



Accountants &  
business advisers

## **Promote Iceland**

# **Long-term strategy for the Icelandic tourism industry**

February 2013

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# 1 Background

- 1.1 In May 2012, PKF was commissioned by Promote Iceland to carry out a master mapping project for the Icelandic tourism industry and to establish its foreign direct investment (FDI) potential.
- 1.2 The aim of the project is to create a platform for the government and tourism industry stakeholders to formulate a long-term strategy and goals to maximise tourism's economic contribution. The formulation of a clear and concise long-term strategy, which has stakeholder buy-in at all levels, for the tourism industry, is vital to enhancing Iceland's international competitiveness, market position and the economic contribution of the tourism sector to Iceland's GDP.
- 1.3 The scope of the project comprised the following three deliverables:
  - (i) Capsule situation analysis;
  - (ii) Long-term strategy for the Icelandic tourism industry; and
  - (iii) Realising the Icelandic tourism sector's FDI potential.
- 1.4 The completed capsule situation analysis was presented to the senior management team at Promote Iceland and a select group of key tourism industry stakeholders at the end of September 2012.
- 1.5 This document comprises the **long-term strategy for the Icelandic tourism industry** of the master mapping project. It builds on the research and analysis presented in the capsule situation analysis – most importantly the SWOT analysis and the outline strategic options presented therein. As such this document should be read in conjunction with the capsule situation analysis report.

## 2 Introduction

2.1 The purpose of the long-term strategy for the Icelandic tourism industry is to create a framework for the next ten years so that Iceland can capitalise on its future growth potential as a tourism destination that offers an authentic and unique visitor experience. This will enable Iceland to maximise the economic contribution of the tourism sector by creating an enabling environment for investment and in turn, attract FDI.

2.2 In order to prepare the long-term strategy for the Icelandic tourism industry we undertook the following:

- Preparation and presentation of a capsule situation analysis to a group of key tourism industry stakeholders;
- Conducted a limited international tour operator survey to build on existing travel surveys;
- Evaluated the key geographic source markets and segments identifying potential opportunities;
- Formulated a strategic mission, vision, objectives and targets for the next ten years;
- Recommended a future positioning and promotional model;
- Specified the institutional framework and tourism policy requirements;
- Prepared a detailed annual action plan matrix for the next ten years;
- Prepared an annual monitoring and evaluation grid to enable the Icelandic tourism industry to monitor the progress of the implementation of the long-term strategy; and
- Prepared an indicative annual budget to facilitate the above.

### Master mapping project context

2.3 As a result of the on-going global economic crisis, governments are increasingly recognising the tourism sector's potential as a means to diversifying and stimulating economic growth and social contribution. It is widely understood that tourism has the ability to create jobs, attract FDI, earn foreign currency and stimulate national, regional and local economic growth, provided that the sector is given adequate government support and regulated where needed.

2.4 Promote Iceland has an important role to play in terms of developing an attractive image of Iceland, whether the goal is to attract tourists, businesses or FDI. The formulation of a long-term strategy is considered key to enhancing Iceland's international competitiveness and market position. However, Promote Iceland must collaborate with both public and private sector partners, as the achievement of destination success is a shared responsibility.

- 2.5 Currently the responsibility for tourism, in its widest sense, including at national level, is very fragmented. In order for the tourism sector to continue to flourish there is a need to adopt a coherent and integrated approach to the sector, in order to ensure that this complex industry is represented fairly across all stakeholders.
- 2.6 As tourism is an 'open' industry it is subject to political, social, environmental and technological changes and trends to which it must respond. In the case of Iceland, the fall out from the financial crisis in 2008 and 2010 eruption of Eyjafjallajökull are poignant reminders of some of the recent challenges facing the tourism sector.
- 2.7 Interestingly, Iceland has been able to turn these negative events into a relative success story and combined with the award-winning 'Inspired by Iceland' campaign, this has had a positive impact on the tourism industry. Together they have raised awareness of the country and stimulated people's appetite to visit the destination and the increase in visitor numbers has also been underpinned by Icelandair's aggressive growth strategy through a 'hub and spoke' model. This has led to a dramatic increase in visitation to the country in recent years. The country is therefore now at crossroads on how to balance economic growth underpinned by tourism, with a need for sustained responsibility in regard to the preservation of the product and culture.
- 2.8 The tourism industry has a complex nature and as such it requires co-ordination of government, at both national and regional level, as well as private sector businesses that both compete and co-operate with one another. Currently, in Iceland, the vast majority of tourism services are provided by micro suppliers in stark contrast to, for example, aviation which is dominated by a large company.
- 2.9 Governments are involved in tourism in a variety of capacities including the provision of border security, the regulation of markets such as aviation, controlling or managing tourism attractions such as national parks, land planning and funding the development of roads and other infrastructure. The private sector would then ideally provide end user services that would enable sustainable product delivery. Unless industry and government policymakers work together effectively, this complex system may therefore not function optimally.
- 2.10 Given the recent growth in visitor numbers to Iceland and increasing awareness of the country as a destination, this is therefore an opportune time for key stakeholders to formulate a clear and integrated long-term strategy with a view to maximising the economic contribution of the Icelandic tourism industry and create an enabling environment for investment.

### 3 A summary of tourism trends in Iceland

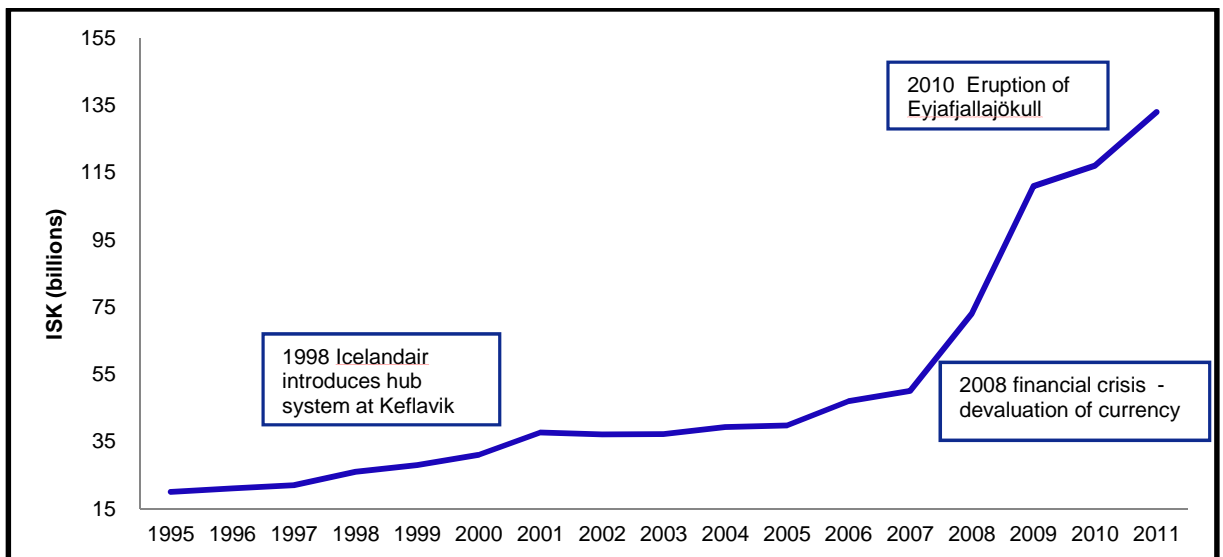
3.1 In this section we present a summary of current tourism trends in Iceland together with the results of our visitor and international tour operator surveys. This builds and completes our observations of existing trends presented in our capsule situation analysis document and forms part of the background towards formulation of the long-term strategy.

#### Background

##### Economic contribution of tourism sector in Iceland

3.2 In recent years it is clear that tourism has become an increasingly important sector of the Icelandic economy as may be seen from Figure 3.1.

**Figure 3.1 International tourism receipts (1998 – 2011)**



Source: Statistics Iceland

3.3 Since 2008, the export value of tourism has been around 14% increasing to 19% of total exports when including the activities of Icelandic tourism companies outside Iceland. In 2011, tourism's share of GDP was 5.9% compared with 5.1% in 2001. This is in line with tourism's average contribution to a nation's GDP, globally.

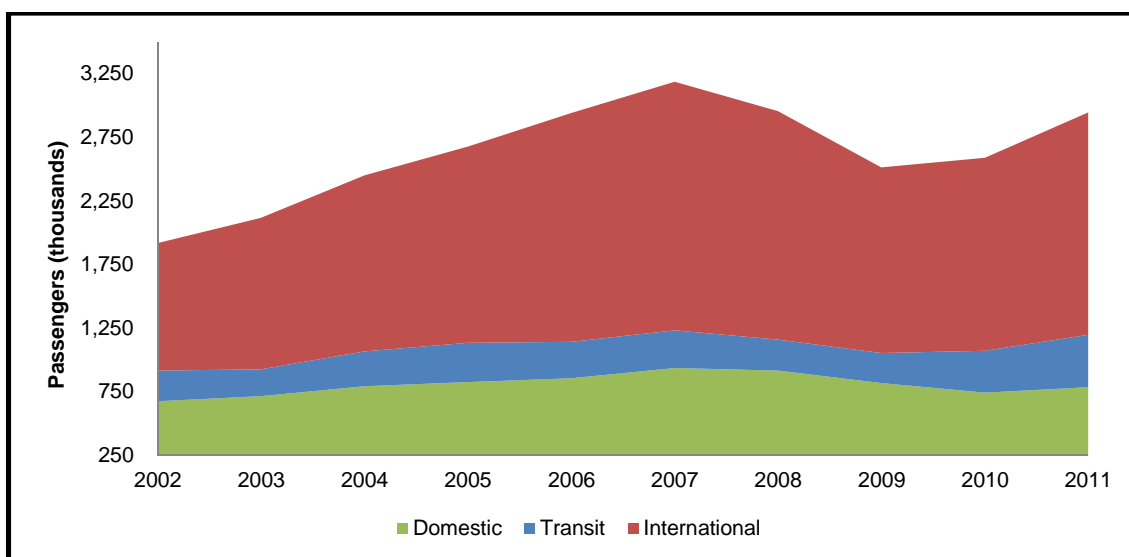
3.4 In 2009 (latest available data), total travel consumption reached ISK184bn of which around 40% was consumed by Icelandic households and companies. During this year the number of people employed in the tourism sector exceeded 8,500, equivalent to 5.2% of the working population, clearly demonstrating its importance.

This all underpins the sector's growing importance to the country's overall diversification and sustainability.

## Visitor arrivals

- 3.5 The successful evolution of the tourism sector in Iceland is in large part due to the success of the 'hub and spoke' model which was introduced by Icelandair in 1998 using Keflavik airport as its main hub. This has allowed Iceland to attract international visitors from a number of key geographic source markets by offering direct flights to an increasing number of destinations. However, this was also facilitated by a number of other factors including currency devaluation, improved border controls and heightened marketing.
- 3.6 In Figure 3.2 we illustrate the evolution in total air passenger movements between 2002 and 2011.

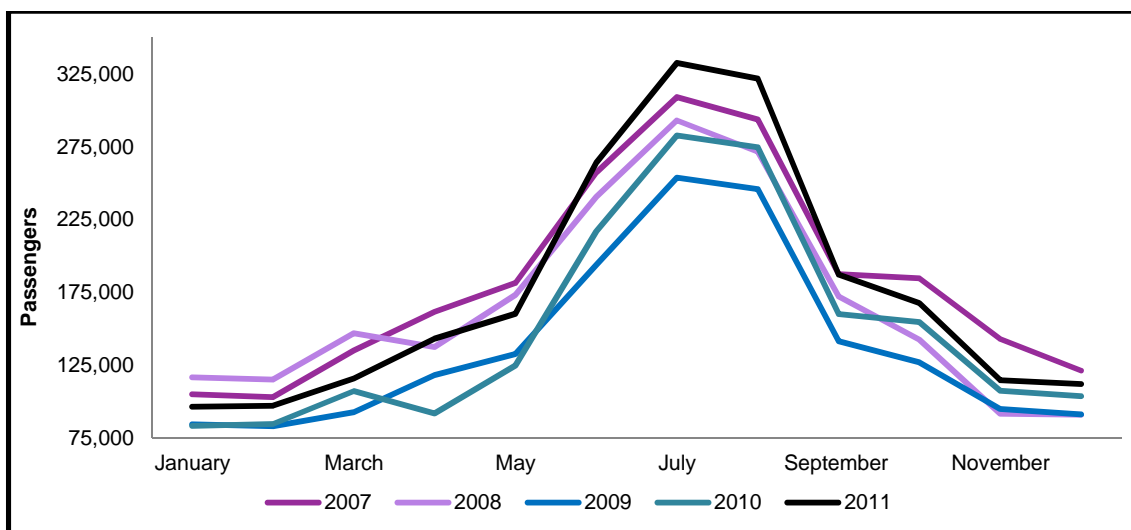
**Figure 3.2 Total air passenger movements (2002 – 2011)**



Source: ISAVIA (latest available)

- 3.7 Significantly more than 80% of air services are provided by Icelandair with Keflavik Airport acting as the main gateway to Iceland.
- 3.8 Between 2001 and 2011 arrivals at Keflavik grew by a compound annual growth rate (CAGR) of 5.2% increasing from 519k to 865k while peaking at 946k in 2007.
- 3.9 Due to Iceland's rapid growth in tourism a number of new airlines have started flying to the destination including easyJet, Norwegian, Air Berlin and Icelandic airline WOW (which Iceland Express recently became part of). However, current load factors between 79% and 85% suggest there is an opportunity to increase the frequency of flights and attract new airlines in order to further stimulate competition.
- 3.10 Seasonality remains high and this is reflected in passenger movements.



**Figure 3.3 Keflavik Airport monthly passenger movements (2007 – 2011)**

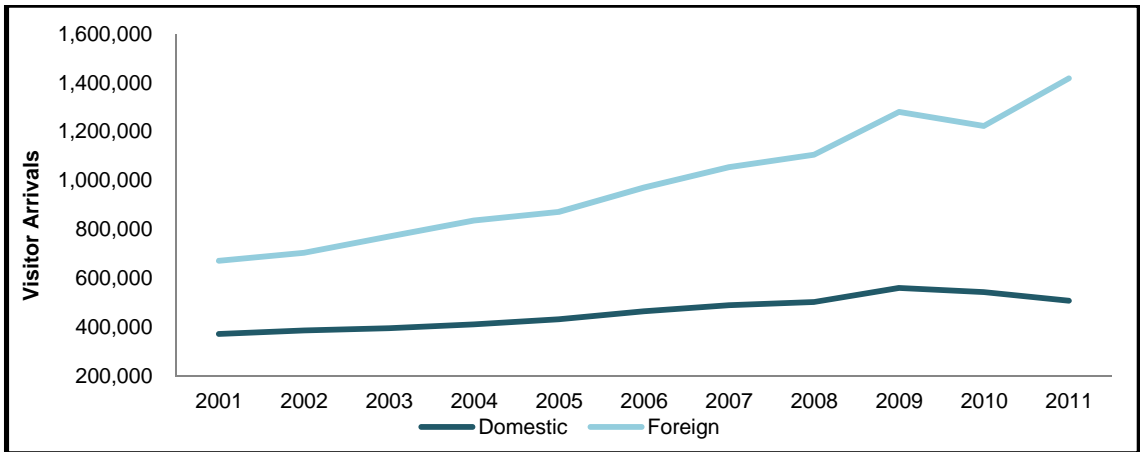
Source: ISAVIA (latest available)

- 3.11 Over 95% of international visitors to Iceland arrive by air at the main gateway Keflavik. A limited number of international visitors arrive at Reykjavík, Akureyri and Egilsstaðir airports. A small number of mainly Northern European visitors arrive by sea at Seyðisfjörður with Smyril Line from Denmark via the Faroe Islands.
- 3.12 In 2011, just under half of all international visitors arrived during the peak summer months. This reflects the reduced airlift during the winter period and also the wider perception of the destination as mainly a summer offering.

### Visitor arrivals at all accommodation

- 3.13 Figure 3.3 shows total visitor arrivals at all accommodation over the period 2001 to 2011.
- 3.14 Total visitor arrivals at all types of accommodation has almost doubled over the past decade reaching 1.9m in 2011. Of this, international arrivals at all accommodation have increased by a CAGR of 7.8% since 2001 reaching just over 1.4m in 2011 with a slight drop in 2009/10 as a result of the global economic crisis.
- 3.15 Domestic arrivals at all accommodation grew steadily until 2009, before slowing down to reach just over 0.5m in 2011.

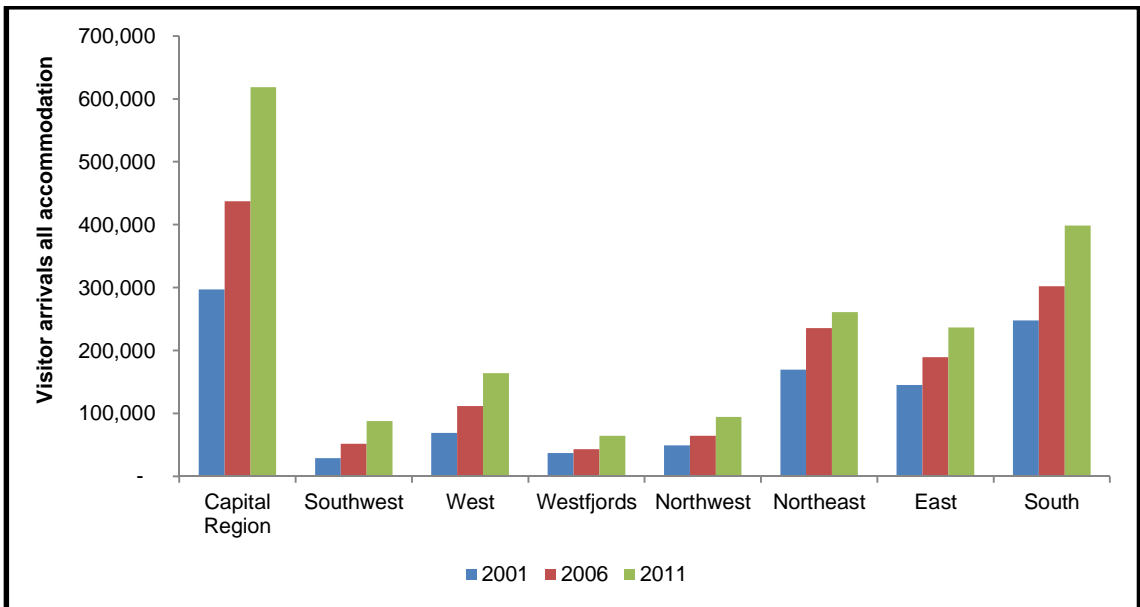
**Figure 3.3 Visitor arrivals all accommodation (2001 – 2011)**



Source: Statistics Iceland

3.16 In Figure 3.4 below, we show the evolution in visitor arrivals at all accommodation by region during the period 2001 to 2011. Total arrivals increased from 1m in 2001 to 1.9m in 2011, representing a CAGR of 6.3%. The Southwest (11.8%), West (9.0%) and Capital Region (7.6%) recorded the highest levels of growth.

**Figure 3.4 Visitor arrivals at all accommodation by region (2001 – 2011)**



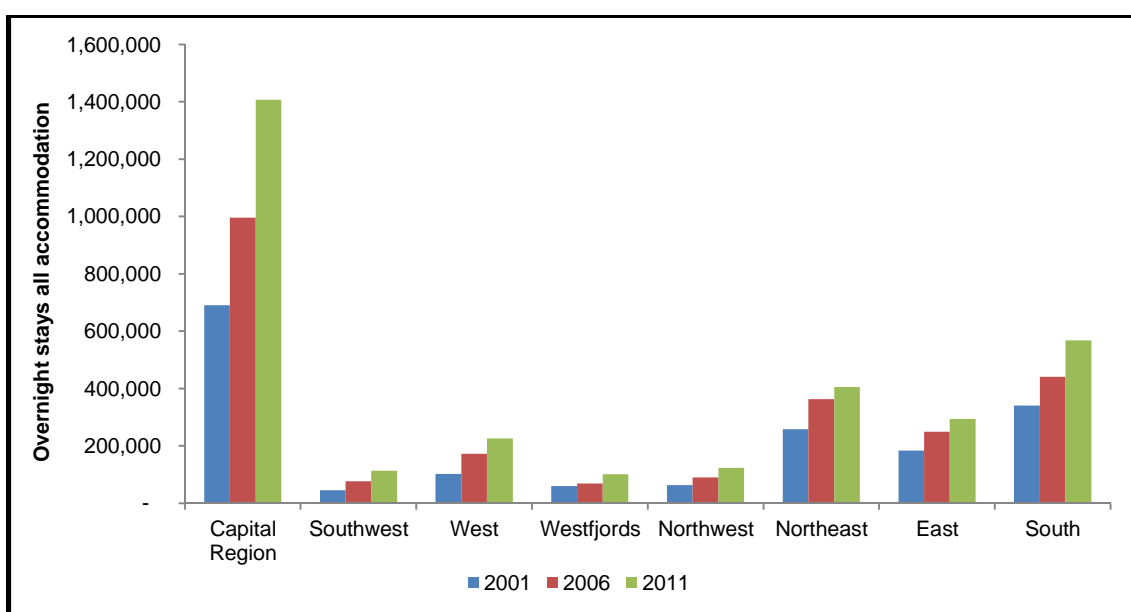
Source: Statistics Iceland

3.17 In 2001, over 60% of all visitor arrivals at all accommodation were recorded in the South and Capital Region, highlighting the current focus on destinations in Reykjavik and the southern region ie the Golden Circle.

### Overnight stays at all accommodation

- 3.18 For those staying in accommodation, total overnight stays reached 3.2m in 2011 up from 1.8m in 2001 representing a CAGR of 6.4%.
- 3.19 International overnight stays reached 2.4m in 2011, of which 1.8m were spent in hotels and guest houses. Domestic overnight stays reached 800k in 2011 with around 50% spent in hotels and guest houses.
- 3.20 In Figure 3.5, we show the evolution in overnight stays at all accommodation by region during the period 2001 to 2011.

