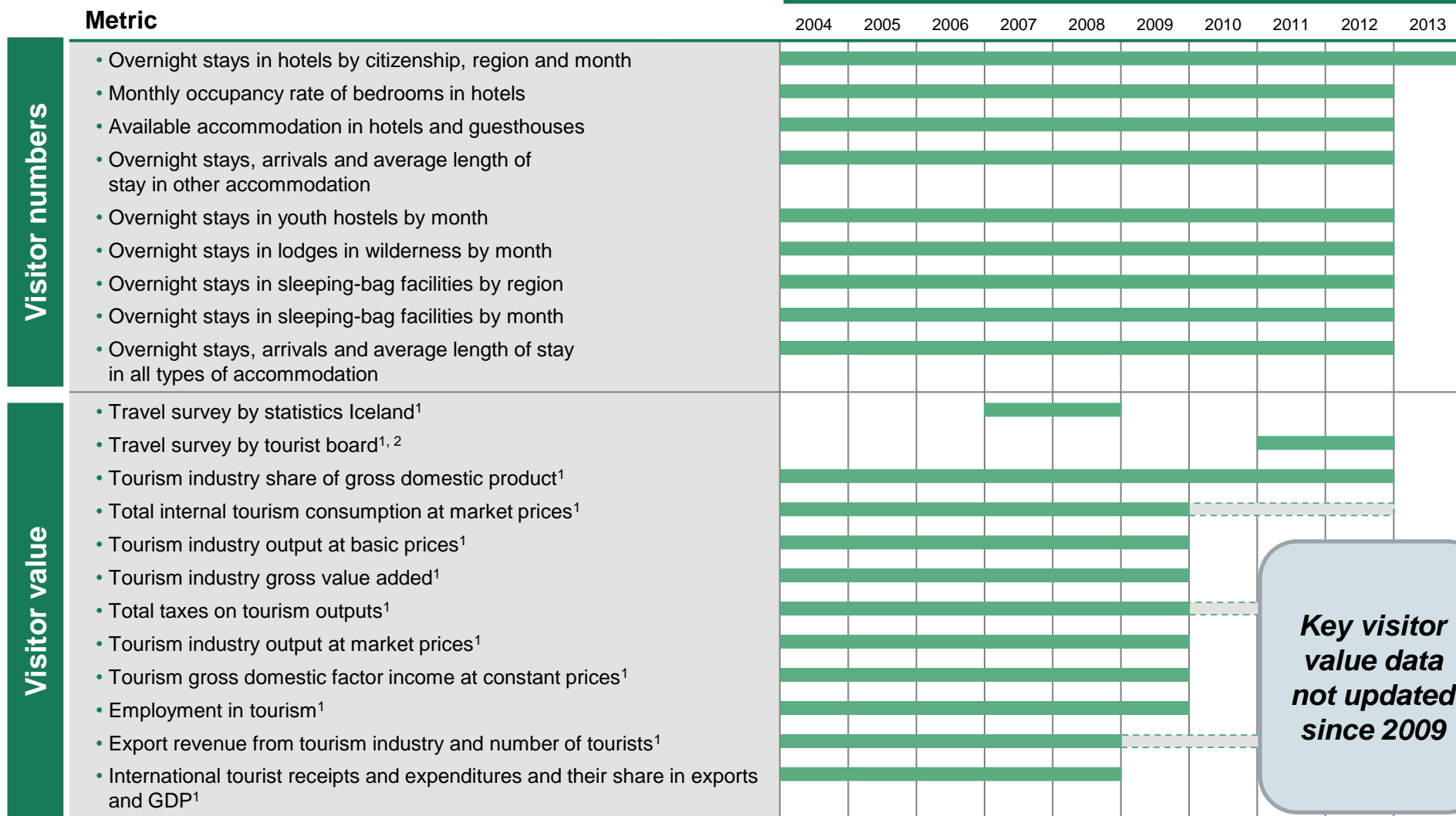


1. Change in US current prices (USD)
 Note: Tourism spend is travel spend (excluding passenger transport)
 Source: Statistics Iceland, EIU, UNWTO World Tourism Barometer

