BCG

# 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**

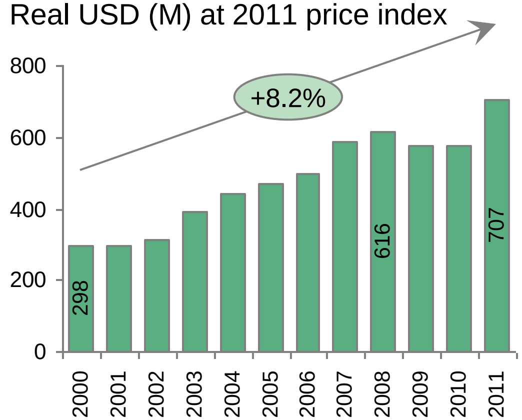
# Agenda

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

# Total tourism spend increased at 8% over last 10 years

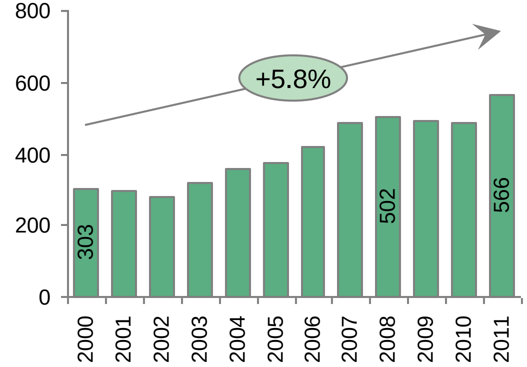
## Total tourism spend

Real USD (M) at 2011 price index



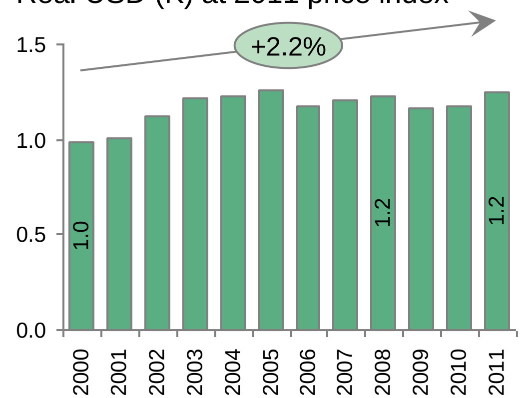

## 1 # Visitors

Foreign visitor arrivals to Iceland (K)




## 2 Spend per visitor

Real USD (K) at 2011 price index



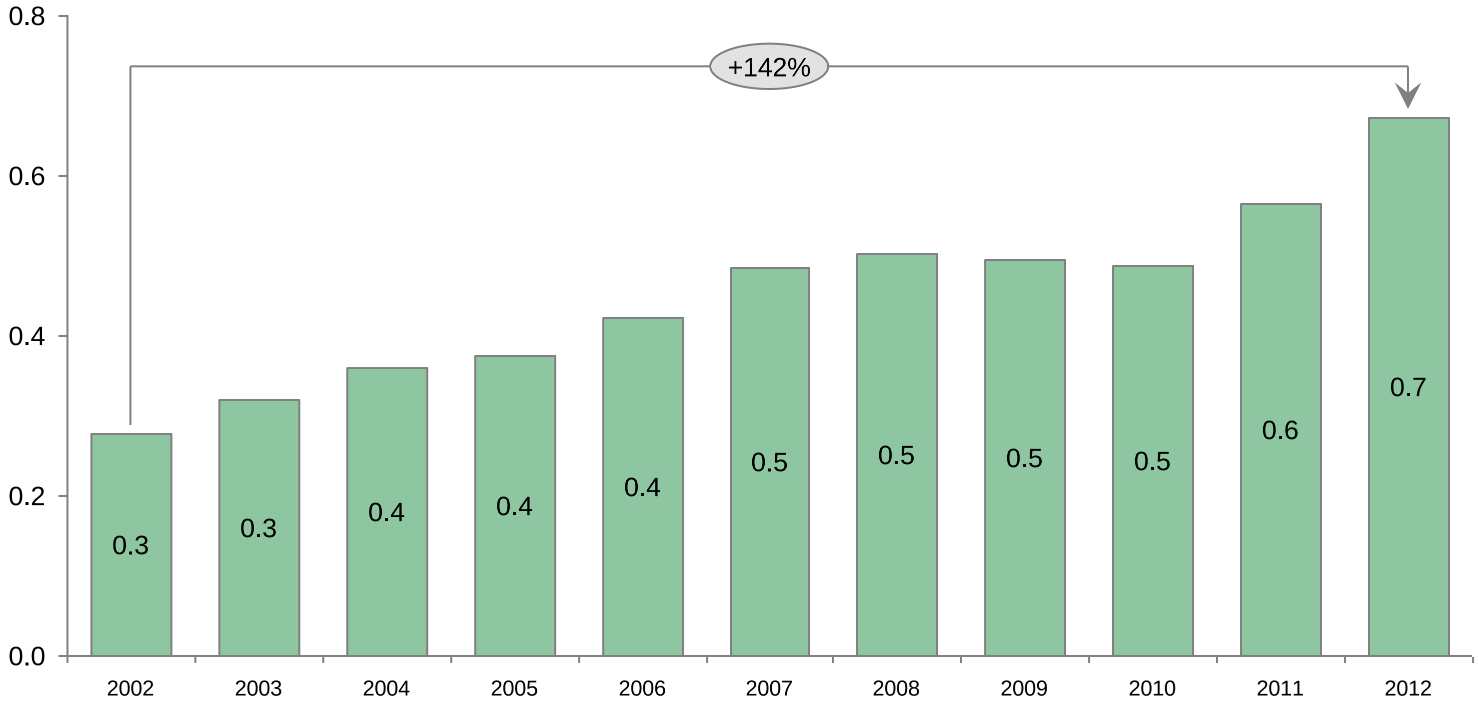

## 3 Mix of visitors

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)