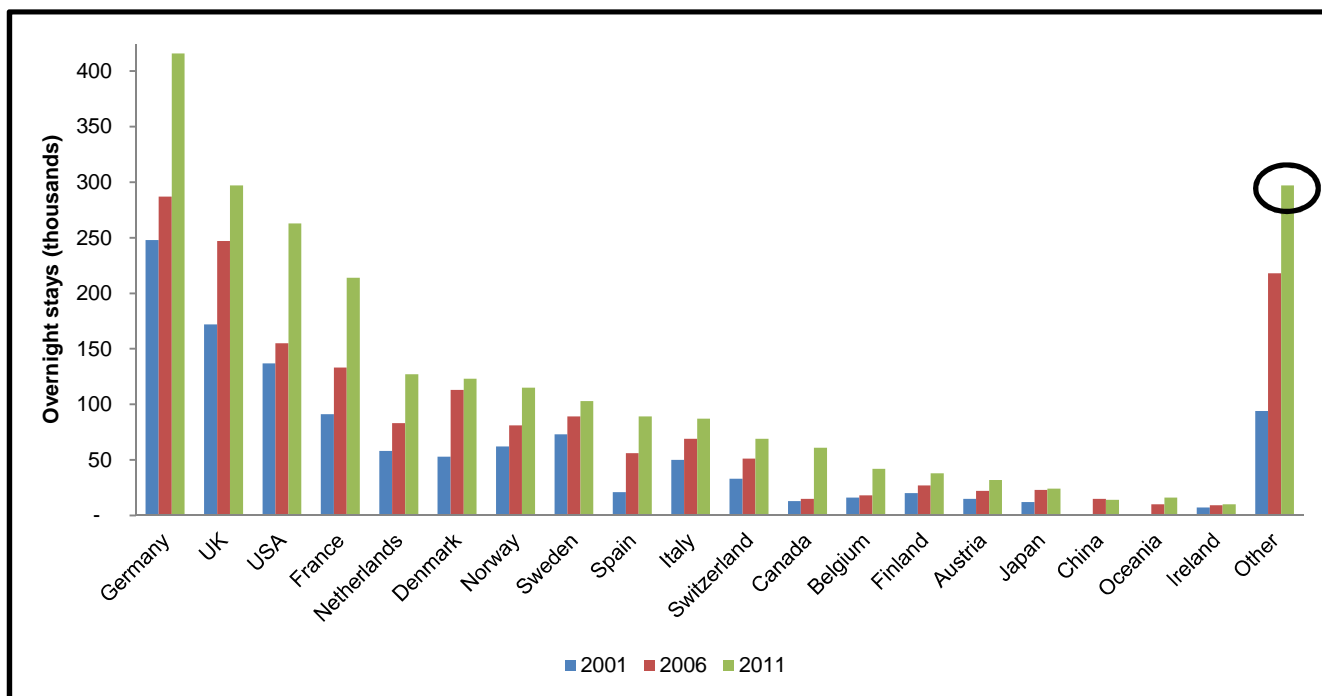
**Figure 3.5 Overnight stays at all accommodation (2001 – 2011)**



Source: Statistics Iceland

- 3.21 Around two-thirds of the overnight stays in all regions were recorded in the summer. We note that in 2011, nearly 80% of visitor nights spent outside the South and the Capital Region were recorded during the summer. This not demonstrates the high seasonality of the destination but also the relative lack of infrastructure outside the Capital and South regions.
- 3.22 In terms of the average length of stay this has remained more or less constant in the regions over the last decade at 1.7 nights. In 2011, the longest average length of stay at a particular establishment was in the Capital Region at 2.3 nights, while the shortest was in the East at 1.2 nights.
- 3.23 As may be seen from Figure 3.6, the main international source markets in terms of overnight stays are Germany, UK, USA and the Netherlands, while the Nordic countries are also strong.

Figure 3.6 International overnight stays at all accommodation



Source: Statistics Iceland

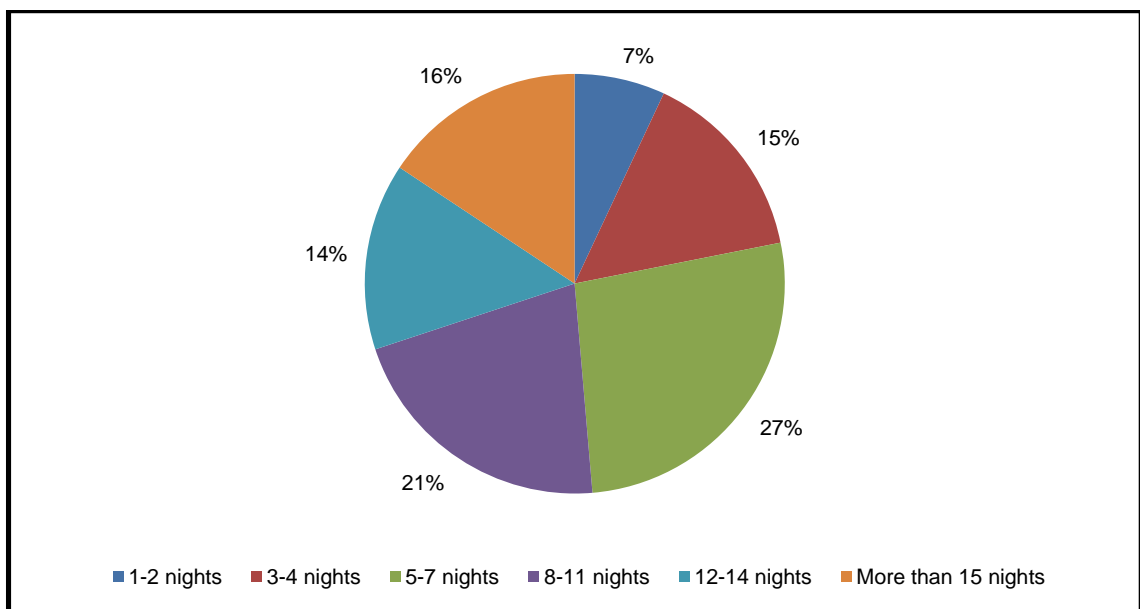
- 3.24 The main components of the 'other' category were 138k 'other' European and 117k 'unknown'. The lack of a detailed breakdown makes it difficult to identify the growth areas but we are aware they include visitation from some of the so called BRIC (Brazil, Russia, India and China) countries.

### Visitor survey trends

- 3.25 Visitor surveys are an important tool used to assess the reception of a destination by visitors. It enables an understanding of what is being done right and what is not and can and should therefore influence policy.
- 3.26 The Icelandic Tourist Board carried out a survey with 2,359 visitors during summer 2011 and with 2,181 visitors during the 2011/12 winter season. In summary, the results of the summer survey suggested that the main purpose of visit recorded was vacation/holidays at 86.3% followed by meetings, incentives, conferences and exhibitions (MICE) at 13.3% and visiting friends and relatives (VFR) at 6.2%. The winter pattern was similar apart from a slight increase in the number of MICE visitors at 16.5% and business visitors at 4.5%.
- 3.27 There was a high number of returning visitors both during the summer and winter. In summer 79.6% of those interviewed came on an individually arranged trip compared with 67.8% during the winter. During the summer 10.2% were part of a package tour whereas in winter the figure was slightly higher at 17.6%. The remaining 10.2% (summer) and 14.6% (winter) were a mixture of packaged tours and individually organised trips.

- 3.28 The average age of the respondents during the summer was 39.6 years and 46.8% were classified as having a high average household income. In winter the average age of the respondents was 40.5 years. 47.5% of winter respondents were classified as having a high average household income.
- 3.29 The average length of stay in the country during the summer was recorded at 10.2 nights with almost half of all visitors staying seven nights or less whereas during the winter it was only 6.6% with only 16.7% staying longer than eight nights.

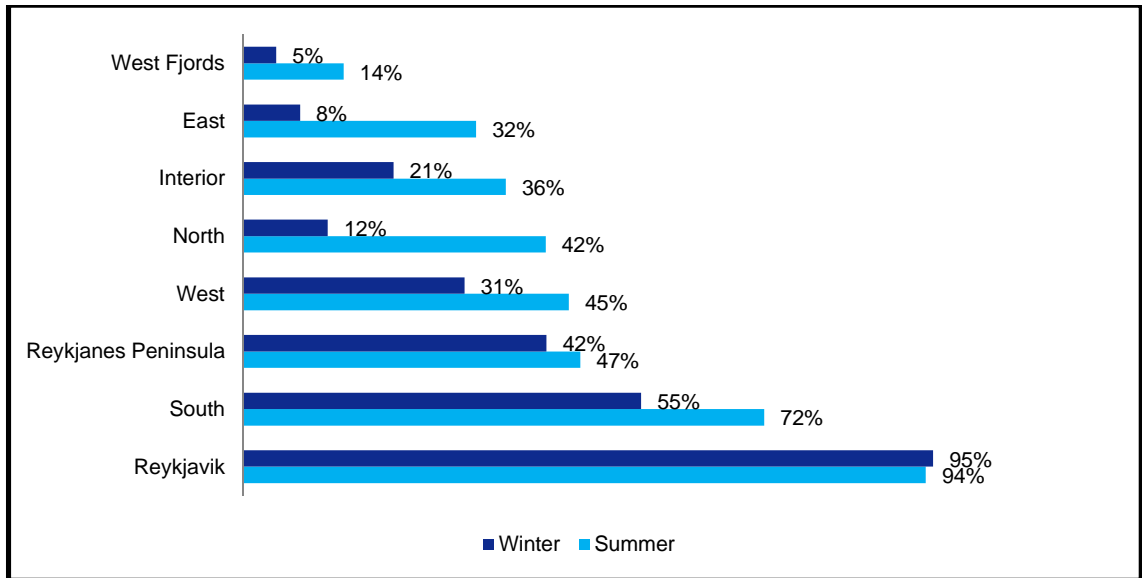
**Figure 3.7 Average length of stay summer (2011)**



Source: Icelandic Tourist Board

- 3.30 The summer trends above suggest that whilst the country still is widely perceived as a long-stay destination there is a growing short-stay trend especially during the winter months. This can be mainly attributed to the introduction of stay-over packages being offered by Icelandair and other local tour operators. Further analysis suggests, unsurprisingly, that it is MICE and corporate visitors that tend to have a shorter propensity to stay when compared to leisure travellers.
- 3.31 As evidenced previously, most visits tend to be centred in the Capital and South, with the former acting as a central hub. This trend is even more pronounced during the winter months when the average length of stay is shorter and access to some of the more remote areas more difficult.

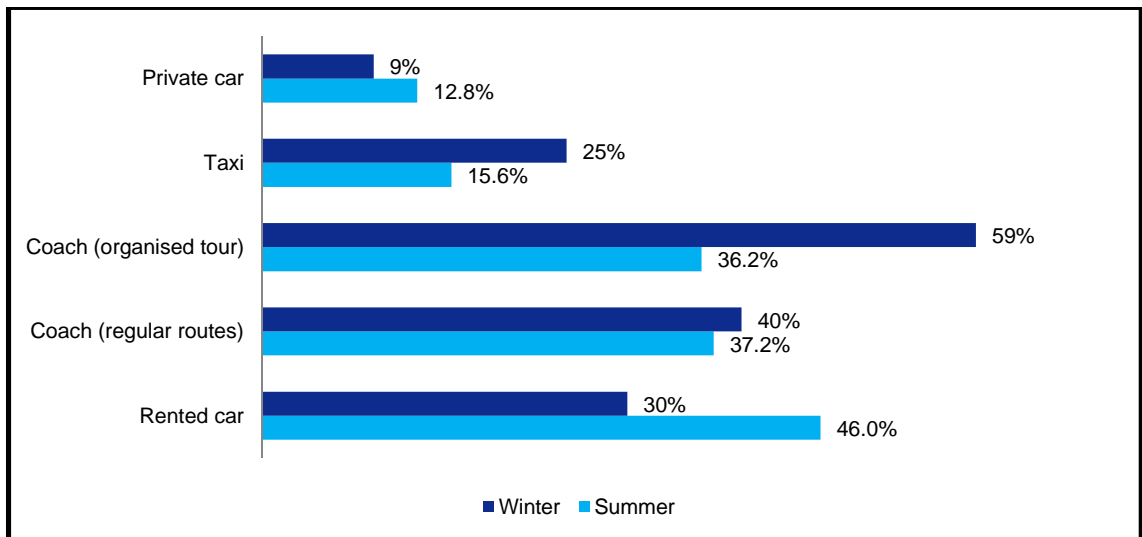
**Figure 3.8 Regions visited in Iceland (2011)**



Source: Icelandic Tourist Board

3.32 The most popular mode of transport used in Iceland is coaches and this largely reflects the current market positioning of Iceland, which is to a large degree, volume driven. As with cruises, coach and similar group business can have a large impact on a destination in the long run. However, they are necessary especially as a destination matures and during low periods of demand. During the summer, rented cars remain the far the most popular choice and illustrate the ease of accessibility around the country.

**Figure 3.9 Modes of Transport in Iceland (2011/2012)**

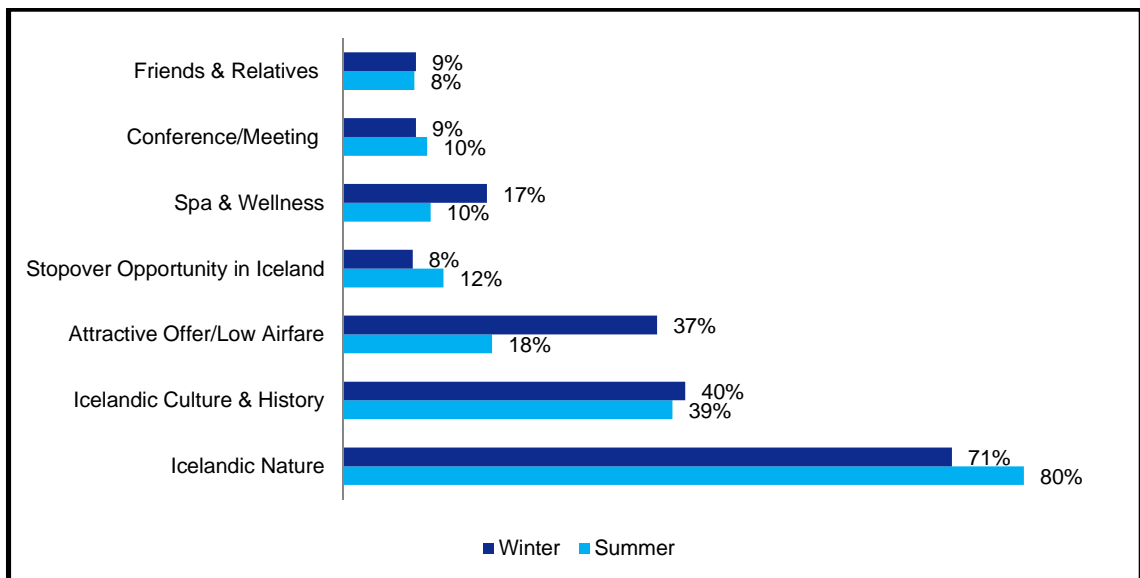


Source: Icelandic Tourist Board

3.33 Unsurprisingly most visits to Iceland were influenced by its natural appeal and this is clearly what is currently marketed by most of the tourism campaigns. Interestingly, we note that Icelandic culture and history scores highly as a factor influencing a visit, with spa and

wellness very low during the summer. Attractive offers are appealing particularly during the winter season.

**Figure 3.10 Factors influencing decision to visit**

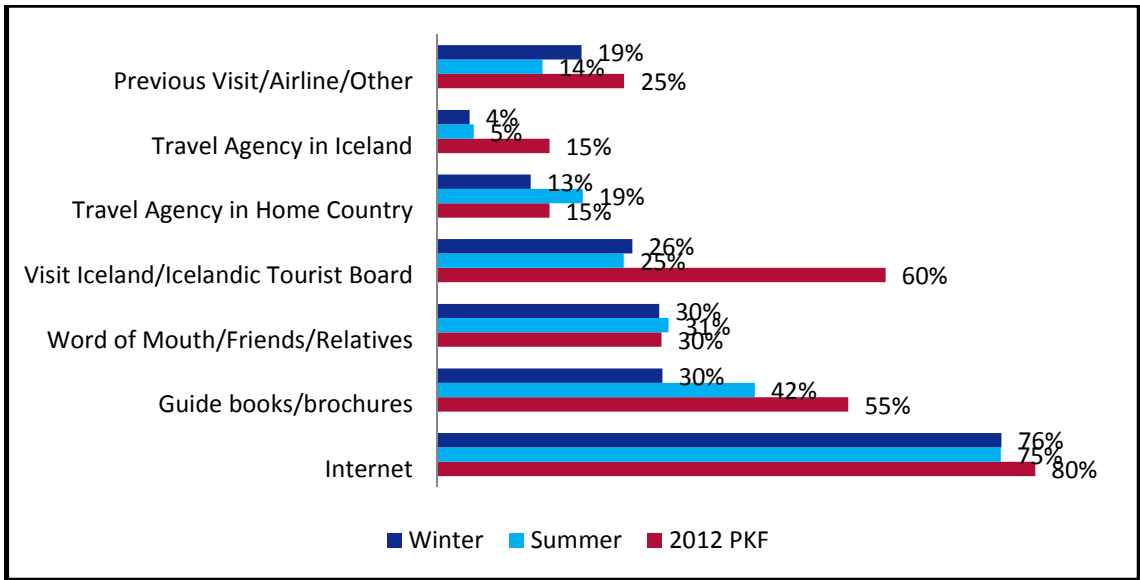


Source: Icelandic Tourist Board

### PKF visitor survey results

- 3.34 During our visit to Iceland in June/July 2012 we conducted a limited visitor survey with 22 visitors from the UK, USA, Canada, Denmark, Italy, Netherlands, Germany, Spain, Austria, Japan and Switzerland. The survey was conducted by the PKF team in order to engage with, and understand visitor experiences and perceptions first-hand, rather than to undertake a comprehensive analysis.
- 3.35 Despite the small sample size, the results were not dissimilar to those of the 2011 summer survey discussed above. Our survey did, however, highlight useful 'micro' trends.
- 3.36 Most respondents only considered visiting Iceland for that specific trip. However, given a choice, the most popular alternatives considered were Greenland, Alaska and the Faroe Islands. Apart from those on around-the-world trips, Iceland was the only destination visited on the trip. We consider Greenland and the Faroe Islands as complementary rather than competitive destinations, whereas Alaska can be considered one of Iceland's key competitors. We discuss Iceland's key competitors in Section 4 of this report.
- 3.37 In Figure 3.11 overleaf, we show the main sources of information on Iceland used prior to the visit.

**Figure 3.11 Sources of information on Iceland prior to visit**

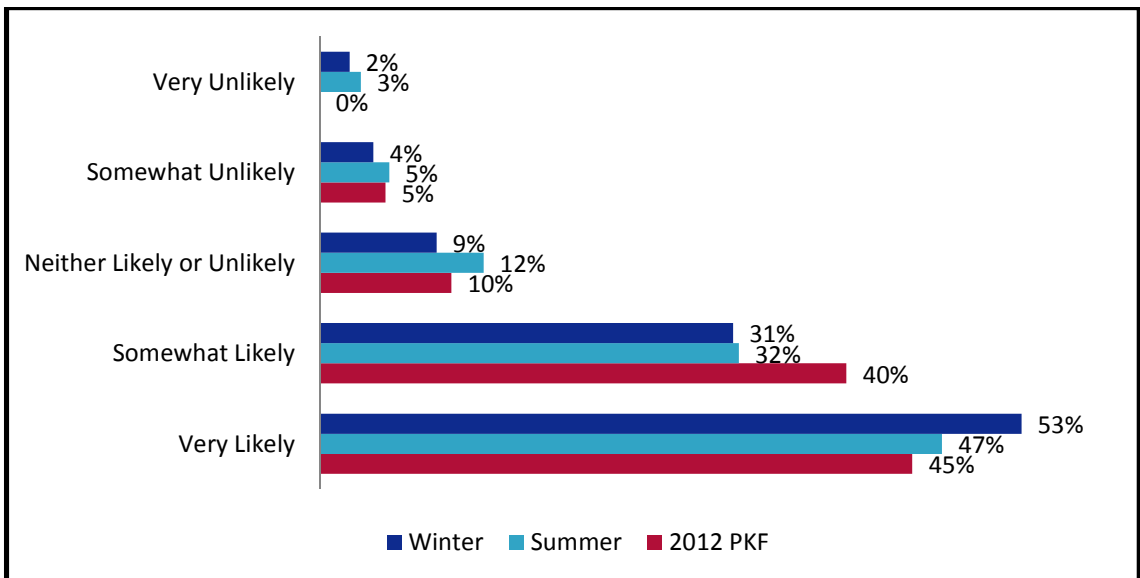


Source: Icelandic Tourist Board and PKF visitor survey

3.38 As may be seen the Internet, guide books, word-of-mouth and the official Visit Iceland website/s were the most important sources of information prior to visiting Iceland. We note the lack of social media as a driving force for a first visit and initial source of information.

3.39 Interestingly, we also note the high propensity of the willingness of respondents to return following their initial visit.

**Figure 3.12 Likelihood of visiting Iceland in the future**



Source: Icelandic Tourist Board and PKF visitor survey

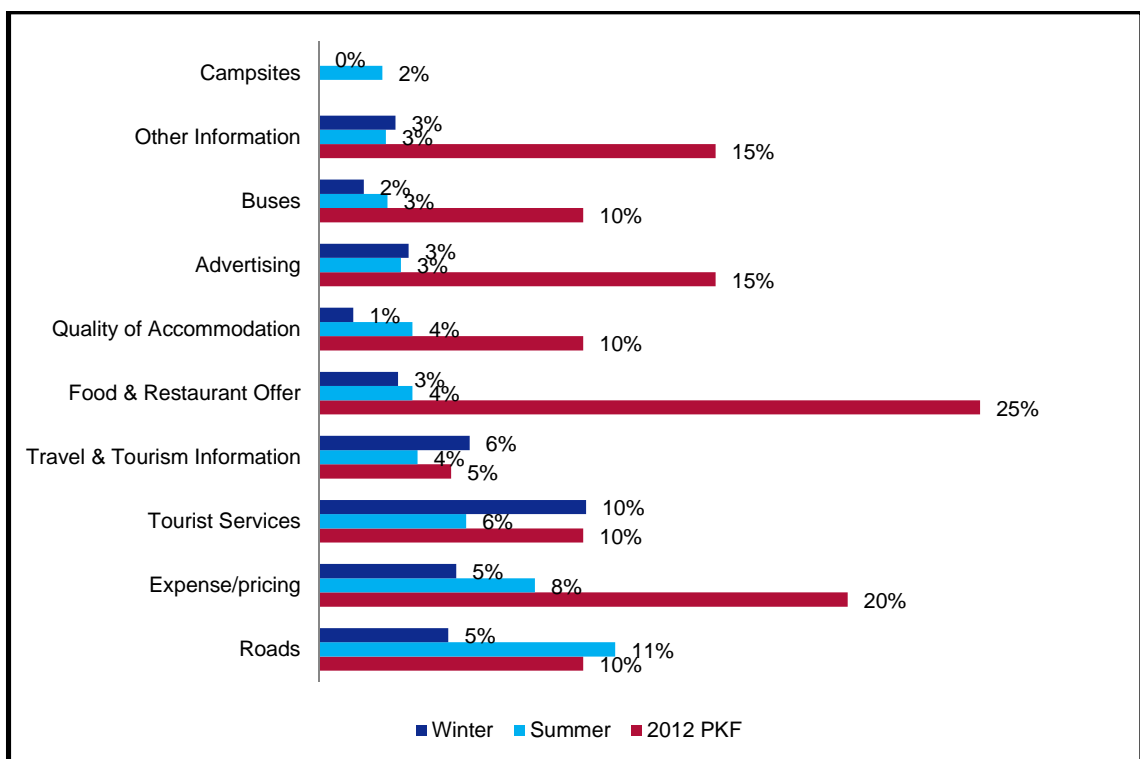
3.40 Iceland benefits from a good level of repeat visitation. The summer and winter surveys indicated that about 20% of interviewees had been to Iceland previously. In the 2012 PKF survey it was about a third. All three surveys showed a very high degree of visitor



satisfaction with in excess of 90% of interviewees being satisfied or highly satisfied with their Icelandic experience.