Recent focus of tourism data collection has been volume rather than value

Updated at high level in 'Tourism in Figures' reports by Icelandic Tourism Board

Updates on Statistics Iceland / Tourism Board websites



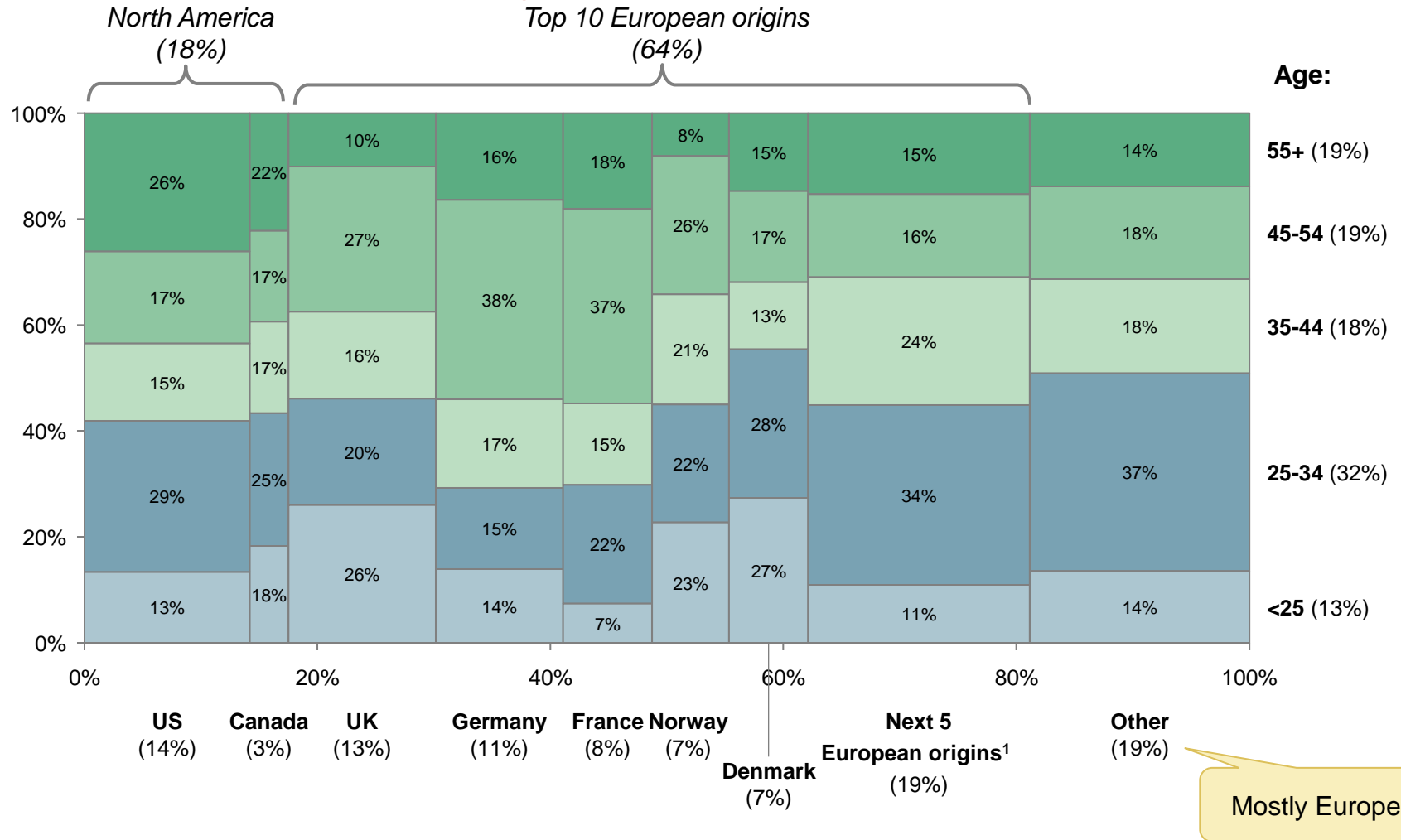
Key visitor value data not updated since 2009

1. Statistics Iceland 2. Icelandic tourism board
 Note: Selection of metrics taken for demonstration
 Part I - context tourism in Iceland.pptx