Source: Icelandic Tourist Board

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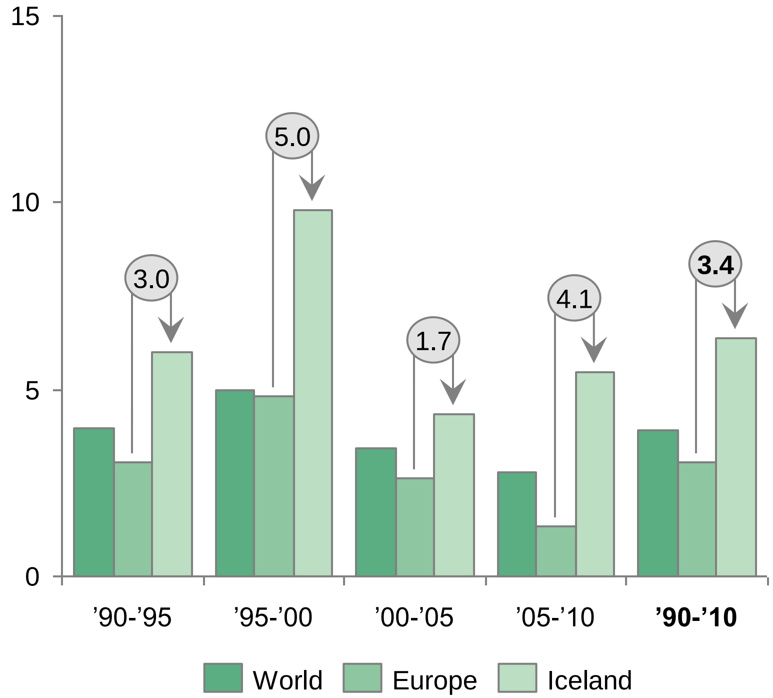
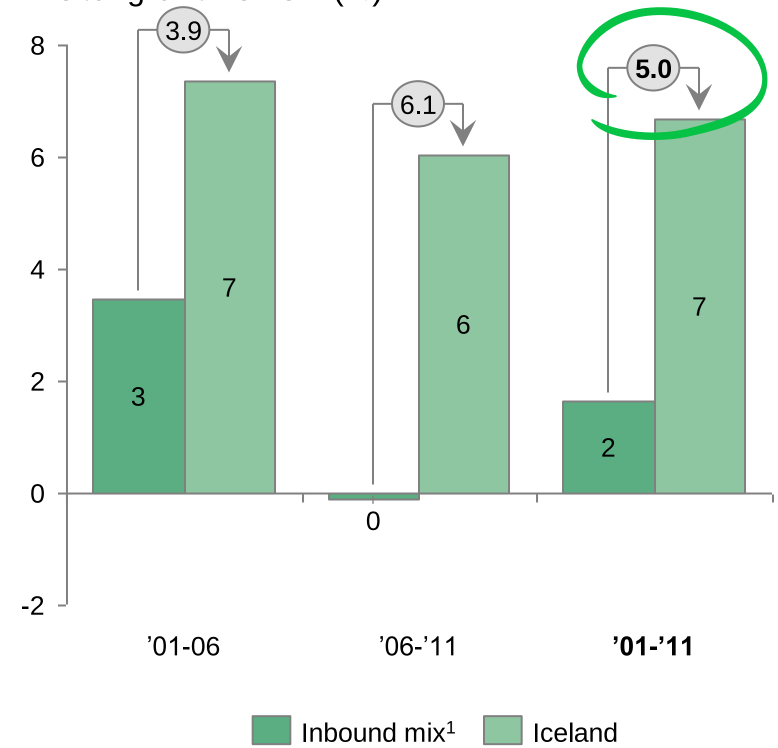
# Growth rates have been significantly above world tourism

## 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

1

# 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**

## 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.

**Success measured on visitor numbers**

Source: The Brooklyn Brothers

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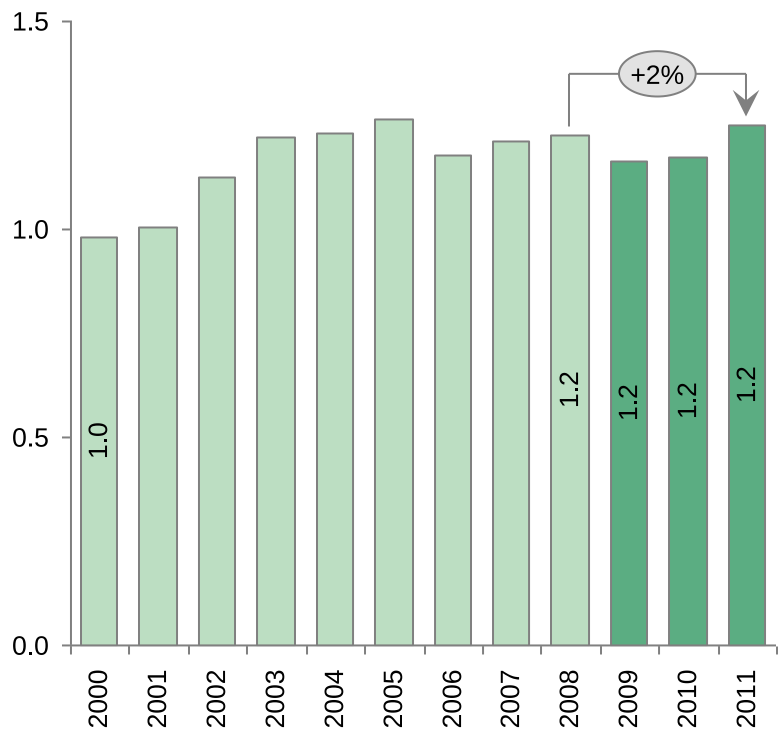
# However since 2008 visitors staying longer but not spending more...