- 3.41 Over 90% of the PKF interviewees stated that they would recommend visiting Iceland to friends and relatives which is a reflection of the high satisfaction levels.
- 3.42 All three surveys also asked visitors for suggestions on how to improve the Icelandic tourism industry. As may be seen from Figure 3.13, similar issues were raised in both surveys.

**Figure 3.13 Recommended tourism industry improvements**

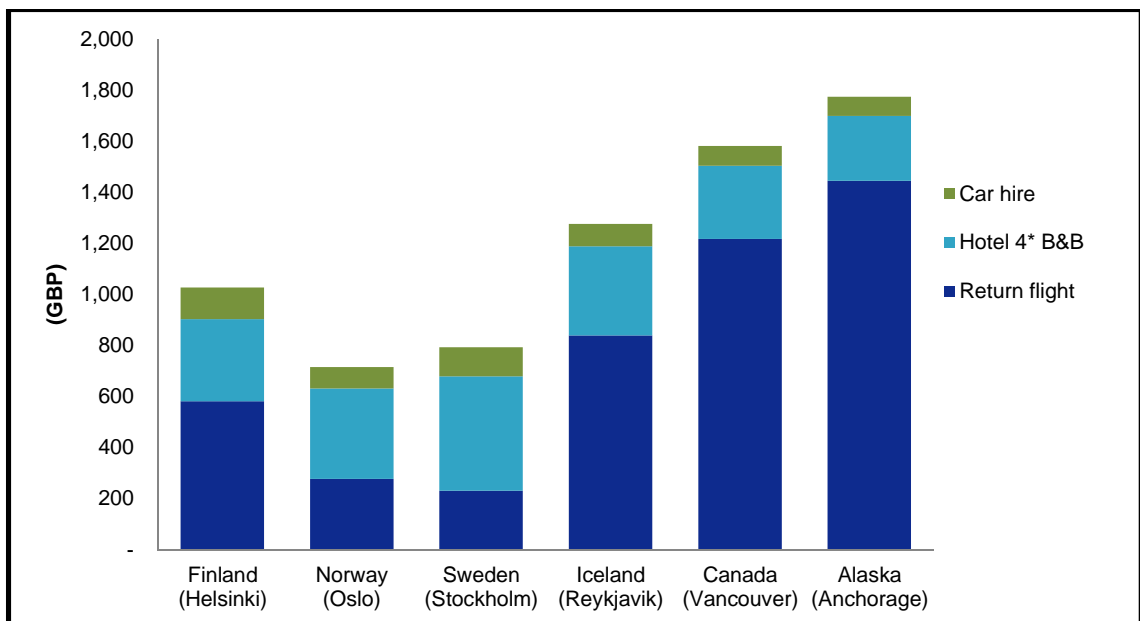


Source: Icelandic Tourist Board and PKF visitor survey

- 3.43 The 2012 PKF survey highlighted the need for better information for independent travellers both prior to arrival and while in Iceland. The expense of visiting Iceland and price levels were raised by many visitors including the cost of taxis from Keflavik to Reykjavik.
- 3.44 The quality of accommodation was of particular concern in the summer and the PKF surveys, with some visitors suggesting that five-star prices were being charged for budget-style hotels. However, this was probably due to the fact the survey was conducted during the peak season when accommodation and prices were at their peak, and this trend seemed somewhat reversed during the winter survey period. However, we consider it does highlight the limited choice of accommodation available in the country year round.
- 3.45 With regard to food, the main issue was around promoting the quality and variety available throughout Iceland. Again, the cost of food was of concern to some interviewees.

- 3.46 The roads and difficult access to the West Fjords was mentioned by a number of visitors and were seen as a barrier to visiting certain parts of the country.
- 3.47 A number of visitors felt that Iceland could be promoted better in their home countries. It was thought that the link between films shot in Iceland and tourism could be used for promotional purposes to raise awareness of the destination.
- 3.48 In order to corroborate the PKF survey findings regarding Iceland being perceived as an expensive destination for independent travellers, we carried out a simple price comparison exercise. In Figure 3.14 we show the cost of a short-break holiday to Iceland when compared to some of its key competitors.

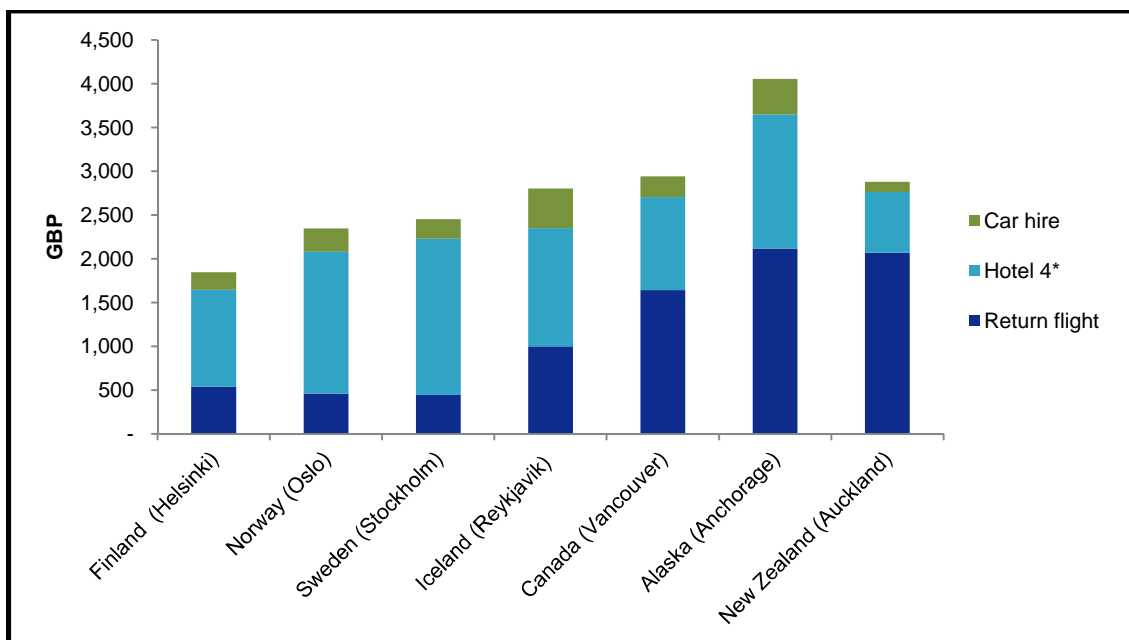
**Figure 3.14 Price comparisons for a short-break for two adults (February 14-17 2013)**



Source: Opodo/PKF research

- 3.49 The chart in Figure 3.14 includes a return flight from London for two adults, staying in a four-star hotel on a bed and breakfast basis and car hire for the duration of their stay during the low season.
- 3.50 It is evident that Iceland is more expensive than the Nordic countries mainly due to the cost of flights, with flights to both Vancouver and Alaska even more expensive due to high taxes and lower airlift in respect of the latter. This is unsurprising as it is clear that the Nordic countries benefit from continued good airlift year round when compared to Iceland, which largely operates a much reduced schedule during winter. We note that that the cost of hotel accommodation and car hire is broadly consistent across the destinations.
- 3.51 We carried out the same exercise for a seven night family holiday, including return flights from London, staying in a four-star hotel and car hire for two adults and two children, staying in the summer.

**Figure 3.15 Price comparisons for a seven night family holiday for four people (August 10-17 2013)**



Source: Opodo/PKF research

- 3.52 As in the previous comparison, Iceland is more expensive than its Nordic competitors mainly due to the cost of flights and to a lesser degree car hire. An independently organised holiday to Iceland during the peak summer season is only marginally cheaper than going to New Zealand and Canada which are both long-haul destinations.
- 3.53 As such, whilst Iceland remains one of the more expensive destinations, this could mainly be attributed to inherent limiting factors and growing demand especially during peak periods. This is particularly exacerbated by the cost of flights as airlift to the destination remains relatively constrained, although this has improved considerably in recent years.

### PKF international tour operator survey results

- 3.54 As part of our primary research into the future potential geographic source markets, market segments and who both did or did not feature the destination in their programmes. This was to gauge their views of the destination's future potential as well as highlight existing barriers and challenges. Using a structured telephone questionnaire we obtained responses from 31 operators or a 60% response rate.
- 3.55 The respondents consisted of two US/UK operators, seven UK operators, two North American operators, nine Nordic operators, three French operators, one Italian operator, seven German and Swiss operators.
- 3.56 In the following figure we present a summary of the responses.

Figure 3.16 International tour operator survey conclusions

Topic	Conclusions
<b>Product attributes</b>	<ul style="list-style-type: none"> <li>• Unique and unspoilt nature including volcanoes, geology, terrain, wilderness, whales and distinctive culture.</li> <li>• Relatively short travel distance to experience such diverse landscapes and nature.</li> <li>• Excellent opportunities for sustainable travel.</li> <li>• Growing demand for authentic and unique travel experiences.</li> </ul>
<b>Packaging</b>	<ul style="list-style-type: none"> <li>• Iceland works well both as a stand-alone and multi-destination. Greenland, Norway (Svalbard/Spitsbergen) and the Faroe Islands.</li> <li>• Ideal stopover destination between US and Europe also for city and short-breaks including MICE.</li> <li>• Cruises around the Arctic as well as the Faroe Islands and the Orkneys.</li> <li>• Extensive range of activities and excursions available that engage with the natural environment.</li> <li>• Independent fly-drive and accommodation only is becoming more popular.</li> </ul>
<b>Seasonality</b>	<ul style="list-style-type: none"> <li>• Highly seasonal with demand peaking in June, July and August.</li> <li>• Increasingly popular in the shoulder season, especially city and short-breaks.</li> <li>• The Northern Lights and winter months becoming more popular.</li> </ul>
<b>Satisfaction levels</b>	<ul style="list-style-type: none"> <li>• High degree of satisfaction overall.</li> <li>• Some concerns regarding access and frequency of flights both within Iceland and to/from source market destinations.</li> <li>• Limited availability of accommodation during the peak season.</li> <li>• Pricing levels are increasing giving rise to concerns over value for money.</li> </ul>
<b>Recommendations</b>	<ul style="list-style-type: none"> <li>• Improve access through more frequent flights to/from more destinations.</li> <li>• Better access to the North and the West Fjords.</li> <li>• Need for more boutique hotels throughout the country.</li> <li>• More restaurants open year-round outside Reykjavik.</li> <li>• Better signage and maps.</li> <li>• Develop on sustainable basis to avoid negative impacts.</li> </ul>
<b>Competitiveness</b>	<ul style="list-style-type: none"> <li>• Nature-based destinations throughout the world e.g. Norway, Finland, Sweden, Alaska and Canada and to a lesser extent New Zealand, Scotland, Ireland and Chile.</li> <li>• City and short-breaks' destinations within a three to four hour flight of the source market destination.</li> </ul>

*Source: PKF International tour operator survey*

### Key attributes of the Icelandic tourism product

3.57 Unsurprisingly all tour operators interviewed featuring Iceland mentioned the unique and unspoilt nature as the destination's main selling point. Other key attributes of the Icelandic tourism product included the geology, volcanoes, terrain, wilderness, whale watching and a distinctive culture.

3.58 A number of the tour operators interviewed mentioned the advantage of a relatively short travel distance to experience such diverse landscapes and nature.

3.59 One operator stated that Iceland provided excellent opportunities for sustainable travel.

### Stand-alone or multi-trip destination

3.60 Of the tour operators interviewed, 85% feature it as a stand-alone destination while 57% feature it as a part of a multi-destination trip or as a stopover. 64% of the tour operators offer Iceland both as a stand-alone and a multi-destination.

3.61 However, with the exception of cruise operators, stand-alone was by far the most popular. Cruise operators typically combine Iceland with Svalbard/Spitsbergen, Greenland and the Faroe Islands.

3.62 If sold as a multi-destination the most popular combination is with Greenland, which is not surprising given the excellent access to Greenland from Iceland. Other combinations include the US, UK and the Icehotel in Sweden, highlighting the strength of Icelandair's hub and spoke network.

### Frequency and size of groups

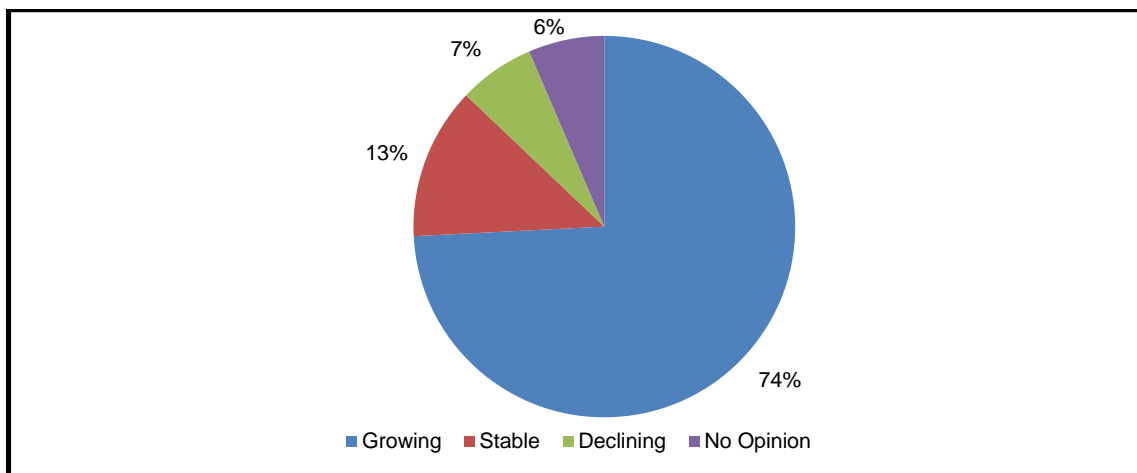
3.63 Not all operators interviewed were willing to share their annual volumes to Iceland due to commercial sensitivity. However, we estimate that of the tour operators interviewed, they handle between 25,000 and 30,000 visitors to Iceland each year.

3.64 There was a more or less even split between individual and group travel. Groups ranged in size from 8 to 40 individuals with a typical group size being between 15 and 30 individuals.

### Trends in demand for Iceland

3.65 In the Figure 3.17, we illustrate the current trend in demand based on the completed interviews with international tour operators.

**Figure 3.17 Trends in demand for Iceland**



Source: PKF international tour operator survey

3.66 As may be seen from the chart above, the outlook for Iceland is very encouraging with 74% considering demand for Iceland to be growing. This is due to a number of factors, but most importantly, awareness of Iceland has risen due to the extensive media coverage as a result of the fall out from the 2008 financial crisis and 2010 eruption of Eyjafjallajökull combined with the 'Inspired by Iceland', Icelandair and other operators' marketing campaigns.

3.67 Prospective visitors have better knowledge and awareness of Iceland which is generally perceived as an emerging destination providing people with the opportunity to get close to

nature and escape city life. There is a tendency towards experienced travellers wishing to experience something different and Iceland provides them with that opportunity. However, a few operators expressed a note of caution stating that the rapid growth in visitor numbers in recent years is putting Iceland at risk of becoming a mass destination thereby spoiling its uniqueness.

- 3.68 Another reason for the growing demand was that Iceland became more affordable, especially for the Nordic countries, as a result of the devaluation of the Icelandic Krona in 2008, as well as the introduction of cheaper flights by low cost carriers.
- 3.69 Finally, a couple of operators mentioned an increasing interest in the Nordic countries, as these are considered to be politically stable and safe. Iceland is currently considered to provide a cheaper alternative to some of the other Nordic countries. A number of operators expressed concern regarding the recently announced increase in VAT due to be introduced in 2013. It is felt that the increase is likely to have a very negative impact on visitor's perception of price levels in Iceland.

### **Types of activities offered**

- 3.70 In our capsule situation analysis we highlighted that one of the strengths of the Icelandic tourism industry is the plethora of entrepreneurial micro and small businesses offering a huge range of innovative adventure and outdoor tourism products. In Figure 3.16 overleaf, we show the top ten most popular activities offered by the international tour operators.
- 3.71 It is interesting to note that accommodation/hotel only and fly-drive are ranked highly illustrating the move towards more independent travellers. It is clear that the most popular products are adventure and nature based ranging from glacier hikes to snorkelling at Thingvellir and from horse riding to watching the Northern Lights. Eco/sustainable tours feature highly supporting the view that travellers are increasingly looking for an authentic and unique experience without compromising the destination visited.

Special interest such as bird watching, fishing/angling/hunting, health and wellness also scored well as did cruise and MICE suggesting that there is significant untapped potential within these segments.

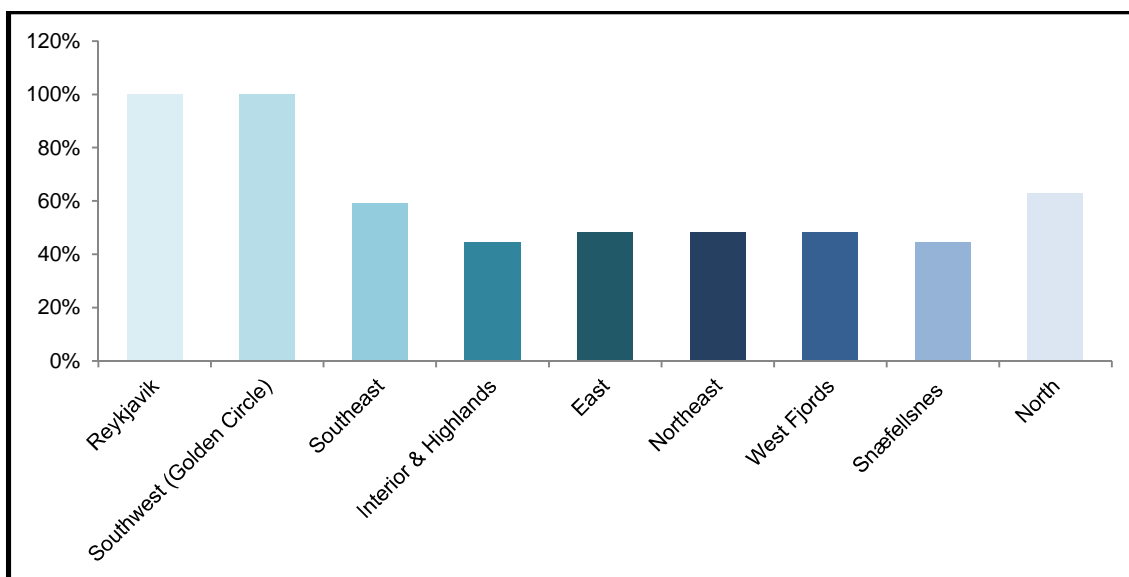
**Figure 3.18 Ranking of types of activity offered by tour operator respondents**

Ranking	%	Types of activity
1	54	Walking and hiking tours Accommodation/hotel only
2	50	Groups tours including MICE
3	39	Northern Lights and midnight sun City and short-breaks Wildlife and nature tours Horse riding Whale and seal watching
4	36	Adventure tours Coach tours
5	32	Jeep and Super Jeep tours
6	29	Tailor made tours Eco and sustainable tours
7	25	Cruise Geothermal pools and bathing Farm house and rural holidays Self-catering holidays
8	21	Sport tours
9	18	Fishing, angling and hunting Bird watching School and educational tours
10	14	Golfing
<i>Source: PKF international tour operator survey</i>		

## Destinations featured

3.72 In Figure 3.19, we illustrate the destinations in Iceland featured by the international tour operators.

**Figure 3.19 Destinations featured**



Source: PKF international tour operator survey

3.73 Unsurprisingly Reykjavík and the Golden Circle in the Southwest were featured by all the operators interviewed. A number of operators mentioned the West Fjords as being particularly attractive, but unfortunately they were unable to feature the area due to poor access and visitor-related infrastructure.

## Seasonality

3.74 With regard to seasonality the vast majority of the tour operators interviewed considered the high season to be June, July and August. A few also considered the winter months to be high season namely those specialising in Northern Light trips.

3.75 In terms of the MICE segment the shoulder months of March to May and September to November were most popular.

3.76 The cruise operators interviewed consider April, May, June and August to be the ideal months for cruising around Iceland.

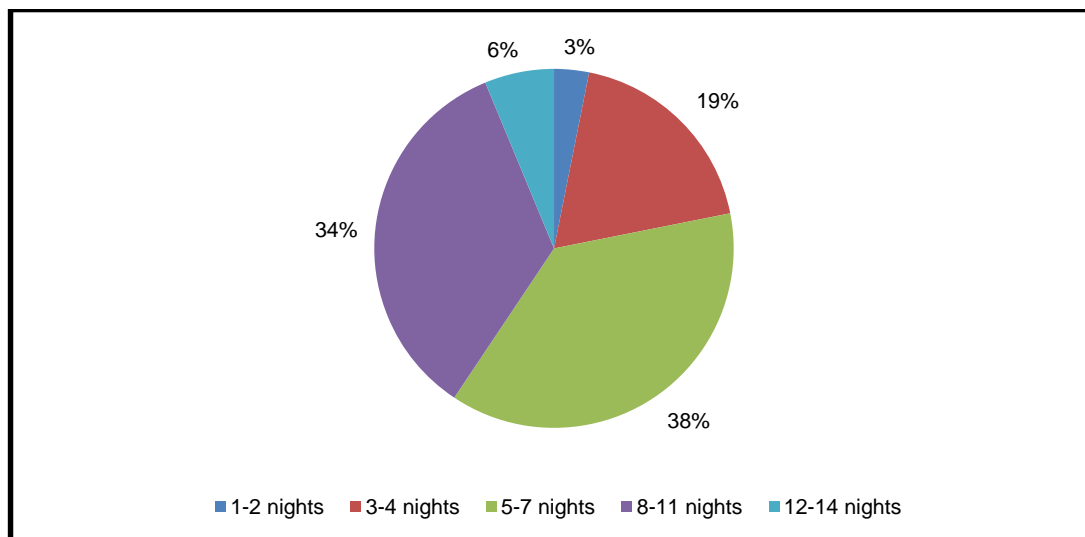
3.77 There was a general view that demand for Iceland is growing outside the high season, especially in terms of city and short-breaks and those looking for a 'winter' experience.



### Average length of stay

- 3.78 In Figure 3.20 below, we show the average length of stay according to the tour operators who responded to the survey.

**Figure 3.20 Average length of stay**



Source: PKF international tour operator survey

- 3.79 The average length of stay pattern is fairly similar to that reported in the visitor survey conducted by the Icelandic Tourist Board in 2011 as well as the accommodation statistics presented earlier.
- 3.80 It is encouraging that over 70% of visitors stay in excess of five nights. The visitors staying the longest tend to be those on a specialist adventure, wildlife or nature trip as well as those on a fly-drive trip. In contrast the shorter stays are typically made up of MICE visitors and those on a city or short-break and as such would tend to stay in the Capital or Southern regions.