> 80% of tourists from North America/ top 10 European origins

35% of tourists less than 35 years old

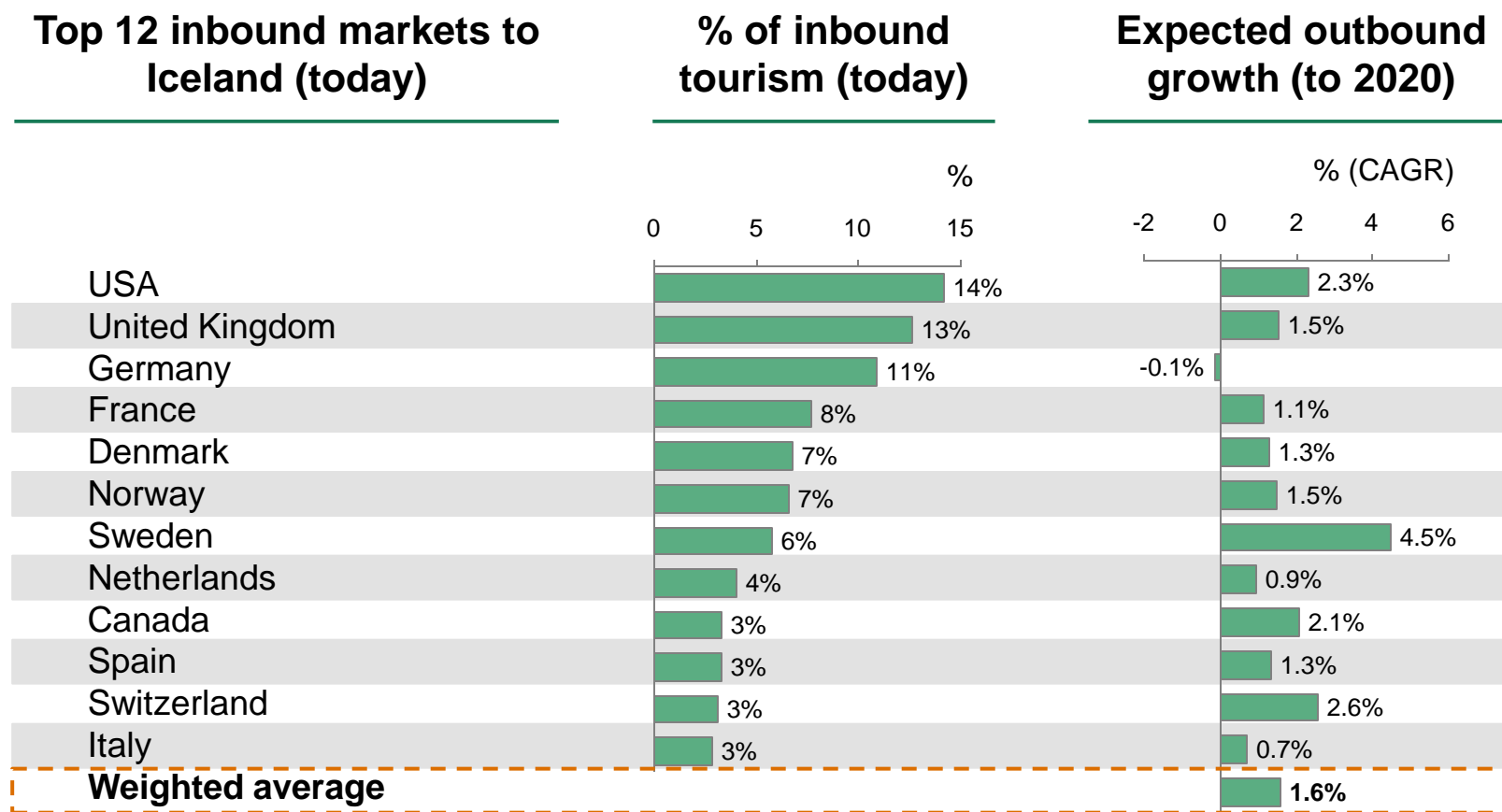
Iceland tourists by country of residence and age:



1. Includes Sweden, Netherlands, Switzerland, Spain, Italy
 Note: Blended average of winter (~71% of visitors) and summer (~29% of visitors)
 Source: Icelandic Tourist Board: "Visitor Survey Winter 2011/2012"

