



The future of tourism in Iceland

Part V: Organising for success

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:

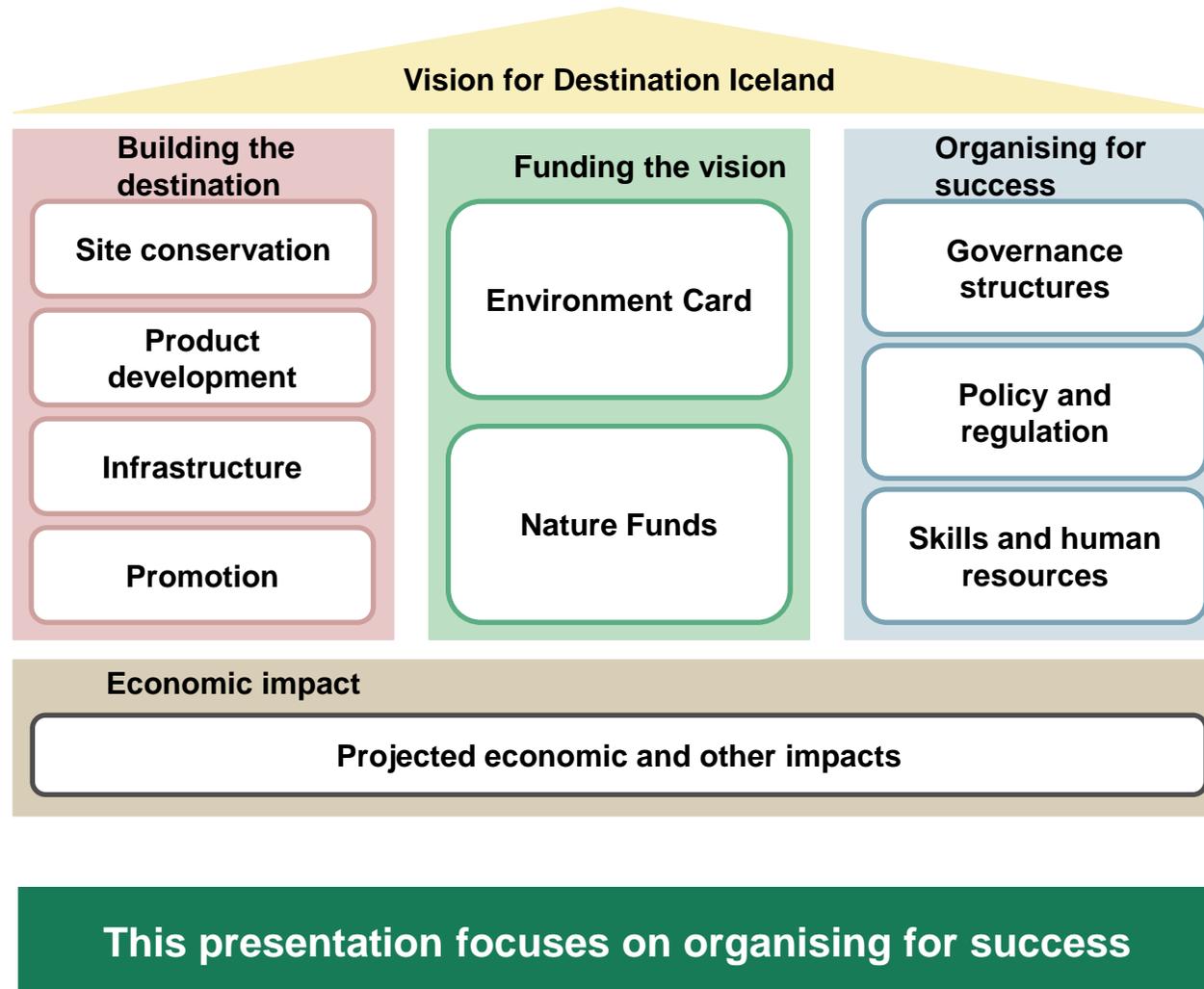
- Part I: Context - Icelandic tourism today
- Part II: Aspiration for destination Iceland and Iceland's target visitors
- Part III: Building the destination
- Part IV: Funding the vision
- Part V: Organising for success
- Part VI: Economic impact