### Satisfaction levels

- 3.81 On the whole the tour operators who participated in our survey were mostly satisfied with the Icelandic tourism product and related services. However, there were some concerns.
- 3.82 Although Iceland is currently cheaper due to the recent currency devaluation, it is still expensive by international standards. We note, however, these price levels tend to be on par with Nordic destinations. A number of operators commented that prices keep increasing and there is concern regarding the impact of the imminent increase in the VAT rate on accommodation and what impact this may have on future visitor numbers.
- 3.83 Value for money is a concern particularly with regards to the quality of accommodation which is perceived by some to be below European and competing Nordic countries standards. Accommodation supply is considered insufficient as it can be difficult to find availability

during the peak summer season especially in the South. Operators would like to see more boutique-style hotels throughout the countryside as this is what visitors are looking for.

- 3.84 Albeit satisfied with the current access to Iceland, a number of operators cited lack of flights outside the peak season, especially to the North as well as to secondary airports in source market countries, as a potential barrier to future growth. Some operators would also like to see a higher frequency of flights during the peak season as some source market destinations do not benefit from a daily service. Congestion at Keflavik was also mentioned as a minor issue affecting the quality of the visitor experience.

### **Recommended improvements**

- 3.85 In view of the above comments regarding satisfaction levels, it is unsurprising that improved access through better frequency of flights as well as increased accommodation supply where the top recommended improvements. There is perceived to be a need for accommodation in the South, West Fjords and the North as well as generally throughout the countryside.
- 3.86 As stated above tour operators consider it vital that Iceland offers value for money, even if it is an expensive destination. There is also some concern that a continued increase in price levels will result in Iceland pricing itself out of the market and becoming uncompetitive.
- 3.87 Other recommended improvements included better roads and access to places like the West Fjords and the North as well as higher quality maps and signage. A few operators would like to see more restaurants outside Reykjavik that are open year round.
- 3.88 A number of operators felt that sustainability is here to stay and represents a great opportunity for Iceland due to the inherent attributes of the destination. However, the challenge is how to manage and preserve the 'attractiveness' of the destination in view of increasing visitor numbers. Any future development must be sensitive to the natural environment.
- 3.89 Some of the tour operators expressed that there is scope to improve quality and service standards throughout the Icelandic tourism industry.

### **Complementary and competitive destinations**

- 3.90 The tour operators interviewed considered Greenland, the Faroe Islands, the Orkneys as well as parts of Norway and the Icehotel in Sweden as complementary destinations to Iceland, though, Greenland and the Faroe Islands are thought to lack visitor infrastructure. In particular, Greenland is a popular combination with Iceland given the good access and even opportunities for day trips which overcomes the lack of infrastructure.

- 3.91 North America and the UK are also considered to be complementary mainly due to Icelandair's successful hub and spoke model making the country an ideal stopover destination.
- 3.92 Although Iceland is considered to be unique by many of the operators interviewed, it does in their opinion compete with other nature-based destinations throughout the world, specifically Norway, Finland, Sweden, Canada and Alaska and to a lesser extent New Zealand, Scotland, Ireland and Chile.
- 3.93 In terms of city and short-breaks Iceland competes with other destinations within a three to four hour flight of the source market destination.

## 4 The competitive environment

4.1 Based on our review of tourism trends in Iceland, our international tour operator survey, international tourism trends and review of Iceland's key geographic source markets and segments, we consider the following destinations as the main competitors to Iceland:

- Finland
- Norway
- Sweden
- Alaska

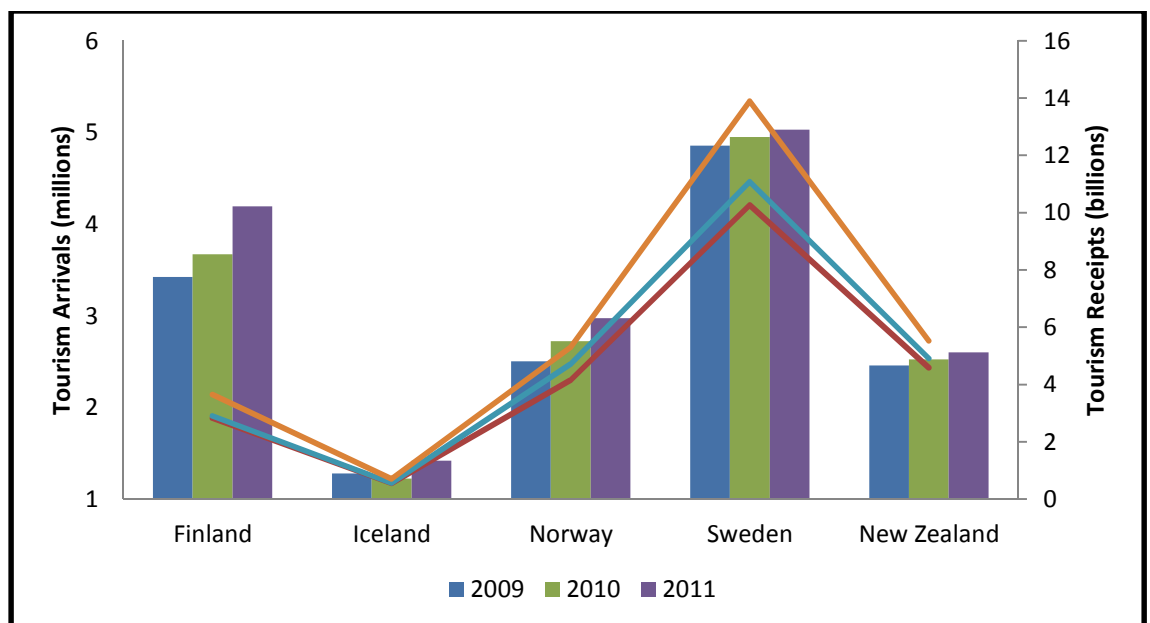
and to a lesser extent:

- Greenland
- The Faroe Islands
- New Zealand
- Canada (certain parts e.g. Vancouver)

4.2 The competitive environment is intense as many destinations seek to attract European and North American visitors. Iceland, of course, competes with many other destinations globally when it comes to special interest, MICE, cultural and short-break tourism.

4.3 In Figure 4.1, we show the respective size of the tourism industry in each of Iceland's main competitive destinations:

**Figure 4.1 Competitors – international tourist arrivals and receipts (2009 – 2011)**



Source: PKF research & UNWTO

4.4 As Alaska is a state rather than a country, it is not covered by UNWTO statistics and thus is not included in the above graph.

- 4.5 From the graph, it is evident that Iceland was the only country within its competitive set to experience a decline in arrivals in 2010, though this unsurprising given the eruption of the volcano the previous year.
- 4.6 Within the Nordic countries, Sweden benefits from particularly high receipts, largely due to strong year-round leisure tourism and a high level of business/MICE demand.
- 4.7 Although, New Zealand is located on the other side of the world, comparisons are often made with Iceland in terms of destination similarities with regards to the landscape and Adventure Tourism potential.
- 4.8 Tourism in Iceland is still in its infancy. As may be seen from the graph on the previous page, the identified competitive destinations, with the exception of Greenland and the Faroe Islands, all have a much larger tourism sector than Iceland. This is partly due to the fact that they are year-round destinations that have been successful in attracting MICE and corporate travellers.
- 4.9 In Figure 4.2, we show the economic contribution of the tourism sector in each of the main competitor destinations in relation to size of population. It is clear that the contribution of the tourism sector in Norway and Iceland is more than double that of the other competitive destinations.

**Figure 4.2 Competitors – contribution of tourism sector per capita (2011)**

Country	Population	Tourism GDP 2011 USD (bn)	Tourism GDP 2011 USD per Capita
Iceland	319,575	0.7	2,190
Finland	5,262,930	5.7	1,083
Norway	4,707,270	13.0	2,762
Sweden	9,103,788	9.4	1,033
New Zealand	4,327,944	5.6	1,294

Source: WTTC, CIA World Factbook and Statistics Iceland

- 4.10 As a niche destination, Iceland can capitalise on being a relatively specialist destination within close proximity to some the world's top tourism spending nations.

### VAT rates in competitive destinations

- 4.11 In Figure 4.3, we show the current rates of value added tax(VAT) and goods and sales tax (GST) applied in the main competitor destinations. Iceland's competitors with the exception of the Faroe Islands and New Zealand apply a reduced rate to hotel and other visitor accommodation ranging from 8% to 12%.

**Figure 4.3 Competitors – VAT/GST rates (2012)**

Country	Standard Rate VAT/GST (%)	Reduced Rate VAT (%)	GST (%)
Iceland	25.5	7.0	0.0
Finland	23.0	13.0	9.0
Norway	25.0	15.0	8.0
Sweden	25.0	12.0	6.0
Faroe Islands	25.0	—	—
Greenland	—	—	—
New Zealand	15.0	—	—
Canada	5.0	—	—
Alaska (USA)	0.0	—	—
<b>OECD weighted average</b>	<b>18.5</b>	—	—

Source: OECD, PKF, Invest in the Faroes, Alaska state government and KPMG

- 4.12 Iceland currently applies the lowest rate of VAT at 7% to hotel and other visitor accommodation whilst transport is zero rated. However, we understand that the VAT rate on hotels is set to increase to 14% in 2013.
- 4.13 In Finland, a reduced VAT rate of 9% is applied to accommodation, passenger transport, cultural and sporting services, while a 13% VAT rate applies to food and animal feed. The reduced rates of VAT were increased by 1% in July 2010.
- 4.14 In Norway, a reduced VAT rate of 8% is applied to the letting out of rooms from hotel businesses and vacation property, admission to museums, galleries, amusement centres and certain sport events, while a 15% VAT rate applies to certain goods and services including food.
- 4.15 In Sweden, a reduced VAT rate of 12% applies to food and hotel accommodation, while an 8% reduced VAT rate applies to passenger transport services, some sporting and cultural events. Furthermore, a 0% rate applies to certain transport services and aircraft fuel.
- 4.16 In the Faroe Islands there is a flat 25% VAT rate applied to all goods and services whereas in Greenland there is no VAT.
- 4.17 In Alaska, there is no state sales tax, although a discretionary sales tax is sometimes applied at municipality level ranging from 2% to 6%. Furthermore, a bed tax ranging from 4% to 10% is also applied at municipality level sometimes.
- 4.18 Out of 27 EU member states, only four (Denmark, Lithuania, Slovakia and the UK) do not take advantage of a reduced rate of VAT on visitor accommodation, while only 10 countries apply the full rate of VAT on admissions to cultural attractions and 14 countries

have a reduced rate for restaurant meals. In spite of the recession, there have only been marginal increases in VAT rates for accommodation and attractions in the EU over the last four years, confirming that tourism is highly price sensitive and that the industry's competitiveness is vulnerable to high rates of taxation.

### Competitive destinations government expenditure on tourism

4.19 In Figure 4.4, we compare the annual budgets of Iceland's key competitors.

**Figure 4.4 Comparison of indicative annual tourism budgets (organisation, marketing and promotion)**

Country	Annual tourism budget	Comments	Budget per international visitor attracted
<b>Finland</b>	Finnish Tourist Board received €10.3m public funding in 2011.  Approximately €1.4m contribution from the private sector	In addition public spending on tourism projects is around €60m per annum mostly co-funded by the EU	4.2m arrivals in 2011 with public spending equating to around €2.45 per international visitor arrival
<b>Iceland</b>	Promote Iceland's budget was ISK835m(€5m) in 2011, of which Visit Iceland's public funding is approximately ISK200m (€1.2m)  The annual budget of the Icelandic Tourist Board was ISK308m (€1.9m) in 2011.  This makes up a total of ISK882m/€5.4m taking into account the match funding provided to the Inspired by Iceland and Iceland Naturally campaigns.	In addition the Inspired by Iceland campaign is 50/50 public/private funded with the public element capped at ISK300m (€1.8m) per annum. The Iceland Naturally campaign is 60/40% public/private funded with the public element equating to ISK74m (€0.5m).	0.57m arrivals in 2011 with public spending equating to around €9.6 per international visitor arrival.
<b>Norway</b>	Innovation Norway' public funding for tourism was €33.7m in 2010.	The main funding for tourism development and promotion comes from the state budget with some private sector match for international marketing activities.	6.6m arrivals in 2010 with public spending equating to around €5.1 per international visitor arrival.
<b>Sweden</b>	Visit Sweden €12.8m public funding in 2011 with a similar match from the private sector.	An additional €2.3m public spending by the Swedish Agency for Economics & Regional Growth of which 60% is spent on statistics and surveys.	5.0m international arrivals in 2011 with public funding equating to around €2.56 per international visitor arrival.
<b>New Zealand</b>	€68.3m of which €63.3m is spent on promotion in key overseas markets and tourism strategy implementation.	The remaining €5m is spent on policy advice and research including on the national cycleway project.	2.6m international arrivals in 2011 with public spending equating to €26.3 per international visitor arrival.
<b>Canada</b>	The Canada Tourism Commission received €58.7m in 2011 to promote Canada in 11 global markets as well as for market research and studies.	During 2008/09 the Canadian federal government invested more than €278m in product development and tourism infrastructure such as convention centres.	16m international visitor arrivals in 2011 with public spending equating to €3.7 per international visitor arrival.

Source: PKF Research/OECD

- 4.20 Figure 5.4 illustrates that there is a large variance in the amounts of public funding available for tourism marketing, promotion and development with New Zealand spending the highest amount per international tourist arrival at an estimated €26.3m in stark contrast to Finland which spent an estimated €2.45 per international tourist arrival.
- 4.21 In Iceland total public spending per tourist arrival equated to approximately €9.6 in 2011 based on 565,611 international visitor arrivals through Iceland's frontiers. Although, the figure per international visitor arrival is relatively high, the absolute amount of public spending on tourism ranks Iceland at the bottom of its competitive set.
- 4.22 It is clear that if Iceland is to continue to prosper there is a need to invest in the on-going development of the tourism sector in terms of market intelligence, investment in tourism-related infrastructure as well as marketing and promotion.



## 5 Segmentation analysis

5.1 In this section we review international tourism trends and Iceland's key geographic source markets as well as those segments which we consider as having the greatest untapped potential.

### International tourism trends

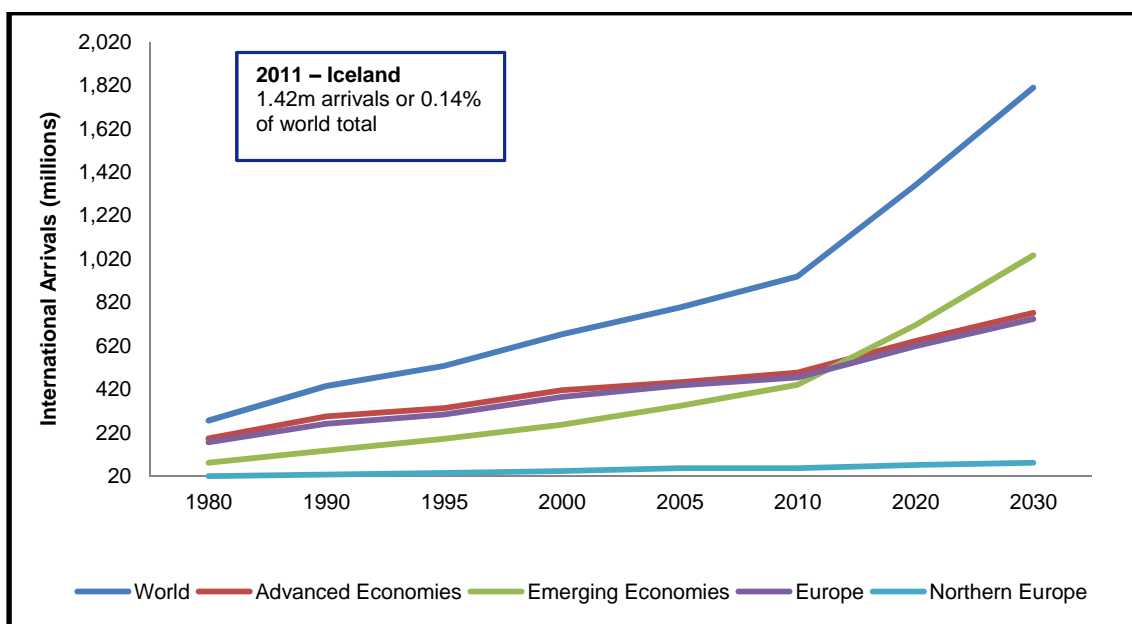
5.2 The past six decades have seen extraordinary growth in international tourism, with the sector becoming one of the largest and fastest growing in the world.

5.3 As may be seen from Figure 5.1 overleaf, despite occasional shocks, international tourist arrivals have more than tripled from 277m in 1980 to 983m in 2011. Arrivals reached one billion for the first time in December 2012.

5.4 Worldwide international tourist arrivals are forecast to increase by 3.3% on average from 2010 to 2030, albeit at a much slower rate of 1.8% in Northern Europe. This represents 43m more international tourist arrivals every year, reaching a total of 1.8bn by 2030.

5.5 It is expected that Northern Europe's market share will reduce from 7.4% in 1980 to 4.5% in 2030 as emerging destinations grow and existing markets mature.

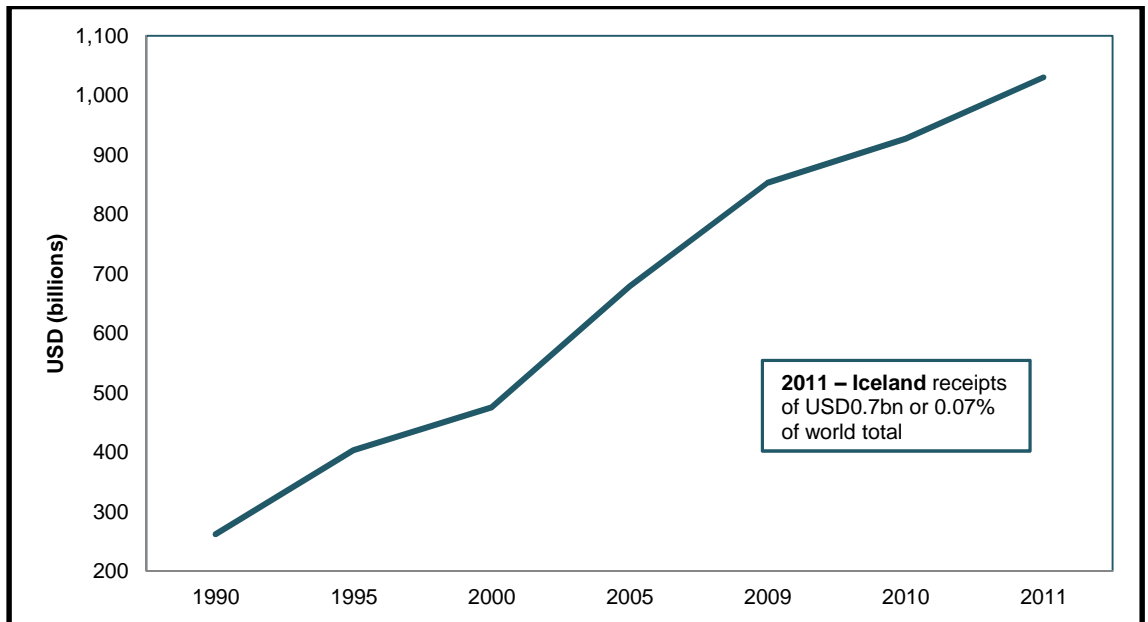
**Figure 5.1 World tourism arrivals forecast (1980 to 2030)**



Source: UNWTO

5.6 In Figure 5.2, we illustrate the growth in world tourism receipts from 1990 to 2011. The overall export income generated by inbound tourism exceeded USD1.03tn in 2011 or USD3.4bn a day on average.

Figure 5.2 World tourism receipts (1990 to 2011)



Source: UNWTO

- 5.7 According to the UNWTO, tourism exports account for as much as 30% of the world's exports of commercial services and 6% of overall exports of goods and services. Globally, as an export category, tourism ranks fourth after fuels, chemicals and food.
- 5.8 Today, tourism is a global phenomenon contributing 5% to world GDP. This sector's contribution to employment is estimated to be in the order of 6-7% of overall jobs worldwide, equivalent to one in 12 jobs globally.
- 5.9 For advanced, diversified economies, the contribution of tourism to GDP ranges from 2% where tourism is a comparatively small sector, to over 10% for countries where tourism is an important pillar of the economy.
- 5.10 In Figure 5.3, we present the top ten international tourism spenders in 2011. From the table it is clear that Germany and Australia are the world's top spenders on a per capita basis. On the other hand, the Chinese are low spenders on a per capita basis as are the Americans and Japanese. This is partly due to the fact that only a small proportion of their respective populations travel abroad and they tend to still travel in groups.

**Figure 5.3 Top 10 international tourism spenders 2011 (most recent available)**

Country	Expenditure (USD billions)	Populations (Millions)	Expenditure per Capita (USD)	Market Share (%)
Germany	84.3	82	1,031	8.2
USA	79.1	312	254	7.7
China	72.6	1,348	54	7.0
UK	50.6	63	807	4.9
France	41.7	63	660	4.0
Canada	33.0	34	958	3.2
Russia	32.5	142	228	3.2
Italy	28.7	61	473	2.8
Japan	27.2	128	213	2.6
Australia	26.9	23	1,184	2.6
<b>World</b>	<b>1,030.0</b>	<b>6,946</b>	<b>148</b>	<b>100.0</b>

Source: UNWTO

- 5.11 We note that Iceland's top four geographic source markets, in terms of overnight stays, are included in the top five international tourism spenders in 2011.

### **Iceland's market share**

- 5.12 Iceland is fortunate in that, due to its a mid-Atlantic location, it is within a relatively short flight distance of some of half a billion people living in some of the world's most affluent source markets. In 2010 (most recent available data), North America, the Nordic Countries, United Kingdom, Germany, France and Switzerland generated around 300m outbound international trips, spending over €250bn.

In Figure 5.4 overleaf, we show the current size of Iceland's key geographic source markets together with Iceland's current market share. It is evident from the table that Iceland's penetration of its key geographic source markets is very low and as such could represent growth opportunities.