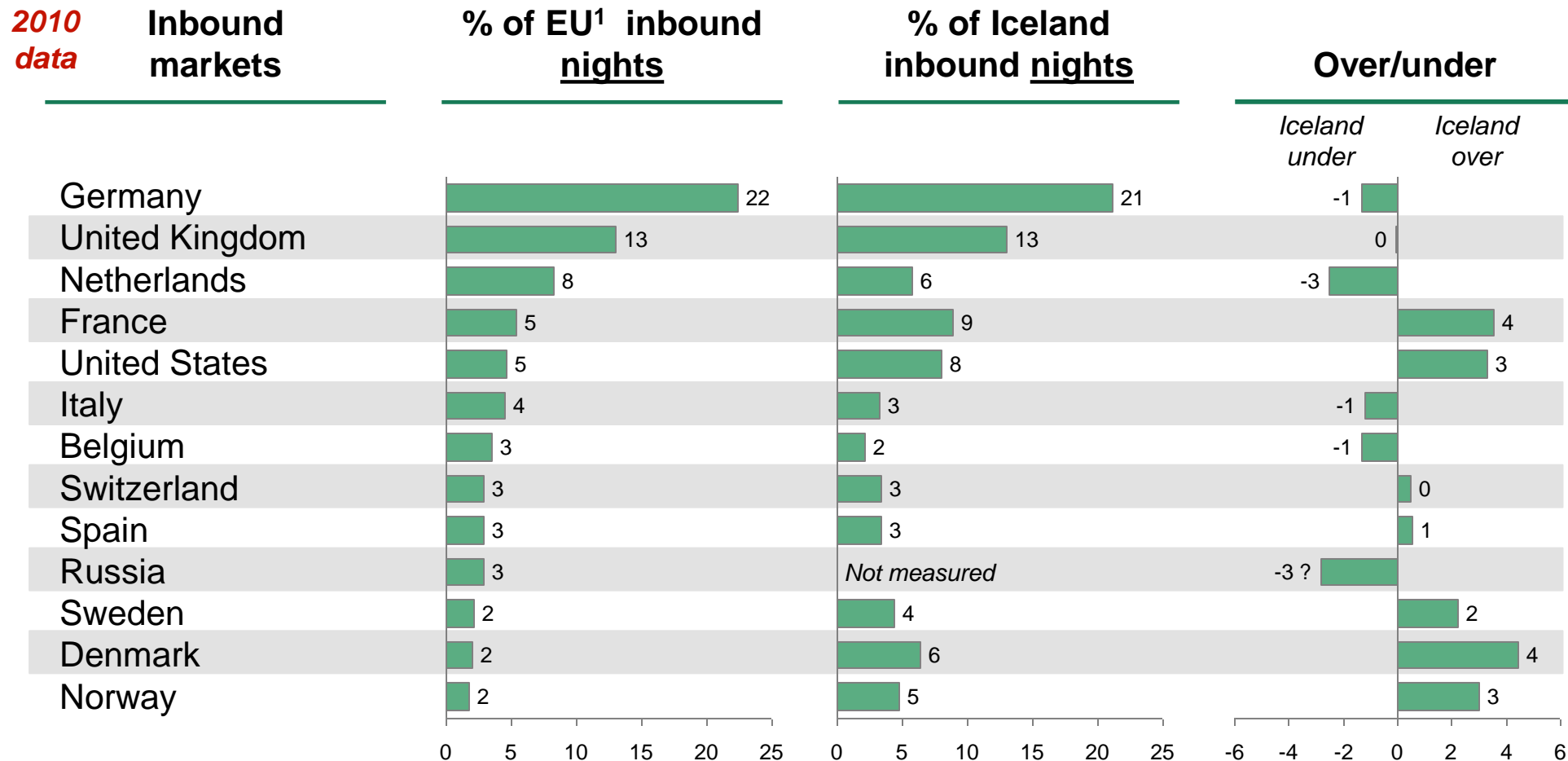
Expect outbound tourism from Iceland's mix of inbound pools to grow by ~1.6% annually to 2020

Based on underlying Euromonitor forecasts to 2016, extended to 2020 assuming same CAGR