This is the fifth of the six documents

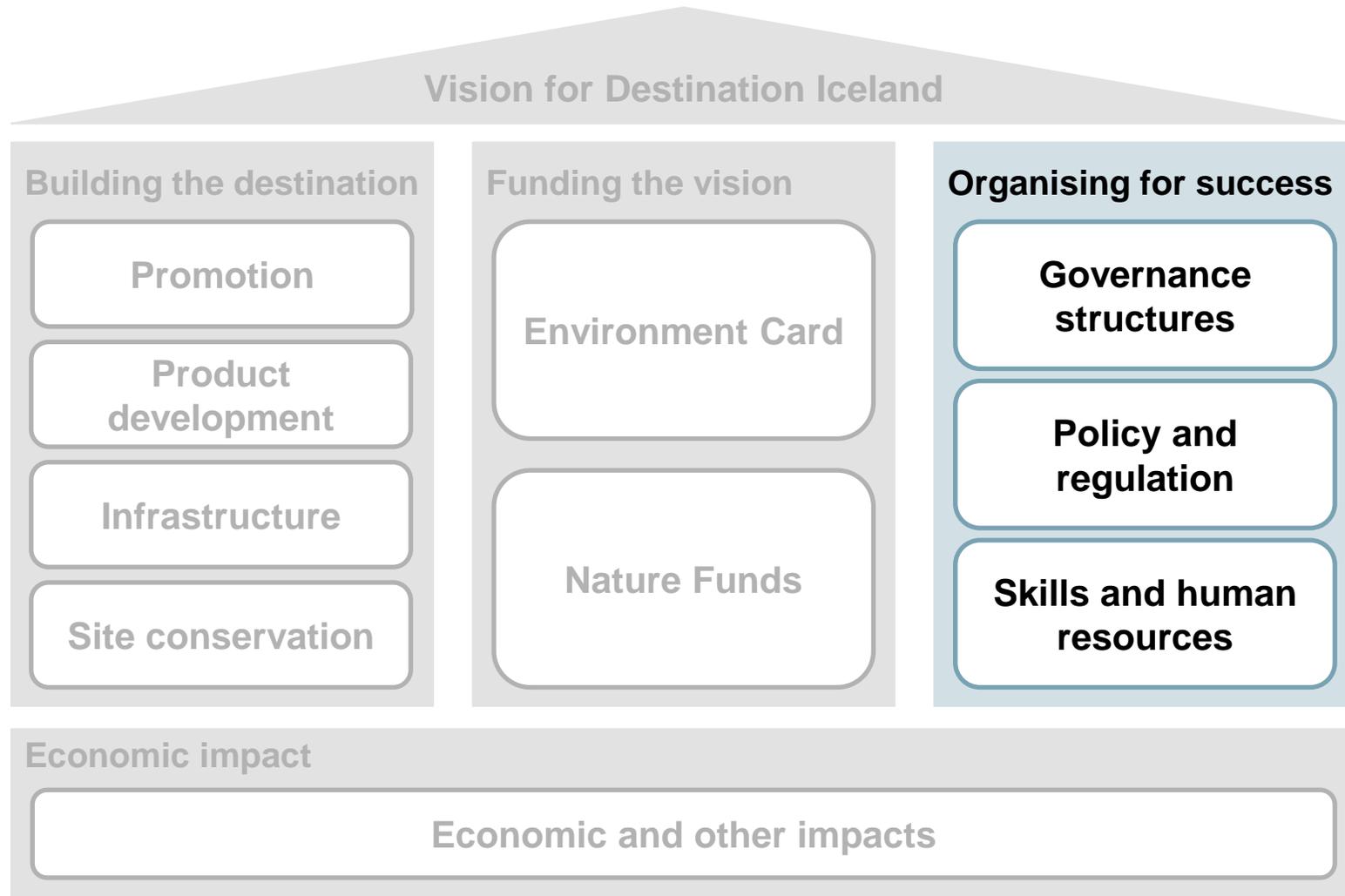
Agenda

- 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

New vision for the future of tourism in Iceland requires a programme of transformation



Organising for success





Icelandic tourism governance faces three key challenges

1

How to create greater central accountability?

Ministry of Industries and Innovation focused on regulation and research

- Via Icelandic Tourist Board, manages licensing regime and conducts specific research (visitor survey)

Large number of other entities, but none has overarching responsibility for sector development

- E.g., Promote Iceland responsible for international marketing

Need for clear owner for overall tourism strategy

2

How to optimise split of responsibilities?

Split of research from marketing drives lack of coordination in complementary areas

- Research conducted by range of entities, including Icelandic Tourist Board, Gekon, Icelandic Tourism Research Association
- Marketing led by Promote Iceland and regional / segment-specific bodies

Result: Marketing bodies lack data to develop evidence-based campaigns

- Very close coordination needed to ensure research is focused on meeting marketing data needs

3

How to streamline number of entities?

Too many entities, with variable degrees of effectiveness

- Wide range of agencies; some may be legacies from previous regimes
- "I think there is a good reason to [review] if we really need that many supporting agencies " – Capacent interviewee

Lack of clarity on responsibilities

- "There is not a clear boundary between 'Íslandsstofa' and 'Ferðamálaráðs' and it's not clear who is responsible for what." – Capacent interviewee



Starting point: Key governance activities identified





Mapping current structure to required activities highlights drivers of today's issues

- 1 No central accountability
- 2 Sub-optimal split of roles
- 3 Too many entities