Figure 5.4 Current size and market penetration of Iceland's key geographic source markets 2010 (latest available data)

2010								
Country	Population (m)	Outbound travel (m)	Iceland's market share (%)		International tourism expenditure		Per capita expenditure	
					(US\$m)	(€m)	(US\$)	(€)
Canada	34	26.2	—	—	31,287	24,215	912	706
USA	312	60.3	—	—	76,425	59,149	245	190
<b>North America</b>	<b>346</b>	<b>86.5</b>	<b>0.06</b>	<b>0.07</b>	<b>107,712</b>	<b>83,364</b>	<b>311</b>	<b>241</b>
Denmark	6	7.7	—	—	8,855	6,853	1,610	1,246
Finland	5	5.1	—	—	4,136	3,201	780	604
Sweden	9	13.0	—	—	14,553	11,263	1,599	1,238
Norway	5	7.6	—	—	14,436	11,173	3,072	2,377
<b>Nordic Countries</b>	<b>25</b>	<b>33.4</b>	<b>0.11</b>	<b>0.34</b>	<b>41,979</b>	<b>32,490</b>	<b>1,706</b>	<b>1,321</b>
United Kingdom	63	55.6	0.06	0.11	52,422	40,572	832	644
Germany	82	85.9	0.05	0.06	77,137	59,700	941	728
France	63	25.0	0.03	0.12	37,553	29,064	596	461
Switzerland	8	10.0	0.01	0.09	12,440	9,628	1,575	1,219
Japan	128	16.6	0.01	0.03	32,247	24,958	252	195
<i>Source: UNWTO/OECD/CIA Factbook/Swiss Federal Statistics Office</i>								

## ***Current trends in Iceland's key geographic source markets***

5.13 In this section we review the trends in Iceland's key international source markets. These are defined as the Nordic countries, North America, United Kingdom, Japan, France, Germany and Switzerland. In 2011 these made up around 70% of total foreign visitors to Iceland, excluding cruise passengers.

### **Nordic countries – Denmark, Norway, Sweden and Finland**

5.14 With a combined population of around 26m inhabitants the Nordic countries make up the third largest outbound market in Europe after the UK and Germany. Total travel spend is estimated at €15bn per annum and spending per capita is among the highest in the world. Demand is continuing to grow driven by high standards of living and a relatively even distribution of income.

5.15 Nordic travellers tend to look for warm climates and cultural experiences when travelling, with package tours and city breaks especially popular. Nordic travellers are increasingly attracted to authentic and sustainable experiences as well as including wellness activities in their travels.

5.16 The Nordic countries constitute Iceland's key geographic source market. This is not surprising given the close cultural and historic links combined with good access. In 2011, Iceland attracted a record 127,373 visitors from the Nordic countries, up 13% on the previous year driven by improved access and cheaper prices. Furthermore, Iceland offers a very different and 'exotic' landscape close to home.

### **North America – USA and Canada**

5.17 According to Euromonitor, despite the uncertainty surrounding economic recovery in 2011, Canadians sought to take advantage of increasingly favourable exchange rates and increasing number of discounts and deals to travel abroad. The majority of outbound travel continued to be to the US with 21m trips out of a total of 30m trips.

5.18 The number of outbound travellers from Canada is forecast to grow by 3% per annum and is expected to reach 34m in 2016. The recovery in outbound travel is expected to be faster than previously anticipated, due in the most part to the strength of the Canadian dollar relative to other currencies, most notable the US dollar and the euro.

5.19 Outbound travel from the US totalled 58.7m in 2011 according to the US International Trade Administration, down 3% on 2010. The main destinations for US travellers are Mexico and Canada representing just over half of the total outbound trips. The current outlook remains weak due to the state of the US economy. US consumer confidence has been hit by several factors in recent years including stagnating incomes, rising

unemployment and a weak housing market. As a result Americans are increasingly looking for value for money when they travel and there is also a growing trend towards 'staycations'.

- 5.20 North America is the second most important source market for Iceland with a record 95,490 visitors in 2011, a massive increase of 48% on the previous year, partly driven by Icelandair increasing flights and routes especially to the US.

### **Germany and Switzerland**

- 5.21 According to Mintel, German departures increased by 2% from 2010 to reach 90 million trips in 2011, with growth slowing from almost 3% in 2010. After a good start at the beginning of 2011, Germany's real GDP growth slowed considerably in the second half of the year. This had an impact on consumer economic confidence and resulted in slower growth in outbound travel.
- 5.22 The majority of Germans are, however, unwilling to give up on holidays, with many continuing to have an annual foreign holiday even during the recession. An annual holiday is highly important to most Germans and considered to be remuneration for working hard throughout the year. The relatively high savings ratio in Germany, in comparison with other Western European countries, also enables many to afford holidays during difficult economic times, further contributing to the good performance of outbound tourism.
- 5.23 German outbound travel is expected to remain relatively flat over the next five years due to the less positive economic outlook. This is likely to result in Germans reducing the number of holidays they take as well as the duration of these holidays. Shorter trips such as outbound city breaks are expected to remain popular over the next five years, allowing consumers to escape everyday life even if just for a few days. A declining population will also limit growth in outbound travel over time.
- 5.24 The number of German visitors to Iceland has grown steadily over the past decade increasing from 36,807 in 2003 and peaking at 56,815 in 2011. However, at the present time the majority of German visitors arrive during the summer months – almost 65% in 2011 indicating that there is scope to attract Germans outside this period.

### **France**

- 5.25 According to the UNWTO France is ranked as the world's fifth most important outbound tourism market by expenditure. The reasons for this are manifold and include the fact that they have a relatively high level of disposable income, combined with some of the most generous holiday entitlements in Europe.
- 5.26 The value of the French outbound tourism market underlines a cultural shift that has gradually seen the number of people travelling overseas increase. In 2012, France had an

estimated population of 65.4 million. Mintel estimates that the volume of outbound travel that year was around 24.6 million trips whilst estimated expenditure was in excess of €29 billion. The French generally look for quality accommodation, food, excursions and other holiday-related experiences. As such, per-trip spending tends to be high.

- 5.27 Recently, the French have cut their holiday expenditure by travelling closer to home, reducing the number of holidays they have in a year, or curtailing the length of stay. However, they want to make as few compromises as possible when it comes to their main holiday. As a result, they are keen to secure a good deal, using price comparison websites and booking late in order to take advantage of last-minute deals and special offers.
- 5.28 In terms of Iceland, the French are attracted to the extensive range of adventure activities that the country offers. Visitor numbers from France reached a peak in 2011 at 35,957 up by 22.9% on the previous year, no doubt boosted by improving access.

## Japan

- 5.29 According to the World Travel & Tourism Council, Japanese outbound departures were just less than 17m in 2011, up 2% on 2010. This means that outbound travel has not only recovered to previous levels, in terms of trips, but also fully recovered from the period during and immediately after the tsunami disaster.
- 5.30 The disaster provided an impetus for change in people's mindsets and lifestyles. They started thinking seriously about their lives and this has led to a focus on quality in value. A reduction in mass consumption, more energy saving, more social and volunteer work, and a shift from spending on assets to spending on experiences, including travel are all emerging social trends.
- 5.31 Recovery in outbound travel is being led by young travellers, following a long period of stagnation. The outbound travel prospects for Japan are more bullish than they have been for some years, driven both by the strong yen and a desire for lifestyle change among Japanese, especially young people. A notable change in the trend is that young males as well as females have started to travel, following a period when the Japanese leisure travel market was dependent on female demand, a typical older demographic profile. Several countries in Europe have benefited from growth in the Japanese outbound market including leading destinations such as Germany and Spain.
- 5.32 In terms of Iceland the Japanese are particularly attracted to the Aurora Borealis which means they tend to visit during the shoulder and low season. The recovery of the Japanese outbound market is reflected in the number of visitors to Iceland which increased by 23.7% from 5,580 arrivals in 2010 to 6,902 in 2011, just slightly below the 2009 peak.

### United Kingdom

- 5.33 The uncertainty regarding the UK economy combined with the government's austerity measures and rising unemployment continues to create consumer cautiousness about how to spend money on travelling abroad. According to Euromonitor, the number of trips fell by 3% in 2011, but is expected to recover slowly from 2012 onwards. However, there was a small increase in sales values, partially due to consumers spending more smartly, rather than opting for the lowest price, but rather the best value for the price paid.
- 5.34 British consumers are travelling abroad less frequently, but when they do travel, they are opting for the best they can afford. This means choosing more all-inclusive holidays and mid-haul destinations rather than the Eurozone which has traditionally cost less to get to, but will often cost more at the destination in terms of spend on food, drink and entertainment.
- 5.35 In terms of Iceland, the UK market has remained strong recording 67,608 visitors in 2011, albeit still some 8% below the 2007 peak at 73,391 visitors. However, the outlook remains positive with Easyjet recently announcing that it will introduce additional flights from Luton and start new direct flights from Manchester and Edinburgh in March 2013, while Icelandair recently introduced a new route to London Gatwick.

### Emerging markets – China

- 5.36 According to Mintel, China, with its large population, is poised to radically transform the global tourism market over the next decade. With fewer than 5% of its citizens having ventured abroad, together with the increase in wealth, especially within the middle class, it certainly has the potential to rapidly develop.
- 5.37 Seasoned Chinese travellers are becoming more sophisticated and demanding, and they desire new experiences as well as a more personalised level of service. As their needs expand, so does the complexity of developing products to meet those desires and demands. According to the UNWTO, China is expected to become the world's fourth largest outbound market by 2020, generating a total of 100 million arrivals.
- 5.38 Between 2004 and 2009, the number of Chinese outbound tourists increased by 64.6% to 47.5 million, a figure estimated to have reached over 50 million by 2010. Hong Kong and Macao are the two main destinations for the Chinese, accounting for some 61% of all Chinese outbound travellers in 2009.
- 5.39 Although short-haul trips remain the most popular among Chinese outbound tourists, significant interest in travel to North America and Europe is on the rise and high on the Chinese list of desirable destinations to visit. As a result, demand for group tour itineraries to these regions is increasing.



- 5.40 At the present time China remains an emerging but rapidly growing source market for Iceland with 8,784 visitors recorded in 2011 up by 69% on 2010, but still below the 2007 peak of 9,532 visitors.

### ***Demand segments***

- 5.41 As set out in our capsule analysis, the majority of tourists to Iceland come for leisure. However, we expect corporate demand to grow as the country attracts more foreign private sector investment, for example, from technology and energy firms. We expect this trend to continue in the short to medium term and combined with the growing cruise business, are key assumptions in underpinning our sustainable forecasts for visitor arrivals.
- 5.42 During the course of our interview programme and our analysis, and as recommended, we consider that there are a number of niche growth opportunities within the broader demand segments that the country should target to attract high value tourism, for example frequent independent travellers (FITs) who make their own travel arrangements, have a high disposable income and the ability to travel outside the main peak season. The following demand segments have therefore been identified as having significant potential in Iceland: adventure and specialist tourism, MICE, cruise, culture & short-breaks. Within these broad segments we have identified fishing, bird and whale watching, food and gastronomy as well as health and wellness as the special interest niche segments demonstrating the greatest untapped potential. In this section we review the current trends and opportunities within each of these product offerings.

### **Adventure and Specialist Tourism**

- 5.43 From our research, it is clear that Iceland is an ideal destination for Adventure and Specialist Tourism in its widest sense. Iceland offers a huge range of Adventure and Specialist Tourism products and services ranging from hiking to horse riding and from diving to para-skiing as well as softer high-value niches such as fishing, bird and whale watching.
- 5.44 Research conducted by the Adventure Travel Trade Association indicates that prior to 2007, only 42% of tourist boards recognised the Adventure Tourism sector as of 'increasing importance' while this figure had increased to 89% in 2011. The 2010 Adventure Tourism Study estimated that 27% of travellers engage in adventure activities while on holiday and valued Adventure Tourism as a €69bn industry. Adventure Tourism has proven to be resilient even during the ongoing global economic crisis with an estimated 150m adventure trips being taken in 2011 by European, North and Latin American travellers. The study went on to rank Switzerland, Iceland and New Zealand as the top three Adventure Tourism destinations in the developed world.

- 5.45 Adventure, as a way of travel, is increasingly appealing to travellers, allowing for a deeper cultural exchange and an appreciation of the fragility of destinations, and is more often viewed as a 'guilt-free' holiday option given that the money spent can directly benefit local communities thereby contributing to socio-economic welfare. This is especially true in Iceland, where Adventure Tourism services tend to be provided by locally-owned entrepreneurial micro businesses.
- 5.46 The main source markets for Iceland in terms of Adventure Tourism are considered to be Germany, Switzerland, France and North America. It is worth noting that 'soft' adventure travellers, e.g. those who participate in activities such as fishing, bird watching and horse riding, spend the most per trip.
- 5.47 Typically, an adventure traveller is between 35 and 47 years old, highly educated, have high average household incomes and place importance on exploring new places, time to be in nature, as well as meeting and engaging with local cultures while on holiday. The internet is the most important source of information together with suggestions from friends and family. Finally, adventure travellers tend to be early adopters and are thus more likely to go to a new destination or try new products before most people.
- 5.48 It is clear that Adventure and Specialist Tourism demand is growing, placing Iceland in a favourable position given its vast product offering to all of these specialist markets. However, Iceland could benefit from focusing some of its marketing efforts on attracting high-value soft adventure/specialist niches such as fishing, bird and whale watching.

#### Case Study

An increasing number of destinations across the world have started to recognise the economic potential of bird watching tourism in response to growing awareness and demand. There is also a growing trend among bird tour operators to practice sustainable and socially responsible tourism, while relying on local goods and services or supporting local conservation projects.

On the Isle of Mull in Scotland, the reappearance of white-tailed eagles have delivered huge benefits to people, both through direct enjoyment and through the impacts the birds have within the local economy. Visitors are drawn to Mull from all over the UK and overseas to see these charismatic birds.

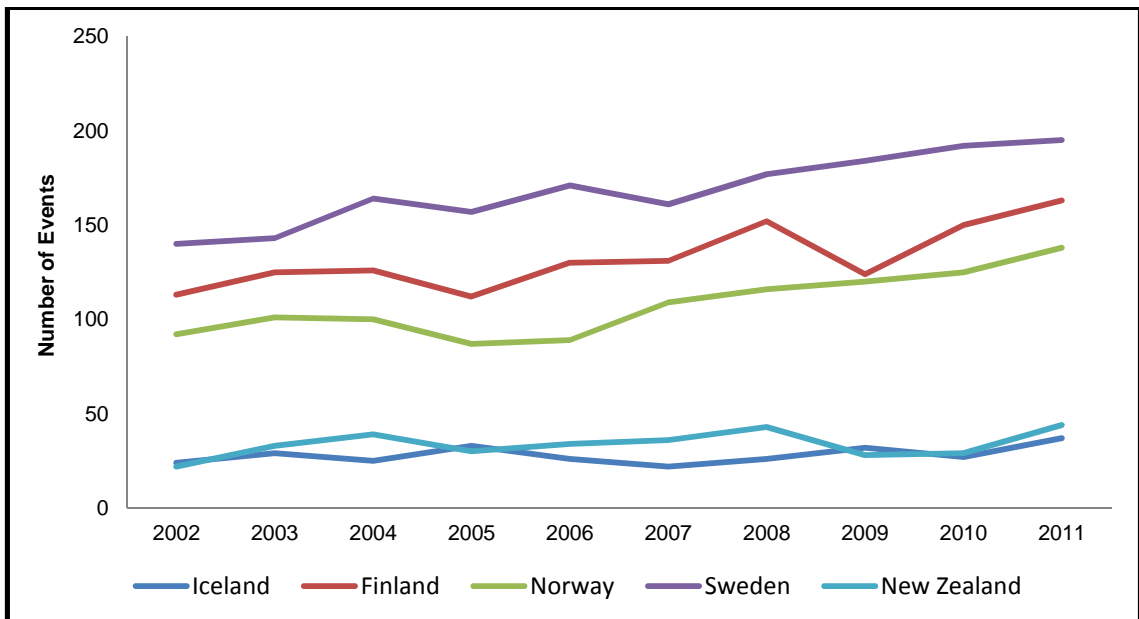
They spend money, which supports significant additional income and jobs on the island. In 2010, the Royal Society for Protection of Birds commissioned an independent series of surveys on Mull to investigate the extent of the economic benefits local businesses gain from this tourism. The main findings of this study were:

- £5 million of tourist spend on Mull is attracted every year by white-tailed eagles
- 110 jobs are supported by this spend each year
- £2.4 million of local income is supported each year
- economic benefits delivered by white-tailed eagles on the Isle of Mull have more than trebled since 2005.

## MICE

- 5.49 The MICE segment is generally considered to attract high-spending visitors who tend to come during Iceland's shoulder season. Typically March to June, and September to November are the most popular periods. According to the Scandinavian Chapter of International Congress and Convention Association (ICCA), the Nordic countries hosted a total of 673 events in 2011. This makes the region the second most popular in the world behind the USA with 759 events, but ahead of Germany with 577 events.
- 5.50 This is impressive when considering that the five Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) have a relatively small combined population of 26m compared with Germany's 82m and the US's 312m respectively.

**Figure 5.5 ICCA Events per Country (2002-2011)**



Source: ICCA

- 5.51 From Figure 5.5 above, it is evident that, within its competitive context, Iceland remains a relatively small player hosting 37 international association events in 2011, of which 33 were held in Reykjavik. This demonstrates that there is significant untapped potential especially in view of the recently opened Harpa Concert Hall and Conference Centre. Interestingly, Iceland's performance is very similar to that of New Zealand when it comes to international events.
- 5.52 According to Meeting Professionals International's business barometer, which forecasts industry trends, meeting and event budgets have started to rise slowly again and an increase in the number of meetings and delegates is expected in 2013, despite the unstable economic and political environment.

- 5.53 The continuing economic uncertainty in Europe is making clients more risk-adverse and less likely to enter into contracts in the long term. This has resulted in shorter lead times and more complex contract negotiations. Furthermore, meetings and events are changing to accommodate delegates who cannot be away from the office for extended periods of time resulting in shorter events and different types such as weekend meetings.
- 5.54 Other trends driving the MICE industry include a preference for hosting meetings and events closer to home in order to keep costs down and an increasing number of clients require or request hotels and venues to have 'green' credentials.
- 5.55 It is clear that Iceland has the opportunity to become a more important player within the MICE segment due to its mid-Atlantic location and relatively short flight distance from a number of key geographic source markets. Indeed, the Tourism Strategy for the City of Reykjavík 2011-2020 identifies MICE as one of the most important opportunities facing Reykjavík and goes on to state that 'by 2020 Reykjavík shall be one of the most popular venue cities for conferences and events in Northern Europe'. Furthermore it is recognised that in order to succeed the MICE sector must be developed on a sustainable basis.
- 5.56 However, according to the 2012 Scandinavian Sustainable Destination Index, significant effort is required to achieve this with Reykjavík being ranked 14th out of 16 Scandinavian cities. Reykjavík performs well in terms of 'hardware' which indicates the sustainability commitment of the city government and performance of the infrastructure in terms of, for example, climate change commitment, recycling availability and renewable energy supply. However, when it comes to 'software' Reykjavík comes second last. The 'software' indicators relate to the sustainability commitment and performance of the local meetings industry including hotels, venues and convention bureau, destination marketing organisations and, for example, the percentage of certified hotels, existence of a sustainability policy and communication of sustainability initiatives to support client planners.
- 5.57 This compares with Copenhagen where 46% of hotels are now certified largely due to the COP15 effect. In 2009, Copenhagen hosted COP15, the United Nations climate change summit, which was certified as the world's first sustainable political international summit piloting the ISO 20121 for sustainable events. The rise in the number of certified hotels is largely due to that event as all hotels had to be certified in order to be approved as suppliers.
- 5.58 In Figure 5.6 overleaf, we show top ranked Gothenburg's framework for green meetings:

Figure 5.6 Gothenburg green meetings framework



Source: Göteborg & Co

## Cruise

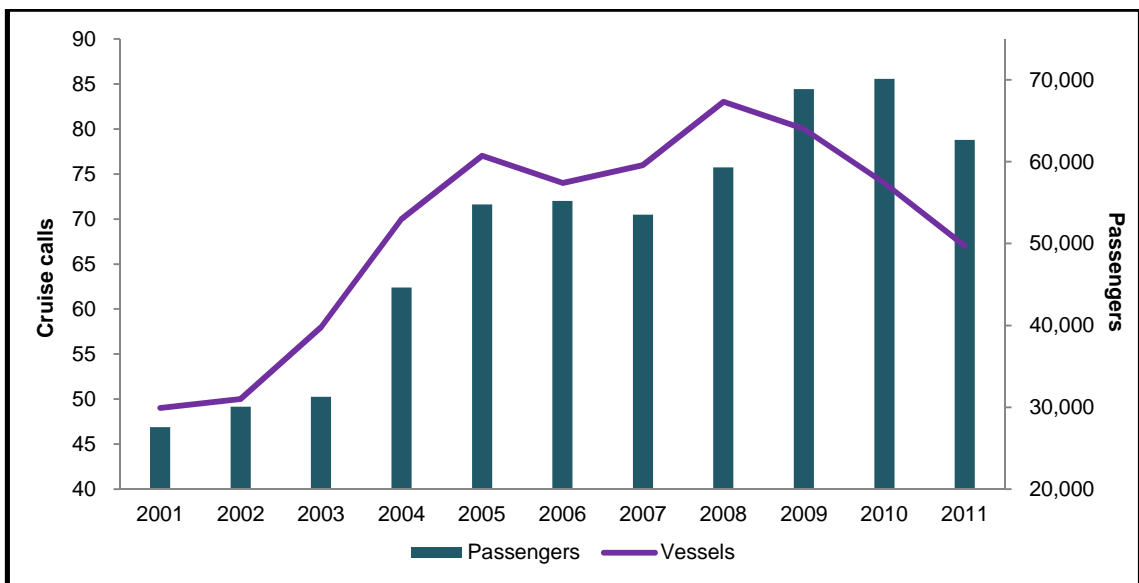
- 5.59 According to the European Cruise Council, the cruise industry has grown rapidly over the past three decades with 1.4m cruise passengers, mainly North American, recorded in 1980. By 2011 this figure had increased to 19.6m with a compound annual growth rate (CAGR) of 8.9%. During this time the industry has changed significantly and become truly global in terms of attracting passengers not only from North America and Europe, but increasingly from China, Australia and South America, especially Brazil.
- 5.60 North America and Europe continue to dominate as the main sources for cruise tourism and currently make up around 90% of the market. To put this into perspective only 3% of the US population booked a cruise in 2011 compared with just 1% of Europe's population. In Europe the main cruise generating markets are the UK and Germany. In the future it is anticipated that other source markets will become more prominent with countries such as Brazil, Australia and China growing rapidly, bringing the total number of annual cruise passengers to an estimated 30m by 2025. Thus it is not surprising that cruise tourism is considered to be the fastest growing sector of the world's tourism market.
- 5.61 The most popular destinations for cruise passengers are the Caribbean and Europe. The European cruise market is estimated to have expanded by about 65% between 2006 and

2011 with Scandinavia showing the fastest growth. If the current trend continues then Europe will become the world's most popular area for cruise passengers by 2014.

5.62 A key trend in the cruise industry is the increasing size of modern ships. A trend which is driven by the need to reduce costs in order for cruises to remain price competitive compared with other types of holiday products. Many destinations are able to absorb large volumes of visitors quite easily, but this is not the case when it comes to destinations such as Iceland which has a relatively small host population. Key challenges facing the cruise industry include the high price of fuel as well as the introduction of environmental regulations covering emissions.

5.63 From Figure 5.7 below, it is evident that Iceland has benefitted from the rapid growth in cruise tourism over the past decade.