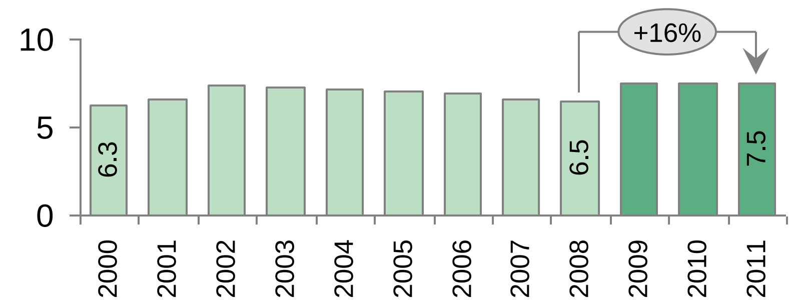
## Visitors spending ~the same...

Real USD (K) at 2011 price index



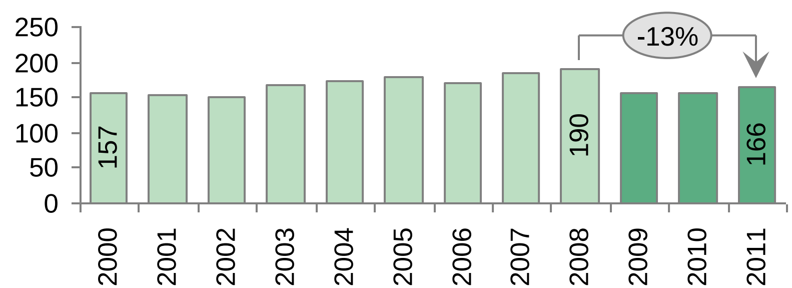

## ...while staying ~15% longer...

Nights




## ...but spending ~15% less per day

Real USD at 2011 price index





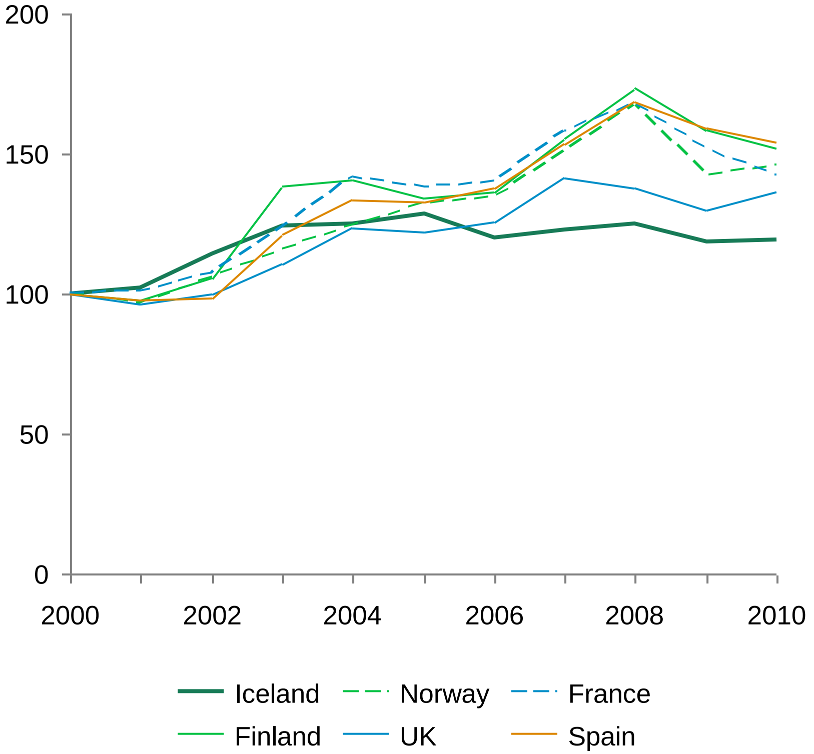

Note: Tourism spend is international tourism receipts, excluding purchases with Icelandic airlines by foreigners; spend data for '00-'08 from Statistics Iceland, data for '09-'10 from UNTWO
Source: Icelandic Tourist Board, Statistics Iceland, Oanda, EIU, UNWTO World Tourism Barometer

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

*2010 data*

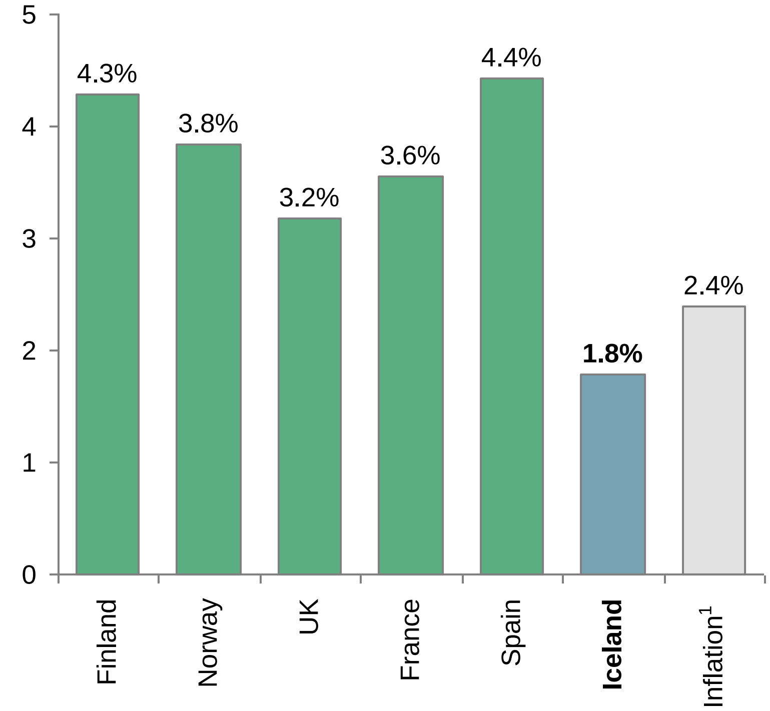
## Other countries have been increasing spend / visitor while Iceland stagnates

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

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# 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**