2 3
Three research groups with limited / no role in marketing

2
Promote Iceland responsible for marketing, but no research role

1 3
Large number of coordinating entities without single point of accountability

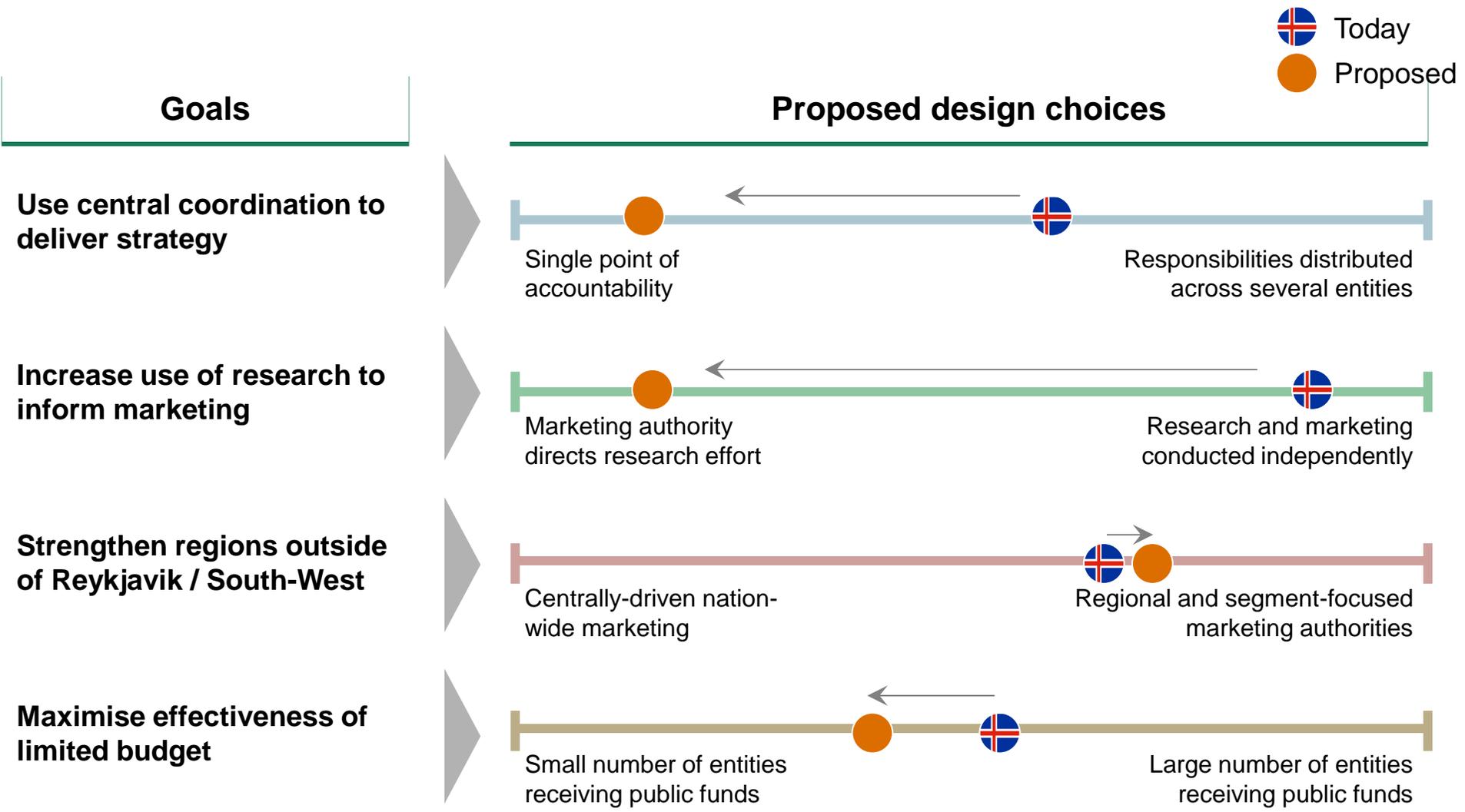
1
Two parts of govt. working independently on tourism charging



1. Includes Promote Iceland, Icelandic Tourist Board, Icelandic Tourism Association, Visit Reykjavik, Meet in Reykjavik, SAF