Netherlands, Russia currently underpenetrated relative to EU

France, US, Scandinavia over-penetrated



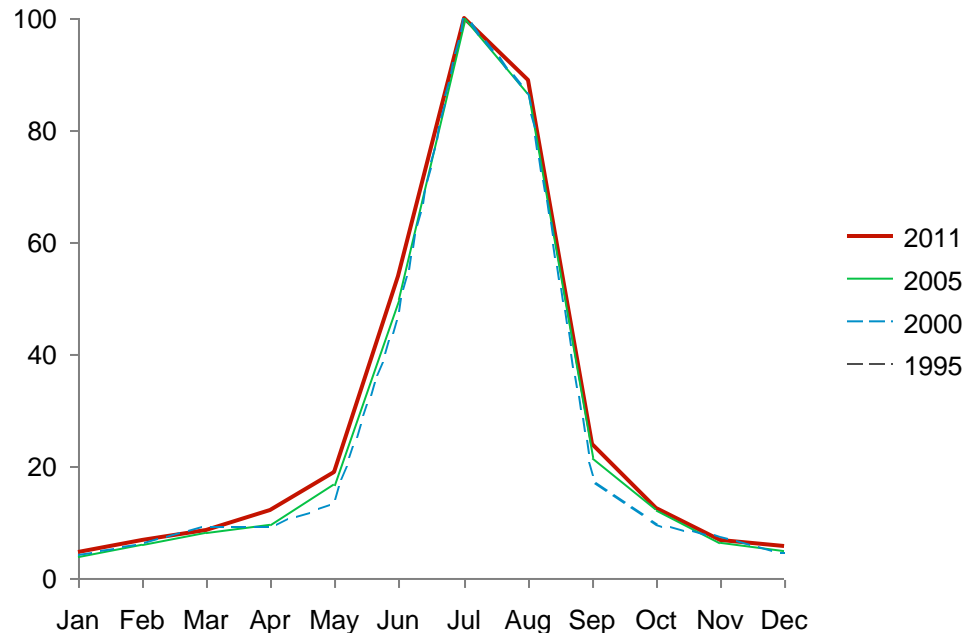
Closing 75% of penetration gap in Netherlands and Russia by 2020 will yield 50 bps of annual growth

1. Top 25 EU inbound countries by nights
 Note: Superset of top 10 inbound countries for EU and Iceland by nights shown
 Source: Statistics Iceland

Over the last 15, tourism has remained highly seasonal in Iceland, especially in contrast to benchmarks

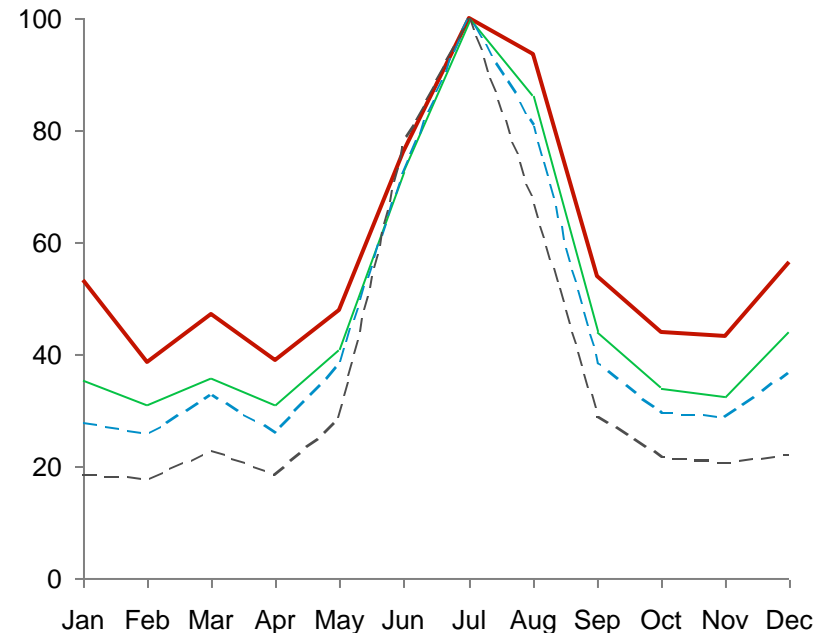
Iceland: Seasonality extreme and stagnant

Number of arrivals in all types of accommodation by foreigners per month / monthly arrivals in peak month, i.e. July (%)