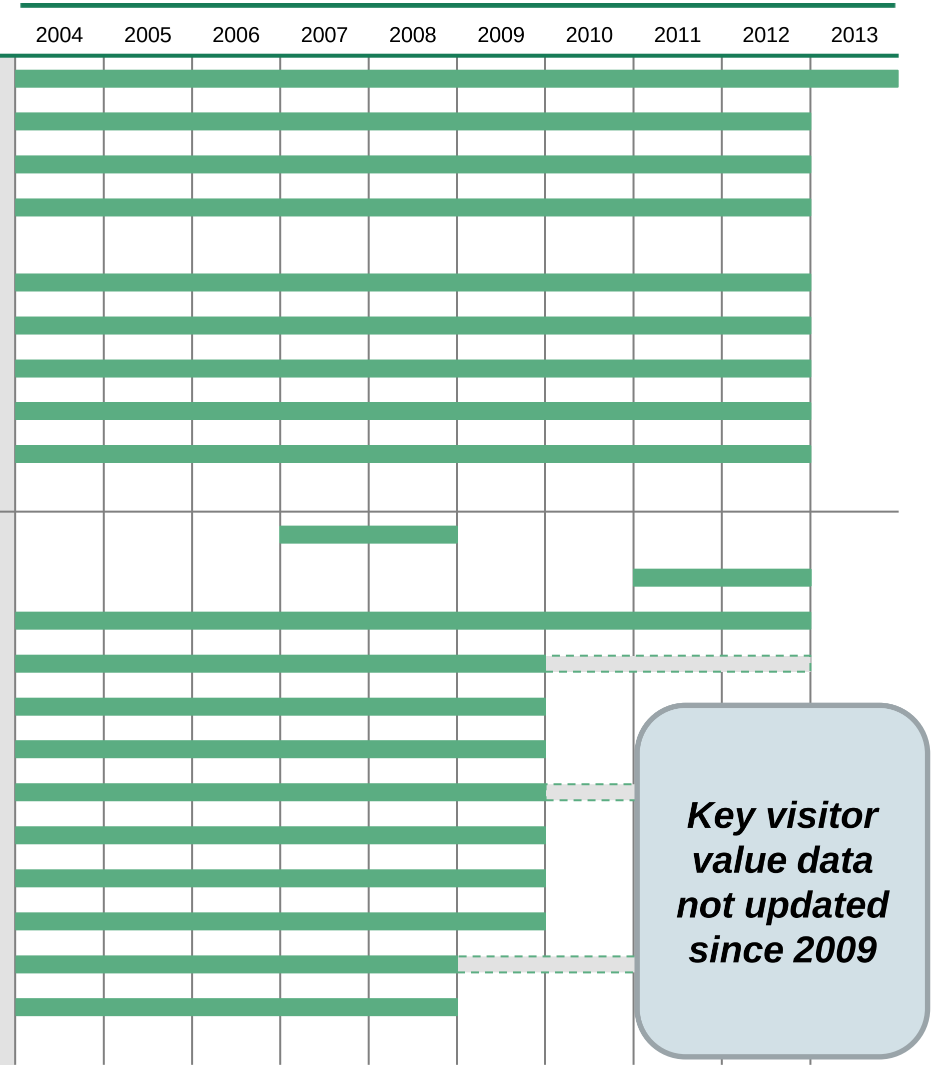
**Metric**

**Visitor numbers**

- Overnight stays in hotels by citizenship, region and month
- Monthly occupancy rate of bedrooms in hotels
- Available accommodation in hotels and guesthouses
- Overnight stays, arrivals and average length of stay in other accommodation
- Overnight stays in youth hostels by month
- Overnight stays in lodges in wilderness by month
- Overnight stays in sleeping-bag facilities by region
- Overnight stays in sleeping-bag facilities by month
- Overnight stays, arrivals and average length of stay in all types of accommodation

**Visitor value**

- Travel survey by statistics Iceland[1]
- Travel survey by tourist board[1, 2]
- Tourism industry share of gross domestic product[1]
- Total internal tourism consumption at market prices[1]
- Tourism industry output at basic prices[1]
- Tourism industry gross value added[1]
- Total taxes on tourism outputs[1]
- Tourism industry output at market prices[1]
- Tourism gross domestic factor income at constant prices[1]
- Employment in tourism[1]
- Export revenue from tourism industry and number of tourists[1]
- International tourist receipts and expenditures and their share in exports and GDP[1]