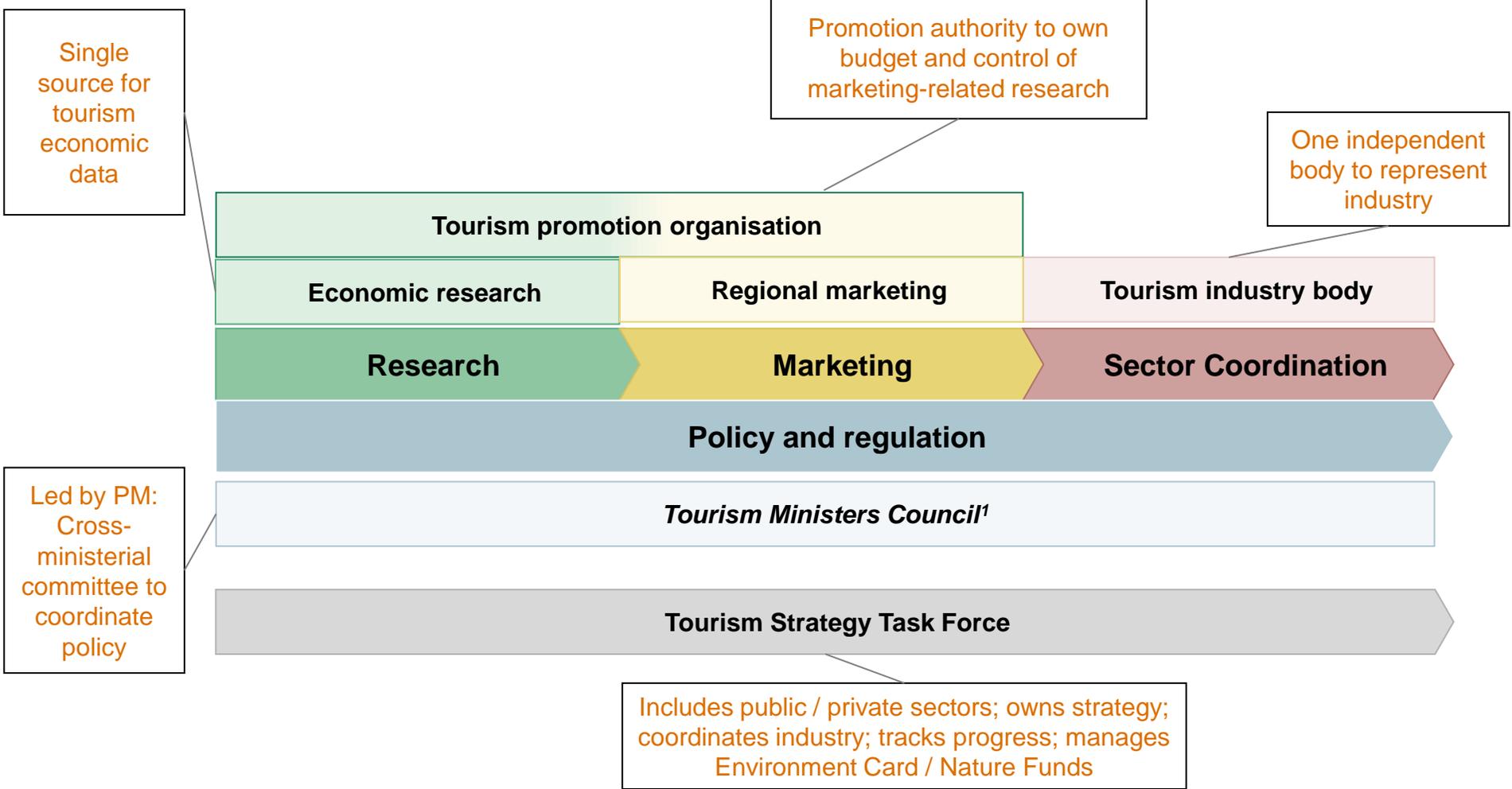


To define future structure, use goals to make design choices





Result: Proposed future governance structure



1. Chaired by PM; Includes Ministry of Industries and Innovation / Icelandic Tourist Board, Ministry of Finance and Economic Affairs, Ministry for the Environment and Natural Resources, Ministry of Education, Science and Culture – as per Tourism Ministers Council in Australia / New Zealand



Backup: Overview of key entities in Icelandic tourism (I)

	Organisation	Parent entity	Type	Role
	Ministry of Industries and Innovation	Government	Government department	Delivery of tourism strategy through regulation and promotion
	Ministry of Finance and Economic Affairs	Government	Government department	Levies taxes, e.g., VAT
	Icelandic Tourist Board (Ferðamálastofa)	Ministry of Industries and Innovation	Government agency	Licensing of tourism companies Execution of visitor survey
	Tourism Council	Ministry of Industries and Innovation	Members from public, private sectors	Advising government on tourism issues
	Promote Iceland (Islandsstofa)	n/a	Public-private partnership	Marketing of Icelandic tourism internationally
	Icelandic Tourism Association (Ferðamálasamtök)	n/a	Umbrella organisation	Umbrella body for regional tourism marketing bodies
	SAF (Icelandic Travel Industry Association)	Consortium of tourism players	Civil society association	Tourism industry association, focused on lobbying and coordination



Backup: Overview of key entities in Icelandic tourism (II)

	Organisation	Parent entity	Type	Tourism Responsibility
	Gekon	Consortium of tourism players	Public-private partnership	Promoting tourism cluster, incl. cross-sector coordination
 	Regional tourism marketing boards	TBD	TBD	Promotion of tourism in regions
 	Segment targeting groups , e.g., Meet in Reykjavik, Golf Iceland	n/a	Independent	Promotion of segment tourism, e.g., MICE, sports trips
	Icelandic Tourism Research Centre	Public-academic partnership	Research centre	Academic tourism research, e.g., economic impact of tourism
	Statistics Iceland	Oversight from Ministry of Finance and Economic Affairs	Government agency	Collection and analysis of statistical data, e.g., overnight stays, spend
	Environment Agency of Iceland	Ministry for Environment and Natural Resources	Government agency	Regulation and protection of environmentally important areas



Deep dive: New Tourism Strategy Task Force to provide overall programme management and simplify structure

Task force composition and structure

Steering Group of public, private and other stakeholders to meet monthly

- Chaired by Minister for Industry and Commerce
- Includes representatives from:
 - Other relevant ministries (Finance, Envir., Foreign)
 - Private firms (e.g., industry associations)
 - Other tourism players (e.g., research group)
- Steering Group to: track progress, resolve issues / roadblocks, allocate roles to sector entities, take decisions as appropriate

5 – 10 FTE operating staff with Director appointed by Task Force Steering Group:

- Manage coordination between sector stakeholders
- Manage Environment Card (with outsourced provider)
- Provide operational support for Nature Funds
- Act as Steering Group and Advisory Group secretariat

Costs funded by Ministry, private sector, and revenues from Environment Card¹

Remit focused on driving strategy

Mandate to drive overall tourism strategy and transformation programme

Four key areas of responsibility:

- Ensure consistency and alignment
 - Take ownership of strategy
 - Define targets / indicators and track, measure, and report progress against them
- Resolve differences between conflicting interests to maintain focus on vision / strategic objectives
- Clarify roles and responsibilities
 - Get agreement over tasks to be executed by each tourism entity
 - Hold entities to public account
- Take overall ownership for implementation of Environment Card and disbursement of funds

After 3 – 5 years, Task Force to evolve into the authoritative tourism sector coordination body

Task Force should be small and focused on driving strategy, not implementing it

1. Accounted for within card operations costs



Robust programme management by Tourism Task Force needed to keep up momentum

Tourism Task Force programme management responsibilities

Drive and manage change programme

- Develop detailed action plan
- Get agreement on allocation of tasks among sector bodies
- Coordinate initiatives and communicate progress continuously