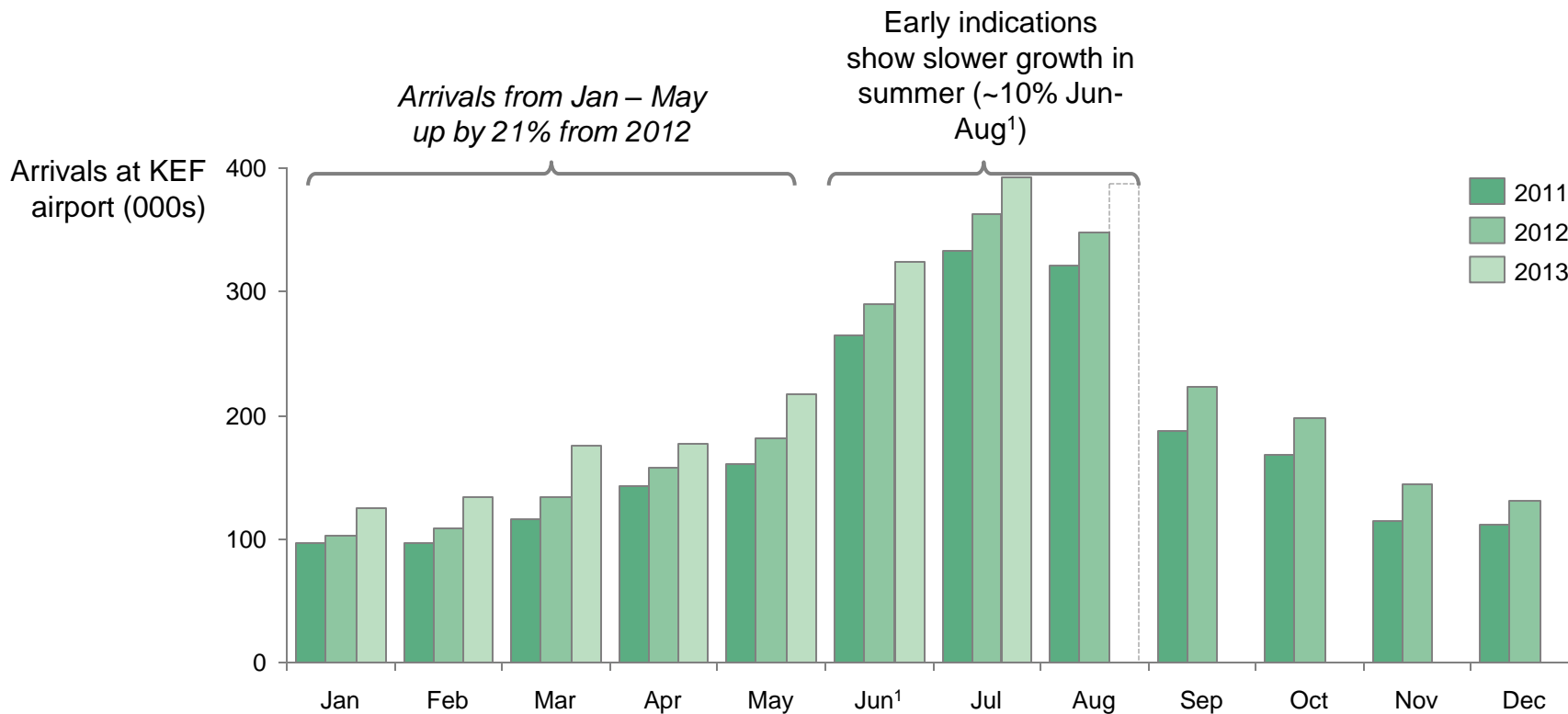


Finland: Seasonality significantly reduced in past 15 years

Number of arrivals in all types of accommodation by foreigners per month / monthly arrivals in peak month, i.e. July (%)



However, early indications from 2013 suggest some reduction in seasonality



2012-13 growth (%)