1. Statistics Iceland 2. Icelandic tourism board
Note: Selection of metrics taken for demonstration

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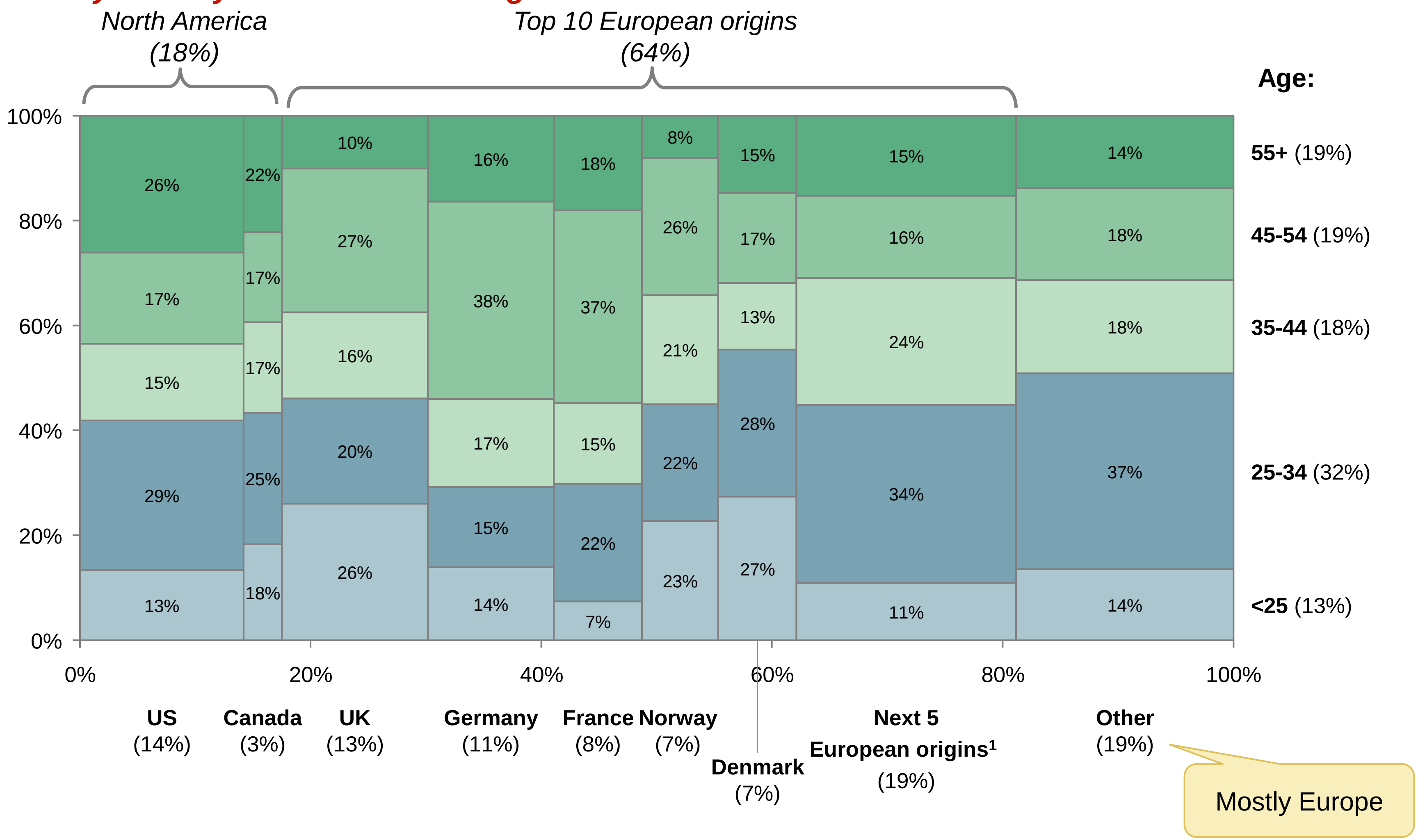
# > 80% of tourists from North America/ top 10 European origins

## 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"

3

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

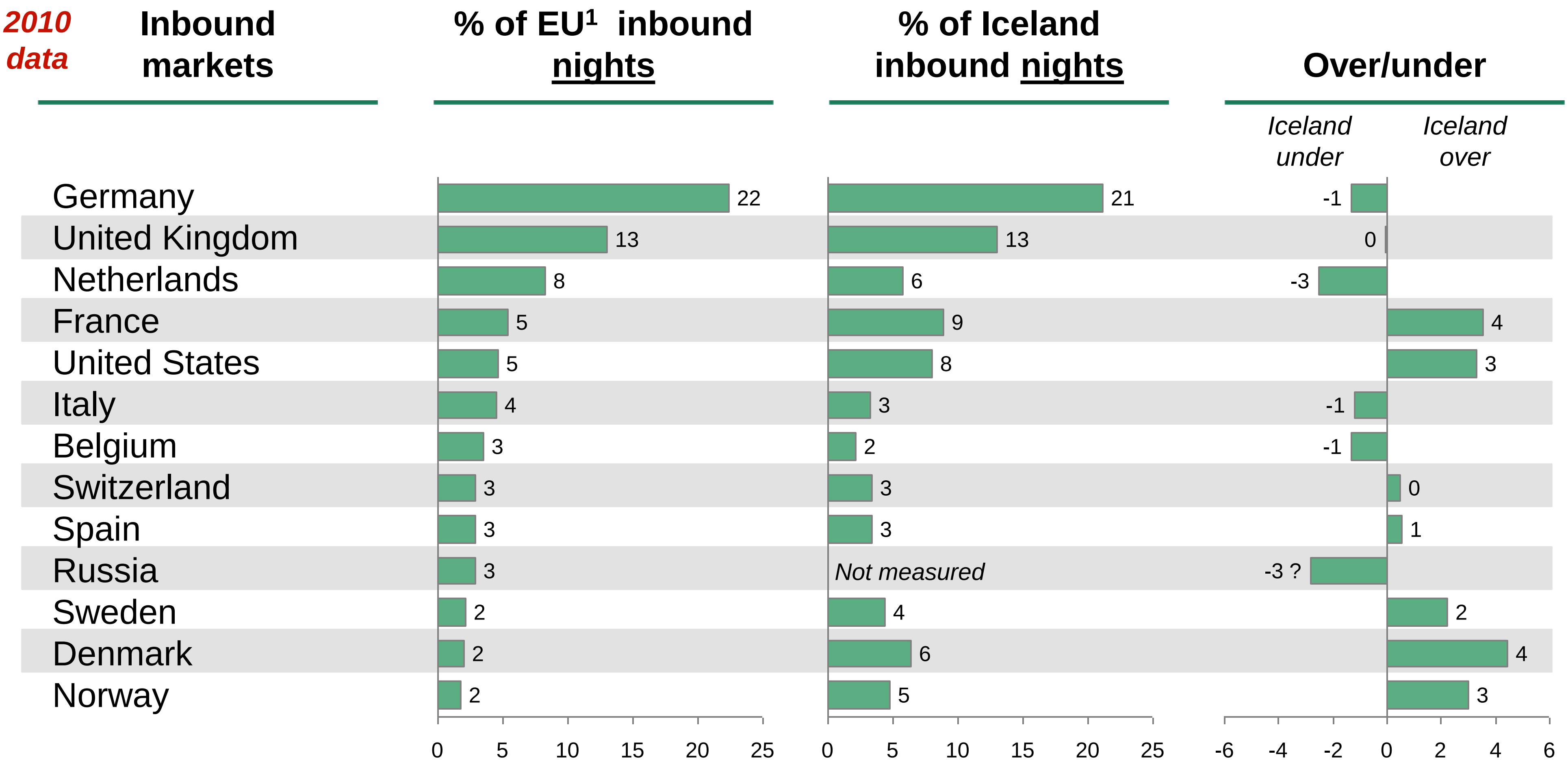
***Based on underlying Euromonitor forecasts to 2016, extended to 2020 assuming same CAGR***