**Figure 5.7 Reykjavik Cruise Calls & Passengers (2001-2011)**



Source: Statistics Iceland and Cruise Iceland

5.64 However, with over 100,000 cruise passengers forecast for 2011, overcrowding has started to occur at key sites in Iceland, especially when multiple calls occur at the same time. Thus there is an urgent need to adopt a strategic approach to segmentation and management of cruise passenger flows so that pinch points and congestion can be avoided e.g. through staggering ships and ports in order to minimise any negative impact and maximise the potential economic contribution e.g. through the looking at how excursions and the supply chain can be improved to bring more local benefits.

5.65 Other options include introducing a per head cruise passenger tax as is the case in Greenland (DKK 525/ €80) and Alaska (USD 34.50/€27) or an environmental fee as is the case in Svalbard. The (NOK 150/€20) Svalbard environmental fee goes towards the

Svalbard Environmental Protection Fund which invests in initiatives which protect the natural and cultural heritage of Svalbard.

- 5.66 Small-scale cruises and expedition type cruises, such as those operated by Compagnie du Ponant and Hurtigruten among others, remain an opportunity for Iceland and its neighbouring Arctic destinations. It is worth noting that, although cruise passengers tend to be low spenders, often a cruise can act as a 'taster' for a destination and that a proportion of cruise passengers are likely to return for a longer visit in the future.

#### Case Study

Venice is a UNESCO World Heritage site, but cruise ship tourism is threatening to overwhelm the sinking city. Each day, more than 60,000 people visit Venice – more than the entire population of the city. Of those, an increasing number are from cruise ships, with a 439 percent increase in cruise calls over the past 15 years, according to statistics from the Venice Passenger Terminal.

It is feared that the sheer number of visitors are causing irrevocable damage to the city. UNESCO's main concern is obviously the protection of heritage, but it has to collaborate with the tourism industry as Venice's economy is highly dependent on tourism. Cruise ships in Venice are particularly damaging because of the fragile structure of the city. The ships cause tides that erode the foundations of buildings, contribute to pollution and have an impact on the cityscape and local residents as they dwarf the city's monuments.

- 5.67 Iceland needs to collaborate with its Arctic partners in order to ensure that cruise tourism is developed in a sustainable manner e.g. through working closely with the Association of Arctic Expedition Cruise Operators (AECO). AECO was founded in 2003 and is an international organisation for expedition operators, who are dedicated to managing respectable, environmentally-friendly and safe expeditions in the Arctic. The members agree that expedition cruises and tourism in the Arctic must be carried out with the utmost consideration for the vulnerable natural environment, local cultures and cultural remains, as well as challenging safety hazards on sea and on land. The current members of AECO operate over 20 vessels in the Arctic with sizes ranging from small sailing yachts to expedition cruise ships with up to 280 passengers.

#### Case Study

The Svalbard environmental fee for visitors was introduced in 2007 to ensure sustainable management of Svalbard's unique natural areas and cultural environments. The fee is based on the principle that the 'agent of environmental change' pays and is considered a positive contribution from visitors in exchange for the experience of Svalbard as one of the world's best managed wilderness areas.

The income from the fee is added to Svalbard's environmental fund which can only be used for initiatives designed to protect the environment and cultural heritage. Resources from the fund can be used to pave the way for experiences of Svalbard's nature and cultural environment, among other things, by establishing initiatives for looking after a natural state or cultural monument which is exposed to natural or human influence. Now in its fifth year the fund is distributing a record NOK13m for initiatives ranging from restoring environmental degradation to providing visitor interpretation.

### **Culture & short-breaks**

- 5.68 According to the EU, it is estimated that cultural tourism in its broadest sense accounts for around 40% of all European tourism in line with the trend for visitors looking for authentic experiences and getting to know other people and cultures. Much emphasis is placed on Iceland's abundance of natural attractions which means that the destination's cultural offer, with the exception of Reykjavík, has tended to take a backseat.
- 5.69 Cultural City is one of the four themes of Reykjavík's tourism strategy which emphasises the city's role as the country's main cultural hub due to its concentration of most of the country's main cultural institutions such as the Reykjavík Art Museum, National Gallery of Iceland, Culture House, Settlement Exhibition Reykjavík 871+2, Living Art Museum and the National Museum of Iceland as well as Harpa. This combined with the city's range of cultural events, gastronomic culture and design offer makes it an ideal destination for culture and short-breaks.
- 5.70 There is an opportunity to build on the success of the Saga Trails Association's work to develop sensitive, informed and locally-based products incorporating living history. In addition there is significant scope to explore 'Food & Gastronomy' and 'Health & Wellness' as the key drivers of Iceland's cultural tourism product.

### **Food and gastronomy**

- 5.71 According the Organisation for Economic Co-operation and Development's (OECD) recently published 'Food and the Tourism Experience', food is an increasingly important part of tourism experiences, and food cultures around the world are a rich source of cultural, economic and social diversity. Food experiences for tourists form a vital part of the tourism supply chain linking local food products and suppliers with cultural and tourism entrepreneurs. Importantly, visitor expenditure on food often comprises around 30% of total expenditure, and this money is regularly spent directly with local businesses. According to the UNWTO the primary demand for food and wine travel is estimated at 600,000 trips per annum, while secondary demand is estimated at 20m trips a year.
- 5.72 As discussed earlier, tourists are increasingly seeking local and authentic experiences linked intrinsically to the places they visit. High-quality food experiences have the potential to become one of the unique elements of the 'overall' visitor experience and help create distinctiveness.
- 5.73 In recent years, the Nordic countries have placed a particular emphasis on stimulating innovation to create new and engaging food experiences. The success of Nordic-influenced restaurants, such as Noma in Copenhagen, Fäviken in Sweden and the Icelandic owned Texture in London, demonstrates the growing demand for novel and authentic food experiences. Iceland is no exception as evidenced by the growing number



of restaurants offering authentic and innovative Icelandic cuisine, as well as the high-quality ingredients found throughout the country including responsibly caught fish and organic lamb. Although, food tourism is already being promoted in Iceland we consider there to be significant potential to be explored further both in product development and marketing terms e.g. through linking food with health and wellness.

### Health and wellness

- 5.74 Iceland has strong traditions in the fields of health and wellness with numerous hot springs with mineral waters situated throughout the country and these form an integral part of Icelandic culture. Most notably the Blue Lagoon which is the country's key man-made visitor attraction. Other facilities include the recently opened Laugarvatn Fontana Spa and the Myvatn Nature Baths.
- 5.75 According to Wellness Tourism Worldwide's report '4WR: Wellness for Whom, Where and What? Wellness Tourism 2020', wellness tourism is already worth more than €1.5tn year and expected to be one of the fastest growing forms of international and domestic tourism over the next decade. Wellness tourism is more than a spa. It is focused on travelling to achieve a state of health which comprises an overall sense of wellbeing.
- 5.76 In the increasingly global marketplace, there is a surprising amount of imported/exported wellness treatments, concepts and products. However, in order to be successful in the wellness tourism sector and satisfy visitors, destinations need to develop distinctive, place-linked wellness treatments, products which provide experiences that connect with the place. Iceland is well poised to provide authentic place-based wellness experiences given its strong traditions and abundant sources of hot and cold water as well as its healthy local and organic food. The current trend towards hot/cold contrast treatments is clearly an opportunity for Iceland including ice fountains and ice/snow rooms or even Arctic ice rooms and snow showers. Furthermore, Iceland has a number of internationally-recognised emerging skincare and beauty brands including the Blue Lagoon, Sóley, Villimey and EGF, some of which are already used in spa treatments.

### Opportunities for growth

- 5.77 One of the key weaknesses of Iceland's current promotional model and approach is the lack of detailed market intelligence. Despite an abundance of visitor statistics ranging from airport arrivals to accommodation and from business statistics to visitor surveys there is a clear lack of in-depth analysis of visitor trends and preferences both by geographic source market and special interest segments. There is therefore an urgent need for better market intelligence, focusing on specific segments and geographic source markets in order to set and refine targets for these.

5.78 In Figure 5.8, we provide an example of how market intelligence regarding Canada’s key international source markets, is presented in an easily understood and highly effective snapshot format. Source market research is considered a key enabler in the Canadian Tourism Commission’s toolkit, allowing optimum efficiency of marketing spend by focusing on the areas offering the greatest opportunities. In 2011, the Canadian Tourism Commission produced 50 research publications for its own use and for members of Canada’s tourism industry. This included the continued use of the ‘Explorer Quotient’ which links social values with travel preferences and allows targeting the individuals with the highest propensity to visit Canada.

**Figure 5.8 Visitors to Canada (2011)**



Source: Canadian Tourism Commission Annual Report 2011

5.79 We conclude our analysis of Iceland’s key geographic source markets and non-geographic segments with an evaluation of future potential which is presented in Figure 5.8.

- 5.80 As may be seen from the matrix, we have indicated our evaluation of future potential by using 'dots'. Three 'dots' (•••) indicates the highest level of potential, while one 'dot' (•) indicates the lowest level.

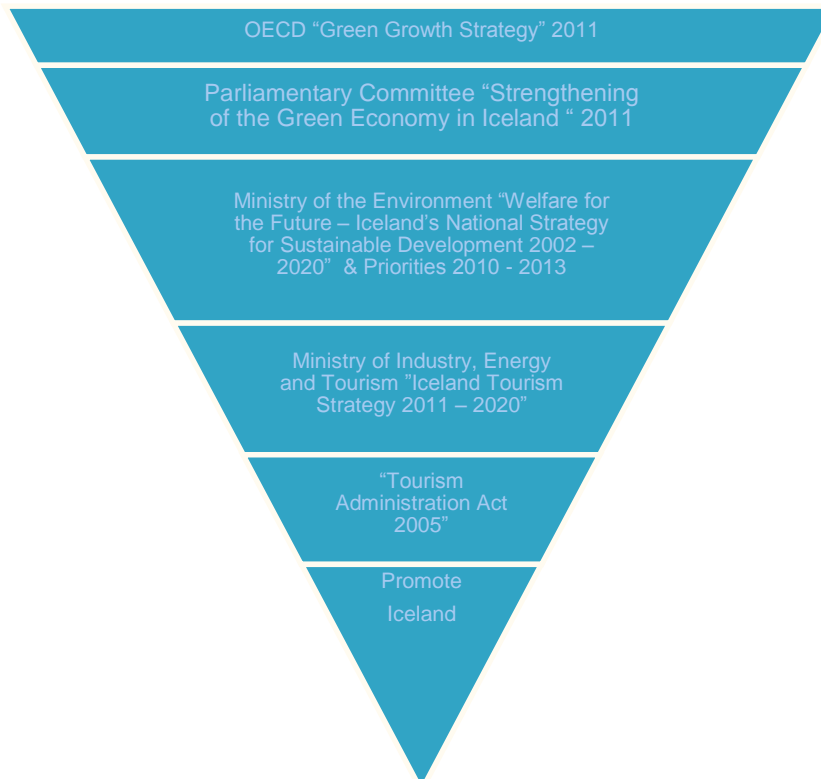
Figure 5.8 Evaluation of Iceland's geographic source markets and segments

Geographic source	Visitors to Keflavik 2010 (actual)	Outbound market size (m)	Current market penetration (%)	Access	MICE	Adventure	Fishing	Bird watching	Culture & Short breaks	Health & Wellness	Food & Gastronomy	Cruise
<b>Key Markets</b>												
Nordic Countries	112,757	33.4	0.07	***	***	***	**	**	***	***	***	**
North America	64,613	86.5	0.34	***	**	***	**	***	***	***	***	***
United Kingdom	60,326	55.6	0.11	***	***	***	***	***	***	***	***	***
Germany & Switzerland	63,540	95.9	0.07	***	**	***	***	**	***	***	***	***
France	29,255	25.0	0.03	***	**	***	**	**	**	***	**	**
Japan	5,580	16.6	0.03	.	.	**	.	.	.	***	**	.
<b>Other Markets</b>												
Central & Southern European	39,210	—	—	**	.	***	**	**	**	**	**	**
Rest of the World	83,971	—	—	.	.	**	.	.	.	**	.	.
<b>Total</b>	<b>459,252</b>	—	—									

## 6 Current tourism strategy and policy

6.1 In Figure 6.1, we illustrate the current policy and strategic context for the tourism sector in Iceland.

**Figure 6.1 Icelandic tourism policy and strategic context**



Source: PKF research

6.2 The vision for Iceland according to the Iceland 2020 policy statement is that:

*'Iceland aims to become a dynamic society capable of protecting its welfare in a manner that is sustainable and serves all members of the community by the year 2020.'*

6.3 This is based on three key drivers: knowledge, sustainability and welfare.

### OECD Green Growth Strategy 2011

6.4 The 2011 OCED "Green Growth Strategy" provides a clear framework for how countries can achieve economic growth and development while preventing costly environmental degradation, climate change and inefficient use of natural resources. The strategy identifies common principles and challenges, but highlights that there is no one-size-fits-all prescription for implementing green growth.

- 6.5 Each country needs to devise a strategy tailored to its own specific circumstances. However, in all cases, strategies have to be inclusive and green. Growth has to reduce inequality and the tensions it generates. Finally, 'green' cannot be an excuse for protectionism, depriving citizens of choice, driving costs and stifling innovation.
- 6.6 According to the OECD green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our wellbeing relies. To do this it must catalyse investment and innovation which will underpin sustained growth and give rise to new economic opportunities.

### **Strengthening of the Green Economy in Iceland 2011**

- 6.7 The Icelandic parliamentary committee envisages that in a green economy, new and constructive jobs are created in conjunction with the improvement of people's living conditions, both locally and globally. Decision making in a green economy is characterised by respect for nature and the environment, and an appreciation of its uniqueness.
- 6.8 In addition, full consideration is taken of the foundational principles of the Rio Declaration, such as the 'polluter pays principle' and the 'precautionary principle'. The democratic access of the public to decision-making is also one of the pillars of a green economy.
- 6.9 The Icelandic parliamentary committee's vision for the green economy is:

*'that Iceland can become an international leader as a green economy, focusing on a clean natural environment, sustainable use of energy and education towards sustainability'.*

The key elements of the green economy policy in Iceland are:

- The national government and its institutions will serve as role models and create the conditions for a green economy.
- Economic incentives will be used to promote green economy.
- The polluter pays principle will form the basis for determining fees and tariffs.
- The precautionary principle will be an integral part of the national fiscal and employment policy.
- Green jobs will be created.
- Emphasis will be placed on promoting green investment.
- Education for sustainable development and environmental issues will be increased.
- The green economy in Iceland will be an integral theme in the promotion of Iceland to investors and tourists.

- 6.10 Within the Icelandic green economy context, the parliamentary committee identified tourism as one of the fastest growing sectors in the country. The Icelandic travel industry is described as being very much reliant on the country's nature, history and culture. Thus the emphasis on a green or sustainable travel is growing even faster than the industry as a whole, because of demand from both buyers and travel industry service providers, who have an obvious interest themselves in maintaining the resources that the industry first and foremost builds its income on.
- 6.11 Of the 50 actions for the transition towards a green economy in Iceland the following are related directly or indirectly to the tourism sector:
- 20.** A five year campaign shall be implemented to encourage foreign investment in green businesses, for instance by using the provision in Article 15 of Act No. 99/2010 on Incentives for Initial Investments. The Bureau of Labour Statistics (BLS)'s definitions of green jobs shall be used to determine whether projects meet the necessary requirements. The campaign shall include an economic analysis of the green economy in Iceland, the choice of areas for emphasis, the charting of eligible investors, marketing and promotions.
  - 21.** Act No. 99/2010 on Incentives for Initial Investment in Iceland shall be amended so as to permit derogations from the current size limits provided for in point e of Article 5 when the projects in question fall under the definitions of the UN and BLS of green jobs and green economy.
  - 22.** Act No. 106/1999 on the Icelandic Regional Development Institute shall be amended so that the institution operates in accordance with the goals of sustainable development and integrates the core principles of the green economy into its operations, lending practices, growth contracts and other forms of cooperation with respective regional development centres.
  - 41.** The Innovation Centre Iceland shall be entrusted with developing a methodology entailing the greening of Icelandic businesses in all sectors on the basis of innovation and the development of technical solutions that diminish the negative environmental impact of their operations, including the minimisation of their carbon footprint.
  - 50.** Iceland shall be presented as a green economy to buyers of goods and services, investors and tourists. This marketing strategy shall be based on the image and strengths of Iceland and shall be integrated into the marketing of Iceland in the field of tourism, the export of products and culture.

## **Welfare for the Future – Iceland’s National Strategy for Sustainable Development**

6.12 With regard to the Ministry of the Environment’s “Welfare for the Future – Iceland’s National Strategy for Sustainable Development 2002 – 2020” the following priorities for the period 2010 to 2013 relate to the tourism industry:

**5.1** The public’s right to free access to common land should not be restricted, unless it is vitally necessary for the purposes of nature conservation.

**5.2** Outdoor activities considerations should be taken into account in planning and decisions on land use.

**5.3** The growth in tourism in Iceland should be further encouraged, and accompanied by preventive measures to protect nature from damage caused by increased traffic.

6.13 Furthermore, the document states that the grounds for imposing a tourism-related environmental levy will be investigated. Such a levy would be used to fund the measures necessary to reinforce land protection and to improve walkways, signage and other facilities at popular destinations of natural beauty and in sensitive areas.

6.14 Research and further development of methodologies to determine the carrying capacity of tourist sites will be supported, and attempts will be made to assess systematically which sites are in greatest danger due to traffic and require special measures.

Finally, systematic attempts will be made to prevent off-road driving, including completing the mapping of highland roads and trails in 2012.

## **Tourism Administration Act 2005**

6.15 The Ministry of Industry, Energy and Tourism (now the Ministry of Industries & Innovation) has the ultimate authority of the Tourism Administration Act of 2005. The purpose of this Act is to promote the development of tourism as an economic sector and an important facet of Icelandic economic and societal activity. The guiding principles are economic efficiency, Icelandic culture, environmental protection, professionalism, and the safeguarding of consumer interests. In 2012 proposed changes relating to risk assessments of touristic activities were introduced.

6.16 Promote Iceland was established in 2010 to co-ordinate the marketing of Iceland abroad (including tourism). The change meant Promote Iceland was given a six-year contract until 2015 for promotion. Domestic tourism promotion remains the responsibility of the Icelandic Tourist Board.



## Tourism strategy 2011 to 2020

- 6.17 A new public strategy for tourism in Iceland was approved by parliament in 2011. The main aims of the strategy are:
- 1 Maintain Iceland's unique nature with focused and strong emphasis on strengthening destinations.
  - 2 Improve the quality, professionalism and environmental consciousness of the tourism industry.
  - 3 Promote increased profitability and respect for the industry.
  - 4 Extend the tourist season, decrease seasonal fluctuations and promote better distribution of tourists around the country.
- 6.18 From the above, it is clear that Icelandic tourism industry operates within a multi-faceted policy and strategic context as well as a complex institutional framework with a multitude of stakeholders. Thus it can be difficult to understand the roles and responsibilities from both an internal and external perspective.
- 6.19 We understand that as of 2012, the government recognising the importance of the sector, has allocated ISK300m for tourism marketing and promotion. From 2013 to 2015 ISK500m per annum has been allocated to the development of tourist destinations and ISK250m to improve the infrastructure of national parks and nature reserves. As part of its 75<sup>th</sup> anniversary celebrations, Icelandair Group has announced recently a major funding co-operation with Akureyri University with ISK15m being invested to support research into tourism. In addition the tourism industry has access to a range of different small innovation, environmental and research funds.

## 7 Critical success factors and competitive position

7.1 We conclude our market and tourism analysis by summarising our key findings. These were set out in the capsule analysis but repeated here for ease of reference.

### Critical success factors

7.2 In view of our research and analysis, it is evident that Iceland has witnessed a period of rapid and successful expansion of its tourism industry. The destination is, however, now at a crossroads and there is a genuine need to decide not only how Iceland wishes to exploit its tourism industry for maximum benefit, but where it should be in the long run especially in regards to building a sustainable sector that would benefit generations.

7.3 In order to determine Iceland's competitive position we scored it against the main identified competitors in relation to the following critical success factors:

- **Sustainability** – demonstrated commitment and progress towards the introduction of sustainability criteria and standards for the tourism industry.
- **Destination appeal and access** – the quality and diversity of the tourism product and its appeal in terms of Arctic and Adventure Tourism, Cultural Tourism, MICE and special interest as well as year-round access to destination from international source markets.
- **Tourism-related infrastructure** – the quality and range of tourism-related infrastructure such as accommodation, tourism services, visitor facilities, transport and roads.
- **Tourism industry framework and policy** – does the destination benefit from an enabling tourism industry framework and policy in terms of industry support, skills and human resources as well as marketing and promotion?

### Competitive position

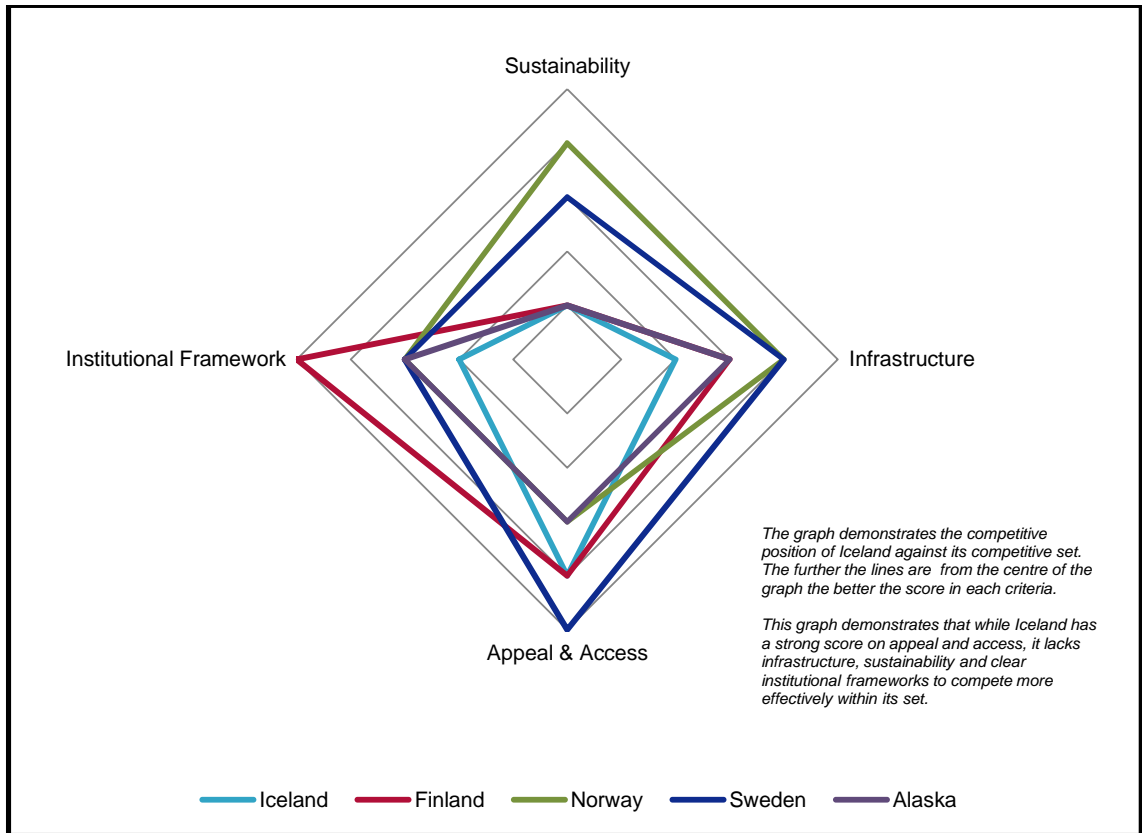
7.4 Figure 7.1 demonstrates Iceland's current competitive position against its main competitors in relation to each of the above critical success factors. A destination is perceived to be more competitive the closer its scores are to the edge of the web. In contrast a destination is perceived to be less competitive, the closer its scores are to the centre of the web.