Resolve issues and take decisions

- Develop process for escalation to Task Force Steering Group
- Meet regularly to address issues and resolve roadblocks
- Take operational decisions where existing mechanisms unable to do so (e.g., conflict between regional marketing boards)

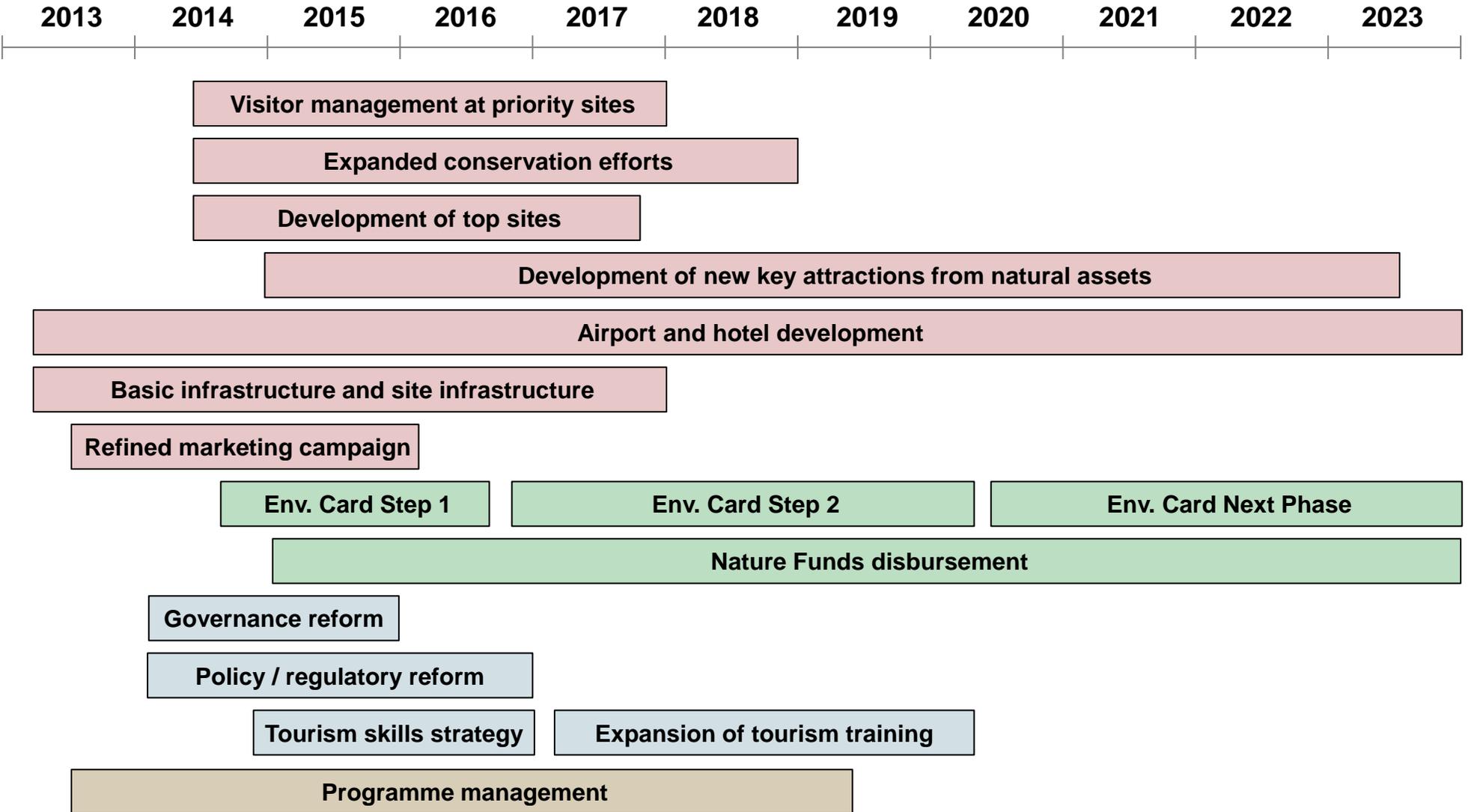
Track delivery against milestones

- Agree vision and set targets / KPIs to make it tangible
- Measure results and publish regular reports on progress towards targets and planned actions
- Hold responsible groups accountable for delays