| Top 12 inbound markets to Iceland (today) | % of inbound tourism (today) (%) | Expected outbound growth (to 2020) (% (CAGR)) |
|---|---|---|
| USA | 14% | 2.3% |
| United Kingdom | 13% | 1.5% |
| Germany | 11% | -0.1% |
| France | 8% | 1.1% |
| Denmark | 7% | 1.3% |
| Norway | 7% | 1.5% |
| Sweden | 6% | 4.5% |
| Netherlands | 4% | 0.9% |
| Canada | 3% | 2.1% |
| Spain | 3% | 1.3% |
| Switzerland | 3% | 2.6% |
| Italy | 3% | 0.7% |
| **Weighted average** | | **1.6%** |

Source: Icelandic Tourist Board, " Visitor Survey Winter 2011/2012", Euromonitor forecasts for departures by country

# 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

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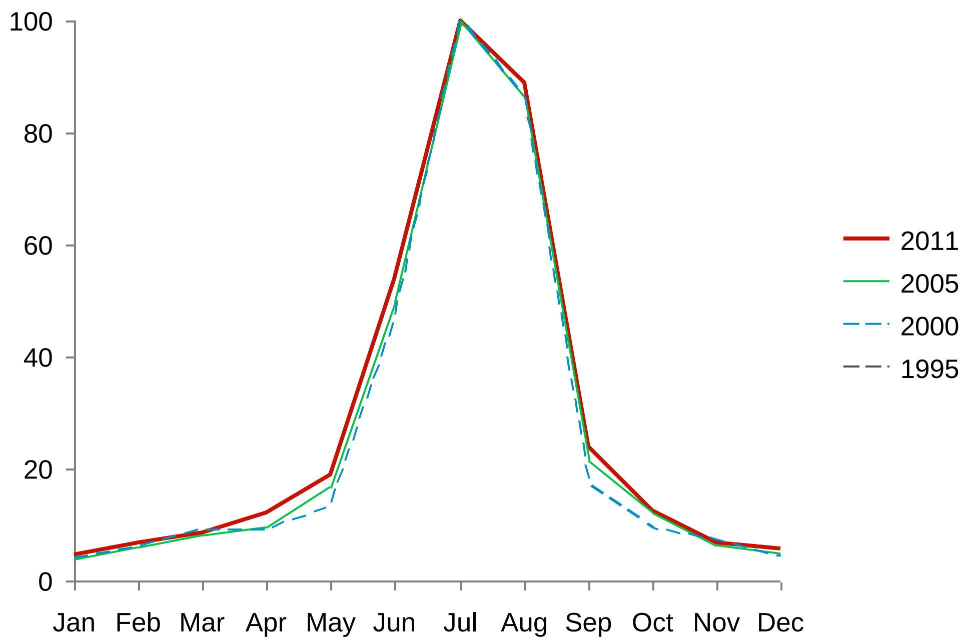
# Over the last 15, tourism has remained highly seasonal in Iceland, especially in contrast to benchmarks

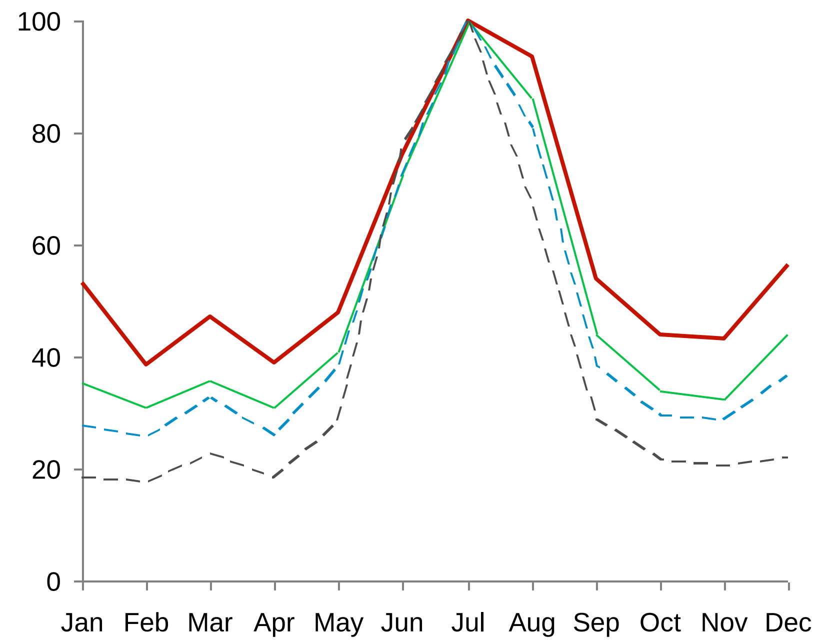
## Iceland: Seasonality extreme and stagnant