7.5 Iceland's competitive position illustrates that it is still an emerging tourist destination with excellent appeal and good access, but with somewhat limited visitor infrastructure. Iceland needs to make progress in terms of sustainability so as not to be left behind its competitors.

7.6 Furthermore, there is scope to simplify the institutional framework in order to create an enabling environment in which the tourism industry can continue to prosper and compete more effectively within its competitive set.

7.7 If tourism is to remain an important contributor to GDP and export earnings, it is essential that the government provides an enabling environment in which the industry can continue to flourish.

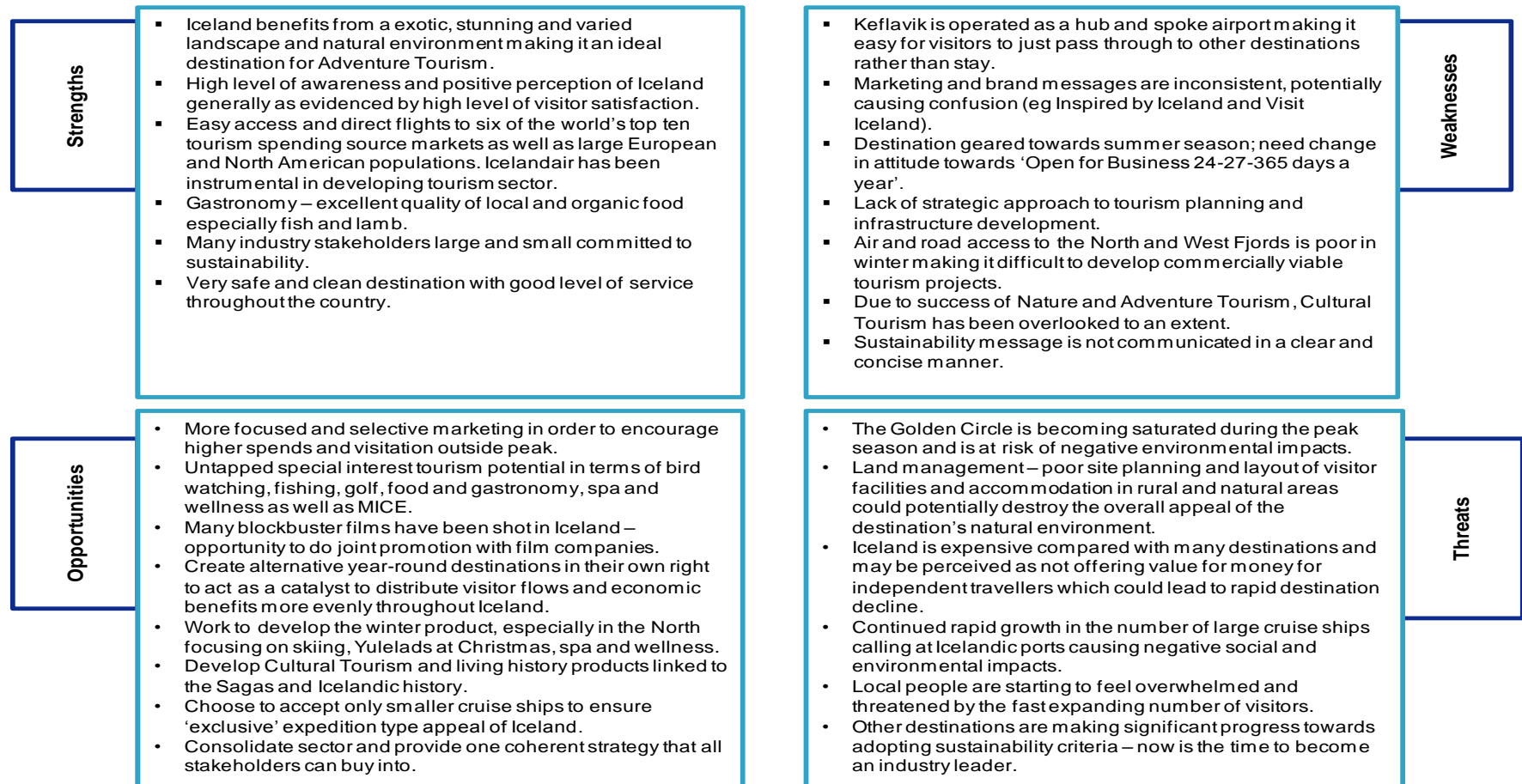
**Figure 7.1 Competitive positioning**



Source: PKF research

### SWOT analysis

7.8 To conclude our analysis we present a SWOT analysis of the Icelandic tourism industry. Against this background we then provide our recommended long-term strategy.



## 8 Recommended strategic mission, vision, objectives and targets

8.1 In view of our research and analysis of the Icelandic tourism industry, its competitive environment and international tourism trends, we present the envisaged strategic mission, vision, objectives and targets for the sector to 2020. This takes into account the current policy and strategic context within which the tourism sector operates.

### Proposed Mission statement

*To become a leading global sustainable tourism destination, offering a distinct year-round product encapsulating the unique natural and cultural attributes of Iceland.*

### Proposed Strategic vision

*Iceland is a destination of choice where discerning tourists from all over the world come to enjoy its pristine natural environment, geology and rich cultural offering. It is a 'must see' destination for those seeking an adventurous and authentic experience at any time of the year. Be it enjoying a wellness break and watching the spectacular Northern Lights in the winter, or hiking in the interior and playing golf under the midnight sun in the summer.*

*Iceland enjoys a high level of visitor satisfaction with many visitors returning to experience more of the country. The creative and rich cultural offering, including high quality Icelandic cuisine, design and locally produced handicrafts, make up a key part of the visitor experience.*

*Special interest tourism is flourishing with a wide range of micro and small businesses offering an extensive range of innovative products including fishing, bird watching, horse riding, health and wellness, food and gastronomy.*

*Iceland is recognised as a leading sustainable tourism destination due to its significant efforts to drive green economic growth, preserve and enhance the natural environment as well as improving the quality of life of the people through local involvement and education.*

*The instantly recognisable 'Inspired by Iceland' campaign has been developed into the overarching brand for the promotion of the whole of Iceland. This has been supported by a number of thematic promotions aimed at key geographic source markets and special interest segments.*

*Iceland is successful in attracting a balanced mix of visitors, combining volume with 'high yield' 'low impact' visitors year-round and as a consequence has been able to maximise the economic contribution of the tourism sector.*

*Through the provision of a clear, coherent and integrated strategy, Iceland is able to attract investment into the sector thus securing the sustainability of the Icelandic experience for generations to come.*

## Mission and vision fulfilment

- 8.2 In the following paragraphs, we describe the key actions required in order to achieve the mission and strategic vision. In order to fulfil Iceland's potential we consider it paramount to focus on the following issues:
- 8.3 In order for Iceland's tourism industry to be sustainable in the long term and act as a contributor in the transition towards a green economy, there is an urgent need to take action as far as sustainability is concerned and this should be at the core of all future developments and operations. This essentially means not only embracing the three pillars of sustainability – environmental, social and economic – but also introducing green policies and operating practices in order to minimise the tourism sector's footprint. This is particularly important in a small country such as Iceland where mass and/or unmanaged tourism can have a large, and often negative, impact on the small local population and sensitive natural environment.
- 8.4 As a specialist high-end destination, rather than a mass tourism volume-driven destination, Iceland needs to focus on achieving balanced growth in visitor numbers by seeking to attract quality visitors with a high propensity to spend including those who are willing and able to travel outside the peak summer season.
- 8.5 Future growth must be sustainable. It should aim to disperse visitor flows throughout the country and extend the season thereby spreading the economic benefits of tourism and maximising the economic growth potential while preserving Iceland's most important asset – its natural environment. In addition it will need to be sensitive to the potentially negative socio-economic impacts of tourism especially given the small and culturally integrated population. This is to be achieved through targeted and managed marketing and promotion as well as strategic investment in access and tourism-related infrastructure especially in the regions.
- 8.6 This will require an integrated planning and development approach (top down and bottom up) with sustainability at its core. This will be needed in order to stimulate investment and attract FDI in the diverse and innovative tourism-related infrastructure and services.
- 8.7 In order to optimise the potential of the Icelandic tourism industry and maximise its economic contribution it will be necessary to adopt a 'whole-of-government' approach to the tourism sector. A joined-up multi-stakeholder engagement approach is required in order to ensure that practical measures and supporting policies are put in place to safeguard the natural and cultural resources at the heart of the Icelandic tourism industry.
- 8.8 In order to ensure that the strategy remains on track there is a need for robust and timely market intelligence and evaluation of the tourism industry's performance on an annual basis, so that the strategy may be adjusted and refined accordingly.

- 8.9 Finally, it is crucial that Promote Iceland and the Icelandic Tourist Board have budgets commensurate with the development and marketing activities required in order to achieve the anticipated balanced growth in visitor numbers. It is essential that long-term consistent and dependable funding is available if Iceland is to maintain and improve its competitiveness in the global tourism marketplace on a sustainable basis.

### **Strategic objectives**

- 8.10 PKF is aware that the current tourism strategy was introduced in 2010 and while the master mapping project builds on the existing 2010-2020 strategy, it aims to go further by adopting a more focused, measurable and targeted approach to the continued positive development of the tourism industry. This in turn should help enhance tourism's profile and the industry's role as a key driver of sustainable economic growth and thereby facilitating Iceland's transition towards a green economy.
- 8.11 Importantly one of the key aims of the master mapping project is to create an enabling environment for investment and to attract FDI in the tourism sector. In order to achieve the strategic mission and vision outlined above, the following four strategic objectives have been identified:

**Objective 1: Sustainable tourism and the green economy**

- Maximise the economic contribution of the tourism sector through green and sustainable growth.
- Create an enabling environment for sustainable investment with a unified approach.

**Objective 2: Market focus and segmentation**

- Simplify and consolidate brands in order to ensure a consistent image and messages across all channels.
- Attract a balance of volume and 'high yield' 'low impact' visitors year round.

**Objective 3: Product development and investment**

- Create alternative circuits to the Golden Circle in order to distribute visitor flows better and accommodate sustained growth year round.
- Promote investment through public private partnerships jointly and individually.
- Make sustainability a core development and investment criteria.

**Objective 4: Organising the industry for success**

- Introduce a tourism strategy group to facilitate collaboration, consensus building and an integrated approach to tourism development at central government level.
- Improve industry collaboration through an improved institutional framework, further development of clusters and establishing regional champions.
- Provide clear zoning and policy documents for each region with engagement at both local and central government level.

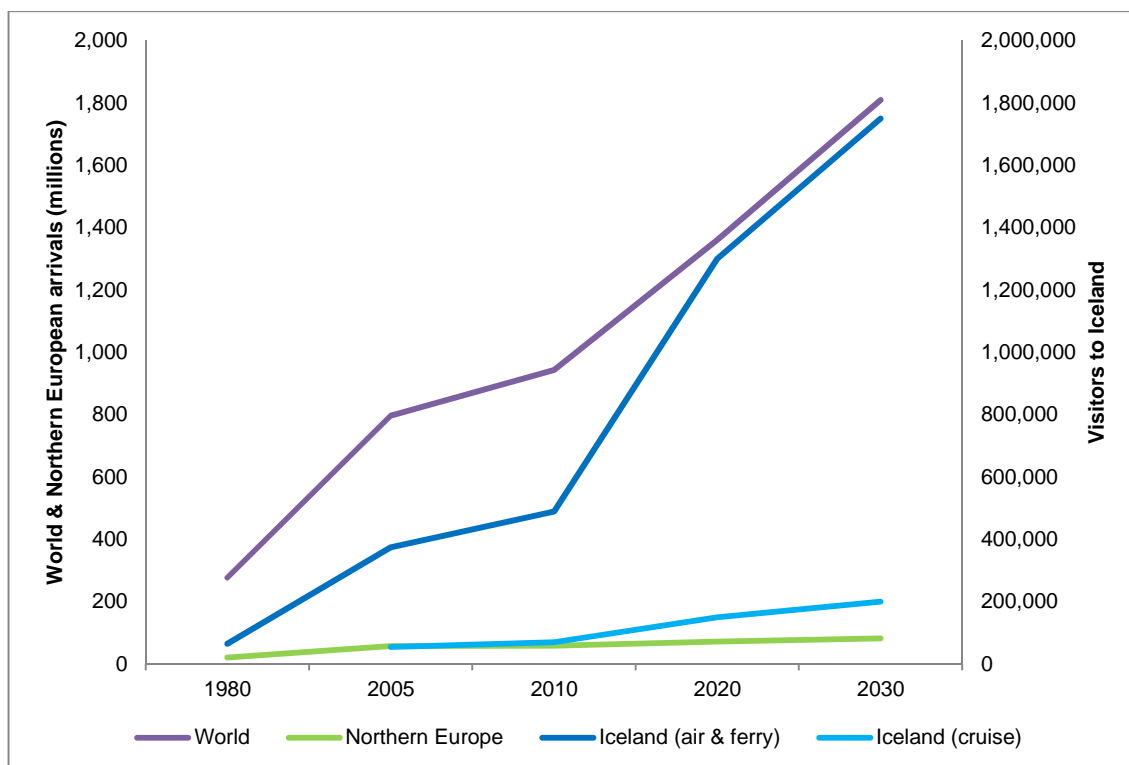
## Strategic targets

### Visitor forecast

- 8.12 Our evaluation of the potential of sustainable tourism to Iceland given current and recommended strategies culminates in a visitor forecast for tourism in Iceland to 2030. This draws on our experience and trends in 'similar' destinations and does not imply a ceiling but a 'stabilised' position acknowledging peaks and troughs in the cycle.
- 8.13 It is clear that Iceland's current penetration of its key source markets is low at 0.11% illustrating the country's niche and emerging status within a global tourism context.
- 8.14 Having reviewed current demand for Iceland within a global tourism context as well as having conducted interviews with both a selection of visitors and tour operators we show overleaf our visitor forecast to Iceland to 2030.



Figure 8.1 Tourist arrivals and forecast (1980 – 2030)



Source: PKF research & UNWTO

8.15 We note the following with regard to the Figure 4.8 shown above:

- The UNWTO does not prepare forecasts for individual destinations or source markets as growth is highly dependent on the extent to which a destination taps into its potential and the effort put into developing tourism and attracting visitors.
- According to the UNWTO worldwide international tourist arrivals are forecast to increase by 3.3% on average from 2010 to 2030, albeit at a much slower rate of 1.8% in Northern Europe. This represents 43m more international tourist arrivals every year reaching a total of 1.8bn by 2030.
- It is expected that Northern Europe's market share will reduce from 7.4% in 1980 to 4.5% in 2030 as emerging destinations grow. Within this context, Iceland can be regarded as an emerging high-end specialist Adventure Tourism destination.
- With respect to the forecast in visitor numbers to Iceland arriving by air and ferry, we have assumed that the average growth between 2010 and 2020 will be 10.3%, resulting in an estimated 1.3m visitors by 2020. This takes into account that Iceland is still an emerging destination and its level of growth, especially in recent times, is likely to significantly outweigh the average growth rate forecast for more mature destinations in Northern Europe. From 2020 to 2030 we have assumed an average annual growth rate of 3%, assuming that growth will level out as the destination matures, to reach an

estimated 1.75m visitors by 2030. This compares with the UNWTO average estimated growth rate of 4.4% for emerging destinations.

- We therefore consider circa 1.75m the level of visitors that the country should be able to sustain which will enable it to balance its mix of markets and maximise economic benefit both socially and financially whilst preserving its product and rich cultural heritage.
- Should the current high rates of growth continue, we consider that the target of 1.3m (2020) and 1.75m (2030) visitors could be reached earlier. However, we caution that should no action be taken to mitigate the risks involved with such high growth rates, in the short term, this is likely to place strain on an already extended offering.
- We have therefore carried out a sensitivity analysis assuming a higher annual growth rate. Assuming a 15% annual growth rate, 1.3m visitors could be reached as early 2015 and 1.75m by 2019. However, we consider, as with other emerging destinations, it is more than likely that these growth rates will slow and therefore become unsustainable, at least in the medium term, as the necessary pace of investment lags and the destination matures and reaches its critical point.
- In view of the fact that pinch points are starting to occur we would strongly advocate that Iceland aims to achieve balanced rather than continued accelerated growth in visitor numbers in order to avoid more serious negative environmental impacts and social tensions.
- In terms of cruise passengers and in line with trends for the industry we have assumed an annual growth rate of 7.7% between 2010 and 2020. This results in an estimated 150,000 cruise passengers by 2020. Between 2020 and 2030 we have assumed a growth rate of 3.0% per annum resulting in a total of 200,000 cruise passengers by 2030. In reality the growth rate is likely to exceed 3.0% per annum. If this were the case we would recommend capping the number of cruise passengers once the 200,000 volume is reached.
- In view of the above forecast, Iceland's penetration of the Northern European market would increase from 0.84% in 2010 to 2.14% by 2030. This suggests that Iceland will remain a niche player even within a Northern European context.

8.16 In view of the strategic objectives and our analysis of the Icelandic tourism product, Iceland's competitive environment, current market position and global tourism trends, we present overleaf the overall strategic targets for the medium to long term.

### Strategic targets

- Attract 1.3m foreign visitors by 2020 increasing to 1.75m by 2030.
- Attract 150,000 cruise passengers by 2020 increasing to a maximum of 200,000 by 2030.
- Increase international tourism receipts from ISK133bn in 2011 to in excess of ISK325bn by 2020.
- Increase hotel and guest house room occupancy from 46% in 2011 to 60% in 2020, at the same time reducing the effects of seasonality.
- Increase international events hosted to at least 50 per annum by 2020.
- Attract FDI in five of the ten priority tourism investment projects.
- Maintain a high degree of visitor satisfaction in line with the current 90%.
- Stimulate greater regional and annual dispersion of visitors through investment in improved access and visitor-related infrastructure combined with more focused marketing and promotional efforts.

8.17 Whilst we consider the above targets to be ambitious, they are realistic and achievable provided Iceland takes the recommended strategic priorities and actions on board. The strategic targets outlined above are compatible with building on the recent success of the Icelandic tourism industry but on a sustainable basis.

8.18 It should be noted that the forecast international tourism receipts are based on the Icelandic Tourist Board's 2011 total figure of ISK133bn equivalent to ISK234,994 per international visitor as reported in *'Tourism in Iceland in Figures, April 2012'* report. We have allowed for a slight increase to ISK250,000 per international overnight staying visitor which would generate ISK325bn based on 1.3m foreign visitors in 2020.

## 9 Objective 1: Sustainable tourism and the green economy

- 9.1 In 2011, the Icelandic government published its report on 'The strengthening of the green economy in Iceland: sustainable prosperity – a model society'. As stated earlier the report envisages that Iceland becomes an international leader with regard to developing a green economy, focusing on a clean natural environment, sustainable use of energy and education. In this context tourism is highlighted as one of the fastest growing industries in Iceland. The report states that the Icelandic tourism industry is very much reliant on the country's nature, history and culture and therefore sustainability is crucial to future success.
- 9.2 The above is in line with the OECD's definition where green growth is defined by the as "*the pursuit of economic growth and development, while preventing costly environmental degradation, climate change, biodiversity loss and unsustainable natural resource use*".
- 9.3 In 2011, The World Tourism Organisation (UNWTO) and the United Nations Environment Programme (UNEP) defined tourism in a green economy as "*tourism activities that can be maintained, or sustained, indefinitely in their social, economic, cultural and environmental contexts*". The new green economy will be 'low carbon' resource efficient and socially inclusive. Key components are reducing dependence on oil or coal and increasing reliance on clean energy thus responding to the challenges of climate change.
- 9.4 The UNWTO defines sustainable tourism as applicable to all forms of tourism in all types of destinations including mass tourism and the various niche tourism segments. Sustainability principles refer to the environmental, economic and socio-cultural aspects of tourism development, and a suitable balance must be achieved between these three dimensions to guarantee its long-term sustainability.
- 9.5 In view of the above, and in accordance with the UNWTO's definition below, sustainable tourism should:
- (i) Make optimal use of environmental resources as they constitute a key element in tourism development, maintaining essential ecological processes and helping to conserve natural resources and biodiversity. The diverse and stunning natural environment is the main attractor for most visitors to Iceland and there is an urgent need to manage and preserve it.
  - (ii) Respect the socio-cultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to their inter-cultural understanding and tolerance. Iceland has a very small population and as such there is a limit to the number of visitors that Iceland is able to accommodate. This needs to be taken into consideration when planning for the future.

- (iii) Ensure viable, long-term economic operations, providing socio-economic benefits to all stakeholders that are fairly distributed, including stable employment and income-earning opportunities and social services to host communities. Iceland clearly has the opportunity to enhance the economic contribution of the tourism sector and create year-round jobs by focusing on 'high-yield', but 'low impact' visitors. There is a need to move away from thinking of visitors purely in terms of volume and rather focus on those visitors offering the greatest potential in terms of visitor spends.
- 9.6 Sustainable tourism development requires a joined-up approach that effectively engages a cross-section of stakeholders, as well as strong political leadership to ensure wide participation and consensus building. Achieving sustainable tourism is a continuous process and will require constant monitoring of impacts, introducing the necessary preventive and/or corrective measures whenever necessary.
- 9.7 Sustainable tourism generally delivers a high degree of visitor satisfaction and an authentic and unique experience to visitors, raising their awareness of sustainability issues and promoting sustainable tourism practices amongst them.
- 9.8 Thus for the purposes of the master mapping project is clear that any future development of the tourism industry must be on a sustainable basis in order to facilitate Iceland's transition towards a green economy. As a consequence the Icelandic tourism industry needs to shift its emphasis towards value rather than volume in order to achieve balanced growth in the future.
- 9.9 Iceland with its pristine natural environment has the opportunity to become a leading global sustainable tourist destination. However, achieving this will require serious commitment and action from all stakeholders involved in the tourism industry. Iceland urgently needs to adopt an incremental approach to sustainability if the country is to be successful in its transition towards a green economy.
- 9.10 However, the Icelandic tourism industry needs to take action now in order not to fall behind its main competitors in terms of sustainability. The introduction of the VAKINN quality and environmental system is a step in the right direction as is the independent certification of regions such as Snæfellsnes. However, significant communication efforts need to be made so that it is made clear to visitors what the VAKINN system actually means to them.
- 9.11 According to the 2012 Global Green Economy Index, Iceland has a positive perception in terms of sustainable tourism being ranked 9th out of 27. However, when it comes to actual performance Iceland did not feature in the top 10. This is in stark contrast to Iceland's competitor Sweden, ranked 5th in terms of perception and 4th in performance, while New Zealand was ranked in first place both in terms of perception and performance. On a positive

note Iceland was ranked 6th in terms of general leadership showing there is a strong commitment at national level.