Critical to have continued support from public and private sector leaders

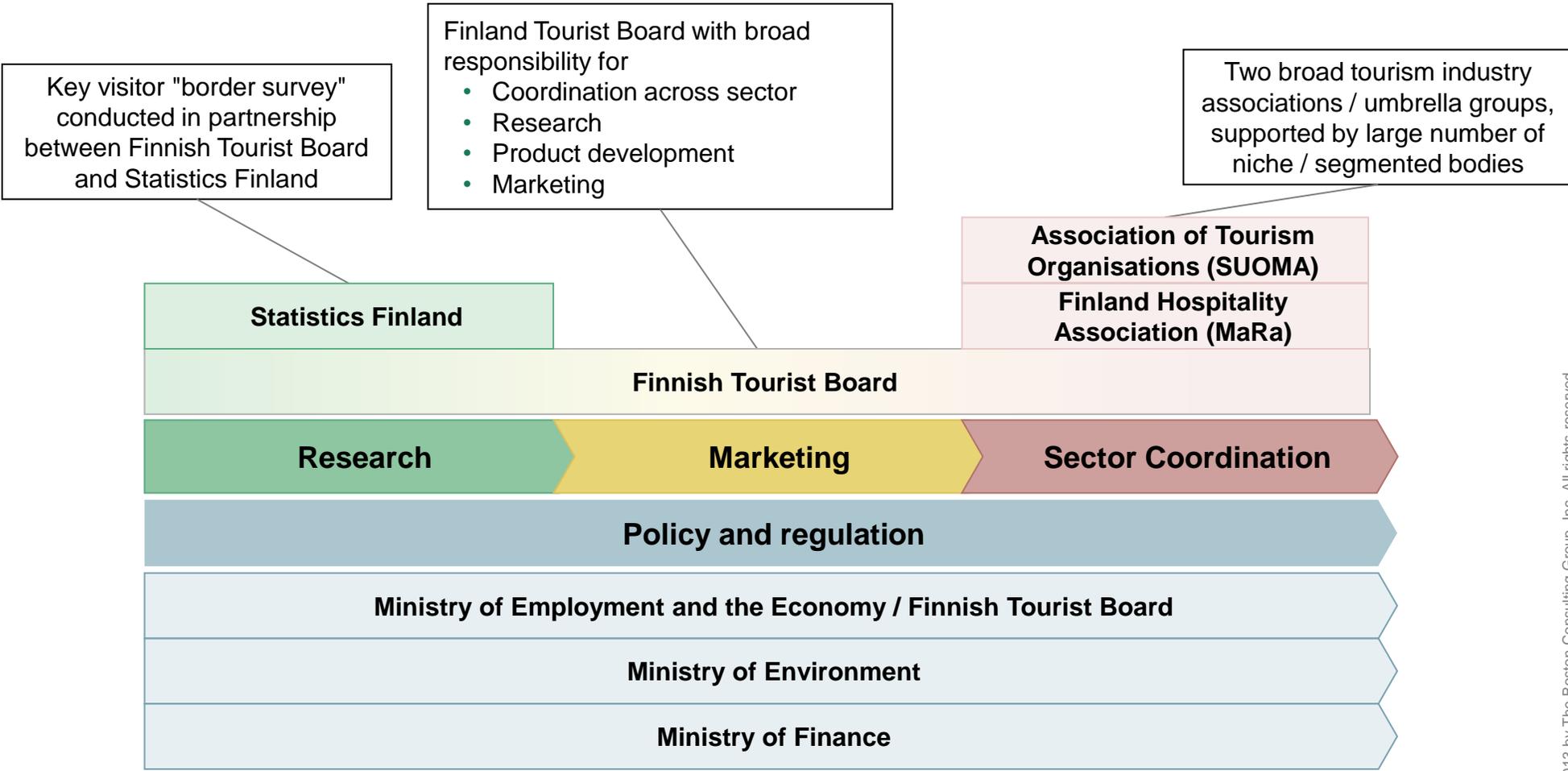


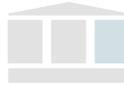
Example High level long-term roadmap





Case study: Finland tourism governance with clear points of accountability and coordination





Case study: Google search highlights clearer central point of accountability in Finnish tourism vs. Icelandic

Top Finland tourism sites all focused on Visit Finland / Finnish Tourist Board

Search results for "finland tourism" showing the top three results, all from VisitFinland.com or Finnish Tourist Board.

- 1. VisitFinland.com | Welcome to the Official Travel Site of Finland
- 2. Finnish Tourist Board | VisitFinland.com
- 3. Finnish Tourist Board / Visit Finland - Embassy of Finland

Same authority (Visit Finland / Finnish Tourist Board) in top results

Icelandic sites split between Ministry and Promote Iceland

Search results for "iceland tourism" showing the top three results, split between Promote Iceland and the Ministry of Industries and Innovation.

- 1. Iceland travel guide, accommodation, iceland hotel, guesthouse ...
- 2. Ministry of Industries and Innovation | Atvinnuveg
- 3. The Official Gateway to Iceland, iceland.is

Results split between Promote Iceland and Ministry



Case study: Australian tourism governance simplified in 2004

Before 2004

Tourism activities coordinated by 4 agencies

Australian Tourist Commission

- Promotes tourism in Australia to international tourists
- Conducts research on international tourists

See Australia Limited

- Promotes domestic tourism to Australians

Bureau of Tourism Research

- Conducts research and delivers vital statistics on tourism activity for both industry and policy makers

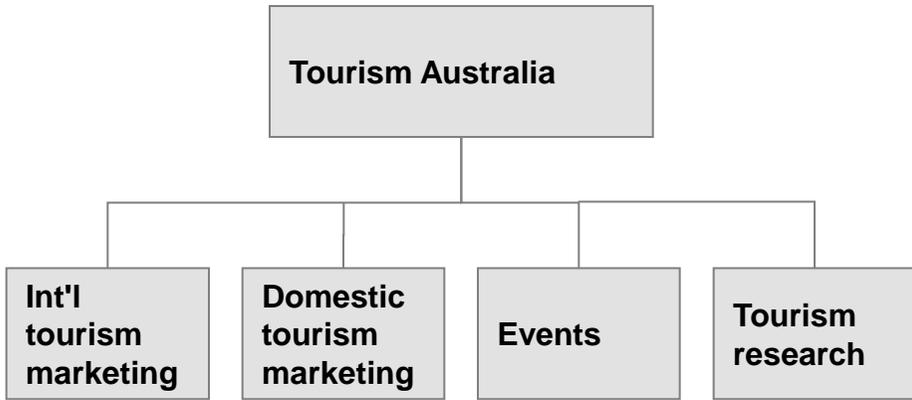
Tourism Forecasting Council

- Provides quality consensus forecasts for Australian tourism activity

- Lack sharing of research capacity and data
- Lack sharing of resources

After 2004

Tourism Australia created to combine 4 agencies under one umbrella to improve coordination and enhance the sharing of resources