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

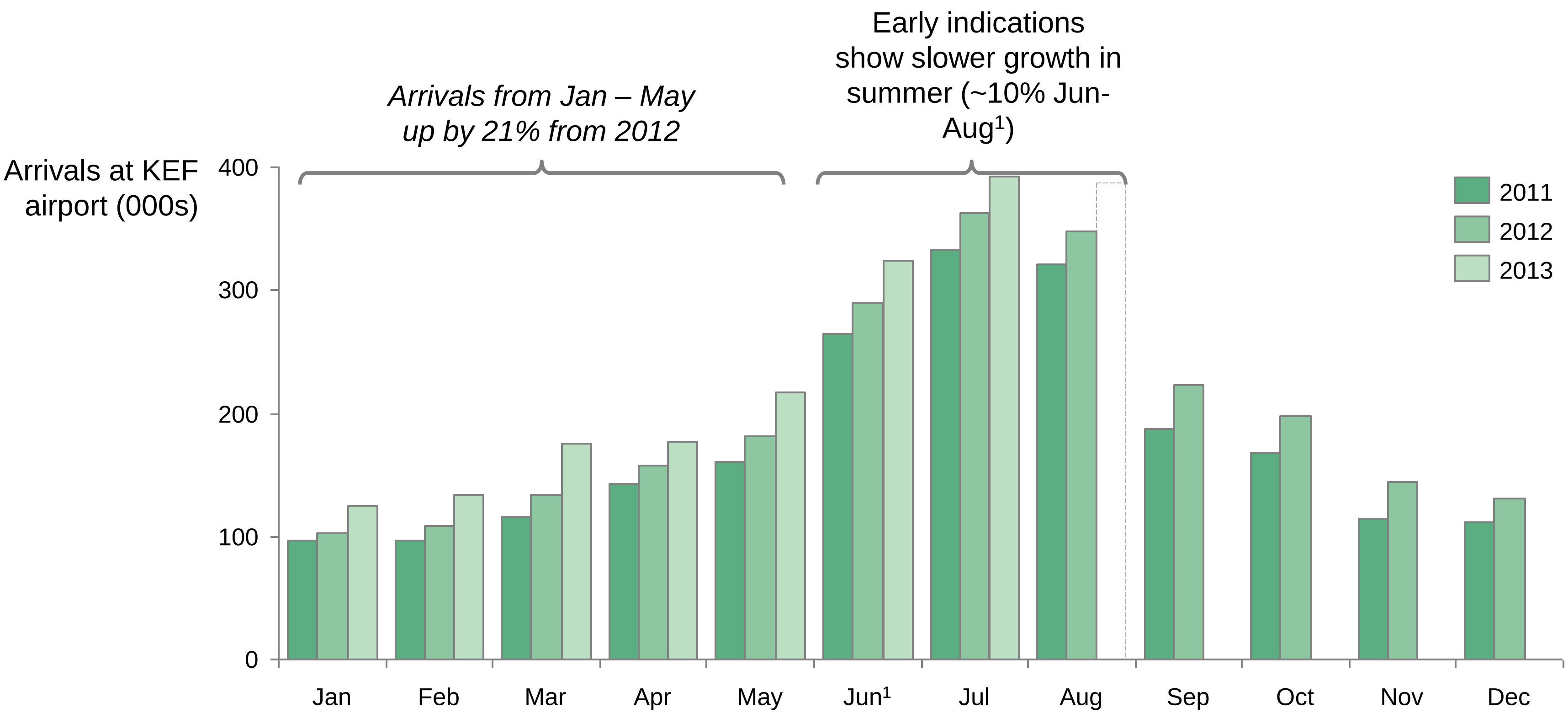
Number of arrivals in all types of accommodation by foreigners per month / monthly arrivals in peak month, i.e. July (%)






Source: Statistics Finland, Statistics Iceland

# However, early indications from 2013 suggest some reduction in seasonality




| 2012-13 growth (%) | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug |
|---|---|---|---|---|---|---|---|---|
| | 22 | 24 | 31 | 13 | 20 | 12 | 8 | 11[1] |

YTD indications suggest some reduction in seasonality

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

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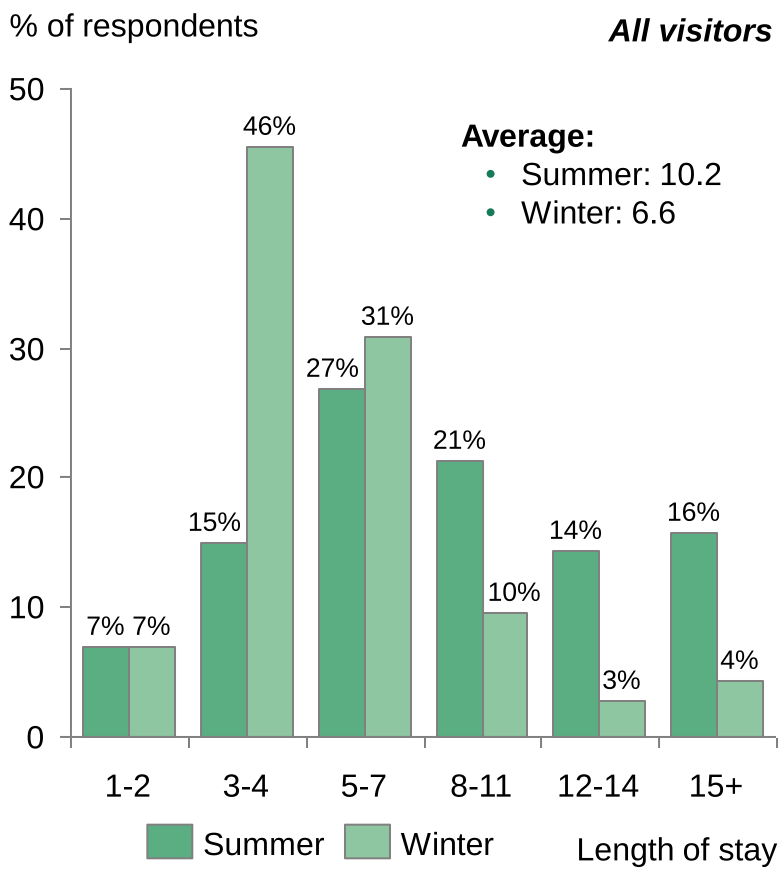
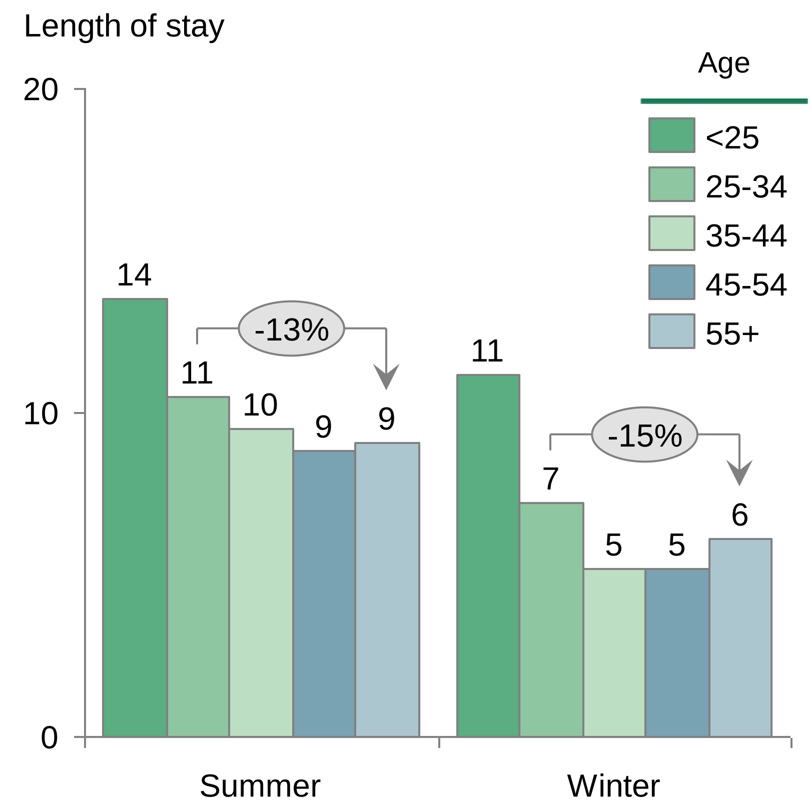
# Significant differences in length of stay across season, age