22

24

31

13

20

12

8

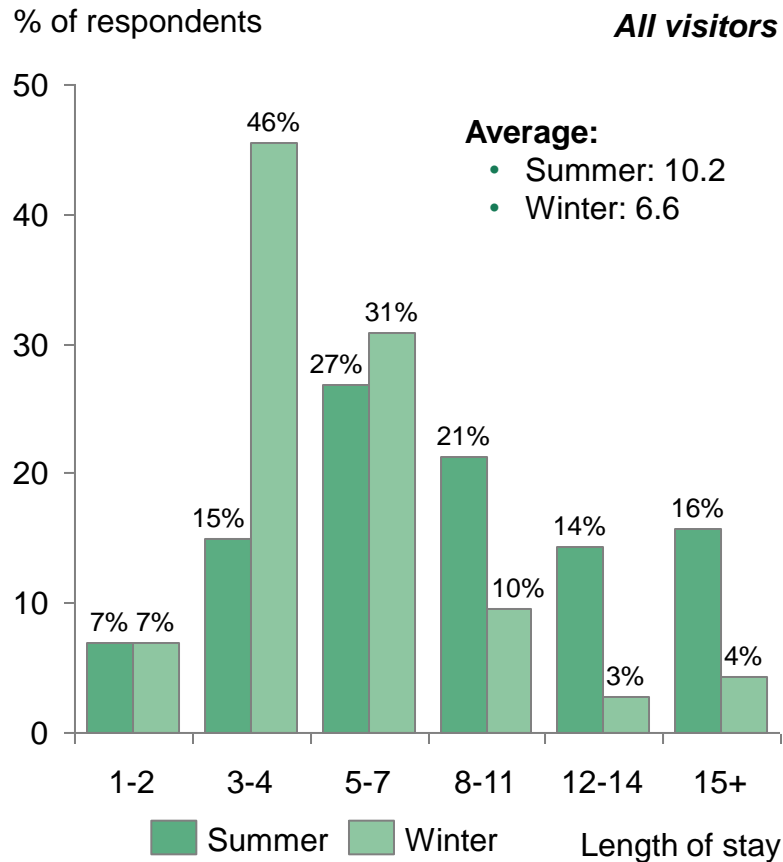
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YTD indications suggest some reduction in seasonality

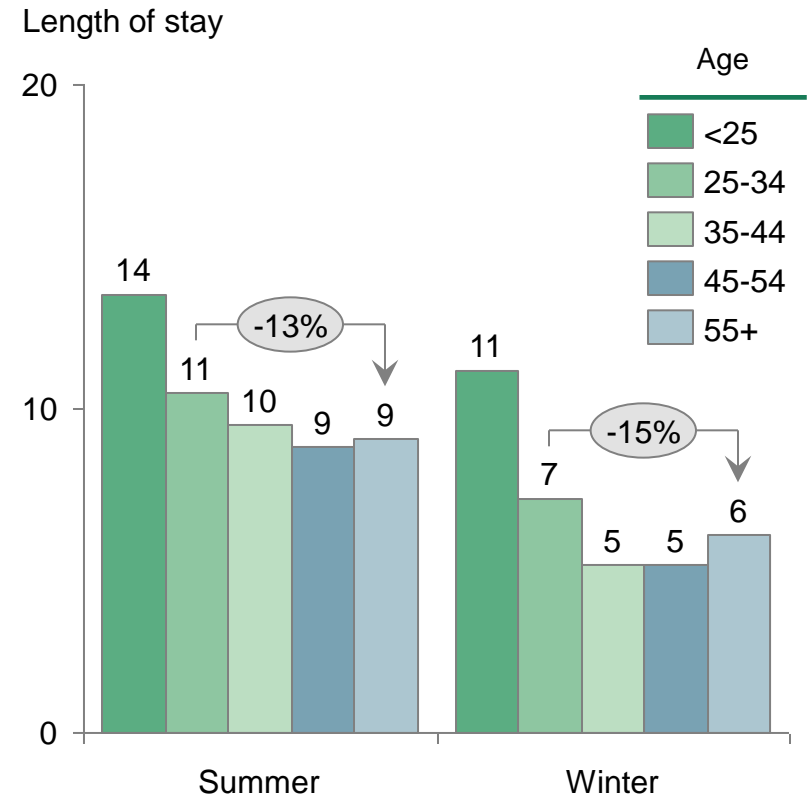
1.2013 projection based on data to August 15th 2013
Source: Isavia