- Increased resource base
- Increased flexibility in shifting resources

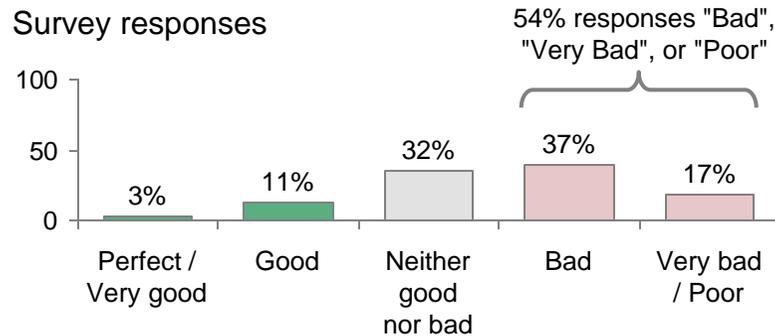
Source: Australian Government Tourism White Paper, Tourism White Paper Implementation Plan, Tourism Australia annual report, Tourism Australia site, Press search, Web search, BCG analysis



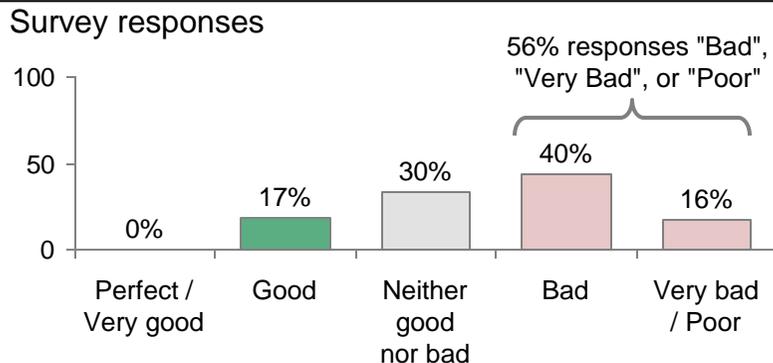
Potential for policy and regulation to better support tourism

>1/2 survey respondents consider laws and regulations unhelpful to tourism

"How would you rate the support that **national laws and regulation** offer to the expansion of the tourism sector?"



"How would you rate the support **Government policy** offers to the expansion of tourist service and the tourist sector?"



Driven by multiple issues at national and local levels

Regional and municipal authorities unable to implement investment plan

- "Municipalities do not have planning or zoning ready. They are small and no groundwork [has been done]"

Need for greater clarity, stability and prioritisation from government policy

- "The money all goes into the fisheries, farming and heavy industry "
- "We need a 20 year plan [to] be followed despite shifts in the political landscape "

Black market expansion not fully addressed

- "There are endless amounts of people offering illegal accommodation, have no license and pay no taxes or dues"
- "You see cars being rented out [that] are not good vehicles; some are basically dangerous"

However, Promote Iceland seen as effective, especially at marketing all-year-round travel



Four key components to tourism policy and regulation

	Relevance for tourism	Key issues today
Industry Licensing	<ul style="list-style-type: none"> • Licenses required for hotels, travel agencies, tour operators • Also required for tourism-related industries, e.g., liquor sales 	<ul style="list-style-type: none"> • "Black market" hotels / tour operators <ul style="list-style-type: none"> – Undercut competitors by evading tax – Risk reputation of Iceland through unsafe practices
Planning and Zoning	<ul style="list-style-type: none"> • Construction of infrastructure at and around sites requires approval from municipal authorities • Authorities either control sites directly or manage planning 	<ul style="list-style-type: none"> • Long and difficult planning process inhibits development <ul style="list-style-type: none"> – Municipal authorities not incentivised to support new developments with increased revenues
Environmental Regulation	<ul style="list-style-type: none"> • Many key tourism attractions are vulnerable natural areas protected by environmental regulations • Regulations also apply to construction, as well as hotel / travel operators 	<ul style="list-style-type: none"> • Some sites at risk of damage from over-use <ul style="list-style-type: none"> – E.g., Lake Myvatn on Environment Agency's "red list" • Insufficient funds for conservation
Tax	<ul style="list-style-type: none"> • Taxes on tourism services (e.g., VAT on hotels) directly impacts cost of trip to Iceland and, therefore, demand • Taxes also influence choices (e.g., campsites vs. hotels) 	<ul style="list-style-type: none"> • Proposals for large tax increases, e.g., on hotels, create uncertainty, reducing investment <ul style="list-style-type: none"> – Policy instability cited as an issue in stakeholder interviews