## 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"

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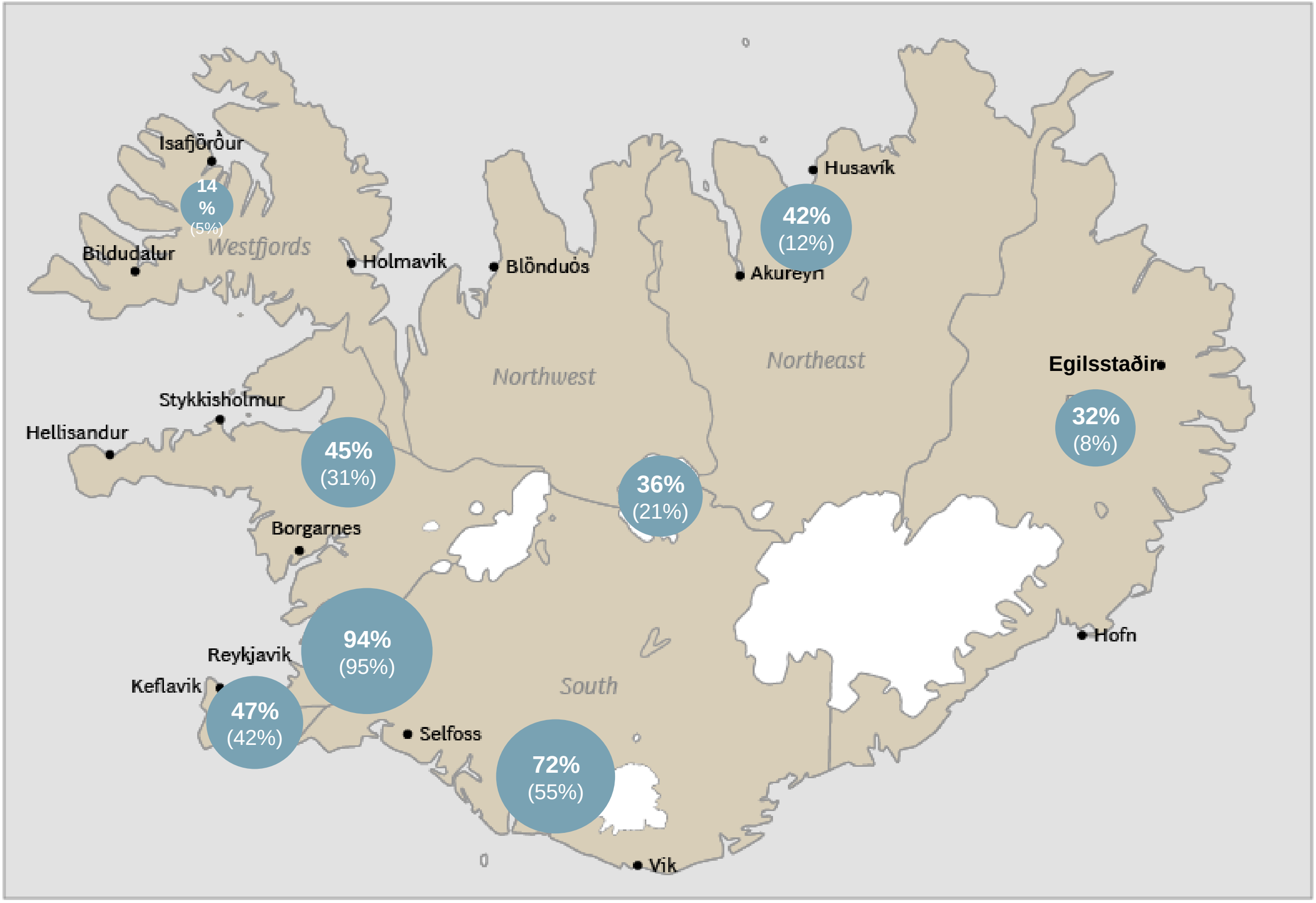
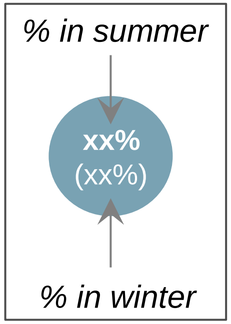
# Vast majority of visitors only experience southern and western regions of country

*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"