Significant differences in length of stay across season, age

Visitors in summer stay significantly longer than winter



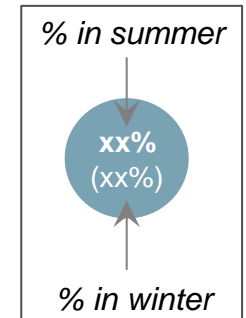
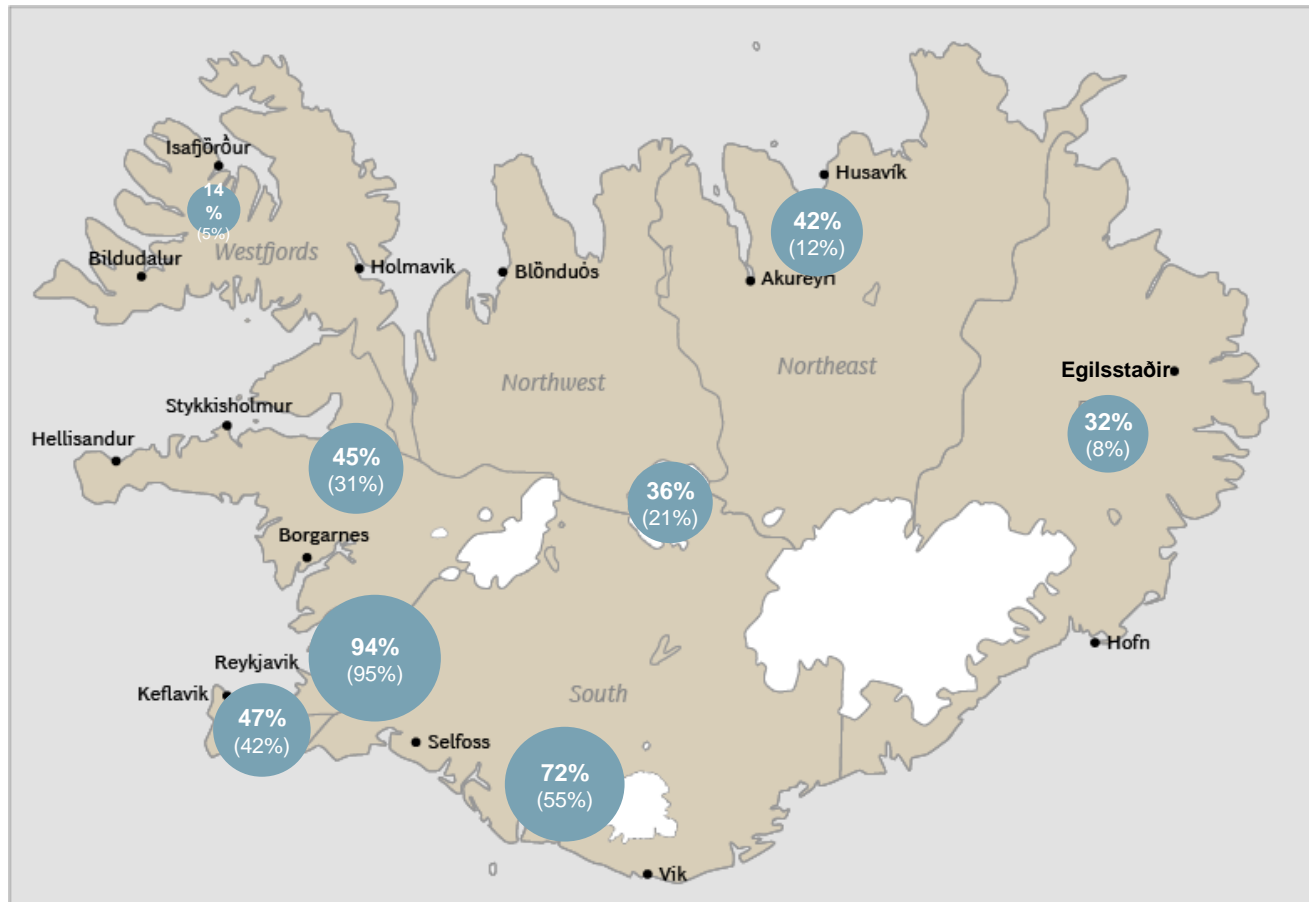
Seniors stay 10-15% shorter than younger visitors



Note: n > 2.1K for each of summer, winter
Source: Icelandic Tourist Board: "Visitor Survey Winter 2011/2012"

Vast majority of visitors only experience southern and western regions of country

Question: Did you visit any of the following sites/regions?



Potential opportunity to extend stays by promoting excursions to less visited parts of country (e.g. Akureyri)

Note: n > 2.1K for each of summer, winter; area of bubble proportional to % of visitors in summer

Source: Icelandic Tourist Board: "Visitor Survey Winter 2011/2012"