Potential actions to address regulatory and policy issues

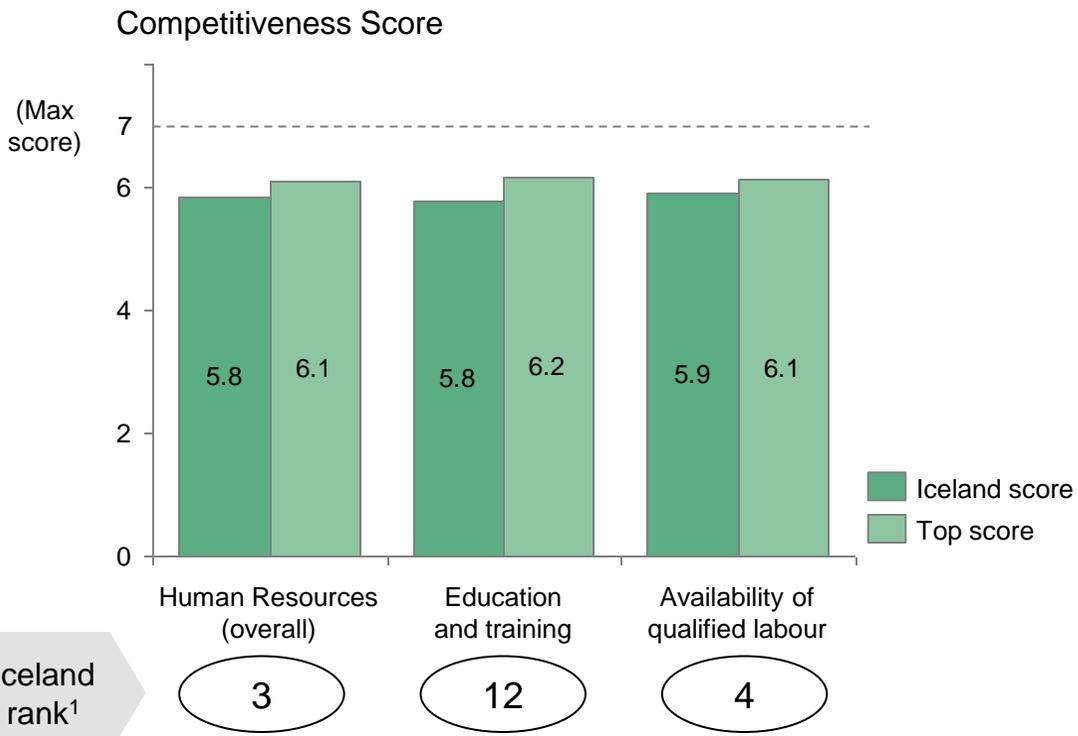
	Potential actions	International example
Industry Licensing	<ul style="list-style-type: none"> • Launch temporary amnesty for black market hotels / tour operators to obtain licenses • Use special units to check guest houses (e.g., following up on online / print adverts) • Simplify licensing process (e.g., online forms) 	<ul style="list-style-type: none"> • New York City crackdown on Airbnb • Spain targeting illegal renting by British holiday home owners
Planning and Zoning	<ul style="list-style-type: none"> • Review planning regulations to allow <ul style="list-style-type: none"> – Limited construction in nature areas – Expedited planning process at tourist sites • Share revenues with municipalities (e.g., from Nature Fund, hotel VAT) 	<ul style="list-style-type: none"> • Australian Regulatory Reform Priorities (2011) adopting consistent criteria for tourism zoning
Environmental Regulation	<ul style="list-style-type: none"> • Develop robust categorisation of sites by risk of damage (<i>see Action Plan</i>) <ul style="list-style-type: none"> – Defined set of actions according to risk level • Ensure regulatory framework enables strict controls for sites at high risk of damage 	<ul style="list-style-type: none"> • Galapagos Islands restrictions on visitor numbers • Gorilla permits and regulations in Uganda / Rwanda
Tax	<ul style="list-style-type: none"> • Establish long-term revenue raising mechanism to ensure fair contribution of tourists to future development, conservation, and to Iceland's economy (e.g., Nature Card) 	<ul style="list-style-type: none"> • South African Wild Card • Granada CityPass • Oslo Pass • RomaPass

Government leadership also required to develop supporting infrastructure



Iceland has strong tourism human resource development, with some areas for further improvement

Iceland scores highly on HR dimensions of WTTC competitiveness index



Some specific areas for further development

Need to attract new talent to tourism sector to handle increased visitor numbers

- Sector to define clear career paths across different disciplines (e.g., hotels, restaurants)
- Internal marketing needed at schools and colleges to promote tourism as a career

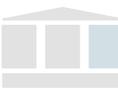
Need to expand training and development programmes, especially vocational education

- Academic programmes currently strong, e.g., University of Iceland graduate programmes
- Need to develop training and vocational qualifications to increase overall professionalism
 - E.g., service skills, language training

Qualified and professional human resources critical to deliver quality product and service to target visitors

1. Out of 140 countries
Note: Competitiveness scores measured on a scale of 1 to 7
Source: World Economic Forum Travel and Tourism Competitiveness Report 2013, interviews with stakeholders

Case study: UK's Hospitality Guild supports targeted skill development for tourism sector



Guild brings together public / private players to develop tourism sector skills

14 tourism and hotel industries represented in a public and private grouping

- Private players, including Starbucks , McDonald's, etc.
- Public players, including Visit Britain, The British Hospitality association

Main objective to define and support implementation of tourism sector skills strategy

- Identifying required qualification standards
- Developing retention programs and career prospects in the industry
- Increasing managerial abilities
- Increasing client care quality
- Restoring industry attractiveness

Key activity to provide support for individuals, employers and training providers

For individuals, Guild provides career advice, guide to training opportunities, a jobs board and events

- Guild promotes careers in tourism by offering information, advice and positive image of relevant professions
 - E.g., mapped out set of career paths with personality test to help match individuals

For employers, Guild promotes vacancies for full-time positions and apprentices

For training providers, Guild offers accreditation and promotion of courses

- E.g., Gold, Silver, Centre of Excellence certification for training providers meeting defined criteria