- 9.12 At the present time there is little evidence of current sustainability efforts and achievements being communicated and promoted to both tourism industry stakeholders and potential visitors. There is an urgent need to promote sustainable tourism through both the new VAKINN system as well as communicate sustainable tourism efforts effectively through websites, social media and printed collateral in order to raise awareness. This is particularly important in terms of the MICE sector where corporate CSR policies increasingly demand a sustainable supply chain. The 2012 Scandinavian Destination Sustainability Index, which assessed and reported on the sustainability performance of major meetings destinations in Scandinavia, ranked Reykjavik 14 out of 16 cities, behind all its main competitors suggesting there is significant scope for improvement.
- 9.13 It is clear that Iceland has an opportunity to use the tourism sector as a key driver in achieving green economic growth and facilitating the transition towards a green economy. The success of the geothermal strategic cluster demonstrates that with a joined-up multi-stakeholder approach, significant results can be achieved within a relatively short timeframe. The Icelandic tourism industry needs to invest in sustainability now not only because it makes economic, environmental and social sense, but because it also makes good long-term commercial sense.
- 9.14 Finally, Iceland should consider signing up to Global Sustainable Tourism Council's (GSTC) destination criteria in order to adopt a systematic approach to sustainability in the tourism industry. The GSTC Criteria for Destinations has been designed to guide destination specialists, managers, communities, and businesses towards the steps that are needed to sustain the natural and cultural attractions that draw-in tourists, while economically benefitting the local community and businesses.
- 9.15 The criteria are the result of a worldwide effort to develop a common language about sustainability in tourism. Focusing on social and environmental responsibility, as well as the positive and negative economic and cultural impacts of tourism, the criteria are organised into four topics.
- (i) Sustainable management
  - (ii) Socioeconomic impacts
  - (iii) Cultural impacts
  - (iv) Environmental impacts (including consumption of resources, reducing pollution, and conserving biodiversity and landscapes)

- 9.16 The criteria are the minimum, not the maximum, which businesses and destinations should achieve to approach social, environmental, cultural, and economic sustainability. Since tourism destinations each have their own culture, environment, customs, and laws, the criteria are designed to be adapted to local conditions and supplemented by additional criteria for the specific location and activity.

#### Case Study

In June 2012, Fjord Norway signed up as one of the early adopters of the Global Sustainable Tourism Council's new criteria for destinations. Being one of the early adopters is not just about getting a stamp of approval, but about the destination wanting to be involved in developing the specific criteria for the area as well as being part of an innovative process.

Fjord Norway hopes to continue to attract adventure travellers with an even greater focus on sustainability, educating guides to teach travellers about their impact, banning motorised vehicles in many of the ski areas, and nurturing a history that stretches back to the Viking explorers. According to Fjord Norway the biggest challenge is the cruise industry and it is hoped that the new criteria will provide clear guidelines that visiting cruise ships will have to abide by.

## 10 Objective 2: Market focus and segmentation

- 10.1 Promote Iceland was established in April 2010. Its specific purpose is to strengthen Iceland's image and reputation, enhance the competitive position of Icelandic undertakings on foreign markets and to attract foreign investment and tourists to the country. This meant that the international tourism marketing remit was transferred in 2010 while domestic tourism marketing remains the responsibility of the Icelandic Tourist Board.
- 10.2 Promote Iceland has already seized the opportunity in terms of using digital and social media platforms to engage with potential visitors to Iceland. Furthermore, Promote Iceland maintains good international relations, arranged PR and press trips, attends travel trade shows and participates in events abroad including hosting road shows and workshops aimed at the travel trade.
- 10.3 In our capsule situation analysis we identified that the current promotional model is somewhat confusing for consumers and industry professionals alike due to the existence of multiple brands and websites. Different brands have evolved in line with funding streams becoming available to finance marketing and promotional projects rather than being driven by a clear strategy or market intelligence. The award winning 'Inspired by Iceland' campaign is no exception.
- 10.4 Furthermore, it is difficult to ascertain how successful the extensive use of social media is in terms of attracting first time visitors to Iceland.
- 10.5 The current marketing collateral is generic in nature and does not always convey what the actual visitor experience might be like. There is a requirement for specific collateral for MICE, special interest segments and inward investment in tourism purposes.
- 10.6 At the present time, an abundance of visitor statistics is collected ranging from airport arrivals to accommodation and from business statistics to visitor surveys culminating in a Tourism Satellite Account. However, an urgent review is required together with a more in-depth analysis. For example, hotel statistics are not analysed by grading which could benefit potential investors and provide a clearer picture of the health of individual sectors.

### Recommended positioning and promotional model

- 10.7 In line with the proposed mission and strategic vision we recommend that Iceland strengthens its position as a specialist high-end destination aiming to attract 'high yield' 'low impact' foreign visitors, year round. This will require a clear market focus and targeted approach to segmentation supported by robust market intelligence.
- 10.8 There is an urgent need to consolidate and simplify the current brands to ensure that Iceland projects a consistent image and messages across all channels in order to avoid confusion



and achieve more efficient use of funding. We would also recommend that domestic tourism marketing is moved so that all tourism marketing and promotion sits with Promote Iceland. This will provide an increased level of efficiency, as well as single point of engagement with which the private sector tourism service and accommodation providers can engage cohesively in relation to marketing and promotion.

- 10.9 The opportunity to collaborate with film productions on joint promotion should be explored further, especially in view of Promote Iceland's involvement with the international film industry and the incentives offered to film companies.

#### Case Study

In June 2012, VisitScotland launched its biggest ever global marketing campaign, working alongside Disney•Pixar and their much-anticipated epic action adventure "Brave" to reach millions of potential visitors across the world.

The campaign showcases every corner of Scotland through a new TV and cinema advert, a new website and extensive marketing and events activity in countries ranging from the US and UK to France and Germany. The TV and cinema campaign will reach around 80 million people in the UK and abroad and is expected to boost the Scottish economy by around £140m.

The campaign will see the airing of VisitScotland's first TV advert in North America for ten years - thanks to a major funding boost by the Scottish Government. The timing of the campaign is crucial, with this market showing encouraging signs of recovery. The number of American visitors increased by 15% in 2011 and it is Scotland's biggest overseas market, with more than 400,000 visitors spending £311m every year.

A 30-second advert, which is voiced by Neil Oliver, will be broadcast on some of the world's largest networks and in cinemas before the film, taking creative inspiration from the theme "Scotland. Where legends come to life." The advert has been translated into four languages: French, Spanish, German and Italian, and will showcase the drama and spirit of Scotland through its landscapes and natural environment.

VisitScotland and Disney have worked together on the advert to showcase the country that inspired the filmmakers with images from the film interwoven with real life scenes from Scotland. World-famous Scottish landmarks such as the Ring of Brodgar in Orkney, Castle Kilchurn on Loch Awe and Eilean Donan Castle feature in the advert. Carradale-born Piper Lorne MacDougall plays on the advert - as he does on the soundtrack of the film.

### Inspired by Iceland – an umbrella brand

- 10.10 Given the success of the 'Inspired by Iceland' campaign, we consider this brand to have the potential to be developed further and evolve into becoming the 'umbrella' brand for Iceland with a view to phasing out the current Visit Iceland, Iceland Naturally and other campaigns. Promote Iceland must then take on the leading role of brand custodian in terms of refining the core 'Inspired by Iceland' brand and its associated values so that it becomes the main 'image' or 'national brand' of Iceland. Whilst this report focuses specifically on the tourism sector, we do consider that 'Inspired by Iceland' has the potential to become a 'national' brand across all sectors.

- 10.11 The associated brand values need to build upon the creative work that was carried out while developing the 'Inspired by Iceland' project. At the same time the umbrella brand will need to embrace the more general aspects of Visit Iceland. This must then be applied systematically across all marketing channels and projects be they aimed at a specific geographic source markets or segments, so that it is clearly evident that they are all part of the 'Inspired by Iceland' family. For example, a single web portal, could include the following:



- 10.12 However, this can only be achieved by better provision of market intelligence. This will involve the introduction of a tourism marketing intelligence framework and a destination toolkit that would sit with Promote Iceland. There is currently no apparent link between tourism industry research and destination marketing and promotion.
- 10.13 The aim of the marketing intelligence framework and destination toolkit would be to provide better analysis and interpretation of the data collected as well as commissioning of research looking at the global market place in terms of geographic source markets and special interest segment trends which in turn can be applied to the Icelandic context. At present there is very limited data available on MICE and special interest segments such as wildlife, culture, food and gastronomy as well as health and wellness.
- 10.14 In future, different themes and campaigns can then be developed in accordance with the overall long-term strategy and in accordance with available funding streams as well as emerging collaboration and partnership opportunities. There are plenty of examples of using this approach including New Zealand, London and Amsterdam, as a way of conveying a consistent image.

#### Case Study

The I amsterdam website is the portal to Amsterdam, providing visitors with everything they need to know to travel, live, do business and take part in a wide variety of cultural activities in Amsterdam. It combines multiple sites under one roof providing a simple and clear image of the city.

Amsterdam's promise, diversity and wealth of opportunity make it an excellent choice for business, education, living and visiting. The city's rich heritage and culture, its spirit of commerce, its innovative infrastructure, its live-ability and its creativity set it apart from other major European cities. I amsterdam is the motto that created the brand for the city and people of Amsterdam.

The website, originally conceived in 2004, is an ambitious co-production of the City of Amsterdam, Amsterdam Partners Foundation, Amsterdam Tourism & Convention Board, the Amsterdams Uitburo, Amsterdam In Business and the Expatcenter.

- 10.15 Unlike New Zealand, Iceland is within easy access of its key geographic source markets. Iceland's appeal is adventurous and exotic, but also close to home. However, in terms of the tourism product the two destinations have much in common and thus Iceland can learn from the success of the New Zealand approach, especially in terms of its strong commitment to market intelligence informing target geographic source markets and segments.

#### Case Study

To achieve maximum yield for the tourism industry from limited resources, New Zealand Tourism's marketing activity is carefully focused on a number of key markets around the world and a select group of consumers within those markets.

Prior to the launch of 100% Pure in 1999, international marketing efforts were a hodgepodge of vested interests, sending uncoordinated and mixed messages. The success of the 100% Pure brand is not only down to its strong headline, but also the determination to drive an understanding of the brand amongst tourism businesses throughout the country. Furthermore, there was a strong commitment to develop tourism products that reflected the brand values, and a passion to ensure that they were felt by visitors in the way they experienced the destination. This is what transformed New Zealand from a nice, natural destination to one of the most aspirational destinations and most admired brands in the world.

New Zealand is not unique in having a commitment to an unspoilt environment and quality produce, but it has managed to capture the world's imagination with its consistent branding. As time has gone by the campaign focus has shifted towards conversion. The style has been refined and now focus on showing people in the landscape and engaging in activities in order to ensure that potential visitors feel they can be part of the landscape and activities they are viewing.

Tourism New Zealand has a dedicated marketing research team that analyses visitor preferences, opinions, trends and behaviour on a regular basis. In turn the data is used to review and inform campaign activity and to enable on-going evolution and focus that reflects the needs of those travellers who are considering visiting the destination.

## 11 Objective 3: Product development and investment

- 11.1 From our research and analysis it is clear that Iceland needs to invest in its tourism-related infrastructure, if it is to achieve balanced growth in visitor numbers throughout the country. Year-round access must be improved, especially during peak periods and the winter season in order to achieve this.
- 11.2 Furthermore, there is scope to diversify the range of accommodation in the regions in order to facilitate future growth. In our capsule situation analysis, we identified that accommodation is well served in the lower and mid-market segments, but there is a requirement for more upscale boutique/lodge-style accommodation outside Reykjavík. This view was supported by the results of our visitor and international tour operator surveys.
- 11.3 Rural accommodation is often lacking in character with poor build quality (prefabs) and site planning. A design code and guidelines do exist, but would appear not to be followed rigidly. In view of this we would recommend that a best practice guide on planning for sustainable tourism is introduced to assist planners and developers in the future.
- 11.4 Key visitor sites, in particular those in the Golden Circle, are increasingly at risk of saturation and therefore urgently require better site management and planning in order to ensure they are enhanced and preserved. Land ownership issues are sometimes a barrier to this. This is also true at Landmannalaugar where poorly designed and laid out visitor facilities detract from the quality of the natural environment.
- 11.5 If a Conservation Fund were to be introduced, some of the proceeds could be allocated to site management and environmental protection in order to ensure the long-term sustainability of the most popular visitor destinations as well as opening up new destinations to visitors.
- 11.6 In order to spread the benefits of tourism and avoid saturation in the South, there is a need to create alternative circuits to the Golden Circle which can operate as destinations in their own right offering a critical mass of accommodation, attractions and services year-round. For example, the Diamond Circle and the Yulelads have the potential to be developed further and offer an alternative to Lapland in winter. This will require improved year-round access to Akureyri through supporting airlines and road clearing.
- 11.7 With regard to cultural tourism there is an opportunity to build on the success of the Saga Trails Association's work and the Settlement Centre in Borgarnes to develop sensitive informed and responsible locally-based products including living history.

- 11.8 Thus sustainability should be at the core of all new developments both from a development and building perspective as well as operationally. Ultimately, this will help facilitate Iceland's transition towards a green economy.
- 11.9 One of the key aims of the master mapping project is to attract investment and FDI in the tourism sector. In order to achieve this there is a need to identify and masterplan five to ten priority projects with the potential to achieve transformational change.
- 11.10 During our initial visit to Iceland we were introduced to a range of projects with the potential to appeal to the international investment community, albeit they are not yet all of sufficient scale and quality to be considered 'investment ready'.
- 11.11 In Figure 11.1 below, we present the five projects which we consider might offer the greatest potential in terms of achieving transformational change in the short to medium term.

**Figure 11.1 – Priority investment projects**

Region	Location	Project description	Timescales
Akureyri & the Northeast	Outskirts of Húsavík	Sjóböd spa & wellness hotel. Designed by Basalt Architects. To include 500m <sup>2</sup> spa with option to develop hotel later?	To be confirmed
Snæfellsness & West Fjords	Ásgardur near Borgarnes	Mythical River spa. 400 person capacity spa and restaurant with option to build hotel at a later date. Designed by Basalt Architects. Option on land until 2013.	2015/2016 to be confirmed.
Capital – Reykjavík	Adjacent to Harpa	4- or 5-star internationally-branded 270 bedroom hotel adjacent to Harpa possibly Marriott.	2015/2016 to be confirmed.
Golden Circle & the South	Skálabrekka resort	60 bedroom upscale resort hotel and spa on 445 hectare site adjacent to Thingvellir National Park.	To be confirmed
Vatnajökull, Skaftafell & Jökulsárlón	To be determined	Resort-style spa hotel adjacent to Jökulsárlón glacial lagoon.	To be confirmed

Source: PKF research

- 11.12 In total we identified over 15 projects many of which have the potential to offer attractive investment propositions in the medium to long term. We would recommend that the government considers entering into public/private partnerships to secure the development of key strategic projects especially those that have the strongest potential to open up new destinations. This not only signals the government's confidence in the sector but provides a platform of confidence for private investors.
- 11.13 This will require significant funding commitments in order to support pre-development enabling works and possibly land acquisition which could potentially be funded by say a Conservation Fund were it to be introduced.

## 12 Objective 4: Organising the industry for success

12.1 In our capsule situation analysis, we highlighted that there is currently a lack of common goals and targets that the tourism industry's key stakeholders are signed up and committed to. The Icelandic tourism industry is characterised by, on the one hand, a small number of very influential stakeholders. On the other hand, there is a large number of smaller stakeholders, who are often private sector micro or SME businesses who tend to have much less influence. However, they are crucially important in terms of providing services to visitors. Thus, there is scope to work in a more collaborative manner that ensures effective stakeholder engagement in order to achieve consensus.

12.2 In this section we present our recommended institutional framework for the Icelandic tourism industry with a view to encouraging tourism-related investment and effective public-private sector collaboration in order to realise the industry's economic growth potential.

### **Recommended institutional framework and tourism policy requirements**

12.3 In 2008, the OECD's 'Riva del Garda Action Statement for Enhancing Competitiveness and Sustainability in Tourism' recommended that governments wishing to take full advantage of the potential for tourism development should develop strong public sector management capabilities and a multi-actor system of governance. For an institutional framework to effectively contribute to sustainable tourism it must:

- Establish a comprehensive policy framework complete with land zoning;
- Promote a coherent policy framework through a whole-of-government approach;
- Encourage a culture of co-operation among tourism actors; and
- Implement evaluation and performance assessment of government policies and programmes affecting tourism development.

12.4 Given the inherent complexity of the tourism industry in Iceland, there is an urgent need to adopt an integrated and joined-up approach to tourism. This will enable Iceland to effectively manage the sector in a constantly changing business and policy environment as well as supporting balanced and sustainable tourism growth.

12.5 As a result of the recent restructure the governmental responsibility for tourism now sits within the new Ministry of Industries and Innovation. In Iceland part of the challenge is to ensure that tourism policy is linked across ministries. Therefore, in order to ensure that the interests of the tourism industry is represented fairly and understood across government, it is recommended that a Tourism Strategy Group is set up in order to replace the Tourism Council.

- 12.6 The aim of the proposed Tourism Strategy Group would be to facilitate a 'whole-of-government' approach, better co-ordination of tourism policy and stakeholder collaboration. We envisage that the proposed Tourism Strategy Group would comprise both public and private sector stakeholders and meet at least on a quarterly basis. One of the advantages of this approach is that it facilitates the prioritisation of tourism within other economic development activities, but without tourism getting 'lost' within government.

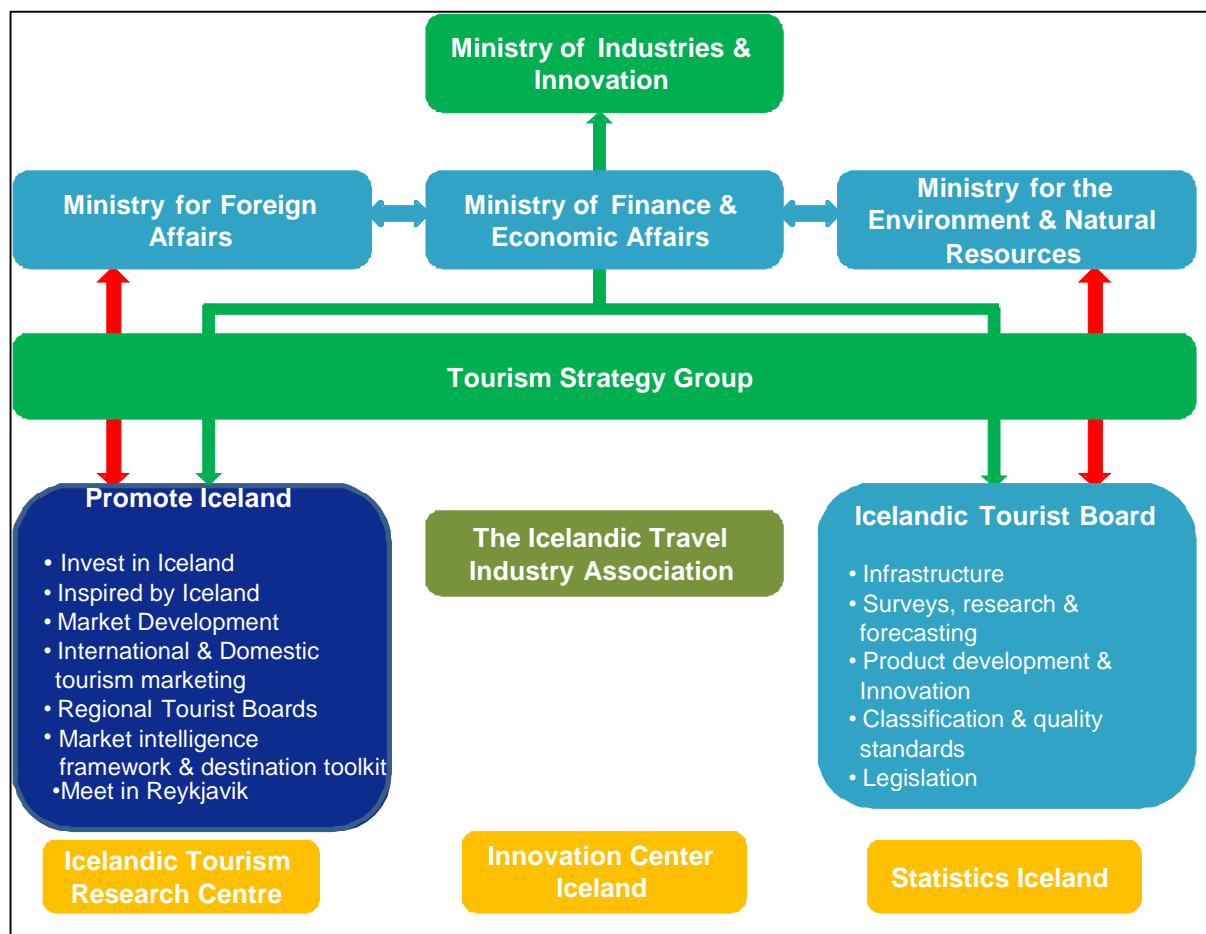
#### Case Study

In 2010, the New Zealand Ministry of Tourism was integrated into the Ministry of Economic Development under a new Tourism Strategy Group. This move was designed to position tourism policy within the government's broader economic development and growth framework. It recognised that tourism can play a significant role in growing a high-value, productive economy.

The Tourism Strategy Group provides policy advice to the Minister of Tourism and works with other government departments on key tourism policy issues, and tourism research and statistics. Furthermore, the Group evaluates government investments in tourism and is responsible for developing a tourism policy framework, including such issues as international aviation linkages, tourism sector productivity, infrastructure requirements, managing the opportunities and risks associated with New Zealand's evolving market mix and brand attributes.

- 12.7 In addition to the above, Promote Iceland and the Icelandic Tourist Board will need to provide strategic advice and guidance on tourism product and infrastructure development requirements to inform regional and local government as well as to potential private sector investors.
- 12.8 The establishment of a tourism strategy group for the tourism sector in Iceland is considered an important step towards achieving consensus across the industry and implementing a joined-up approach to tourism development which meets the needs of both the public and private sectors.
- 12.9 In Figure 12.1 overleaf, we present the recommended institutional and policy framework. The figure illustrates how the proposed tourism strategy group will act as a conduit between the main public and private sector stakeholders involved in the Icelandic tourism industry. The aim is to create a single voice for the industry across government and ensure that the private sector's views are represented fairly.
- 12.10 It furthermore, highlights the importance of working with the tourism industry service providers such as Statistics Iceland, Innovation Iceland and the Icelandic Tourism Research Centre in order to ensure that the research and analysis carried out provides maximum benefit to tourism industry as a whole.

Figure 12.1 - Recommended institutional and policy framework



Source: PKF research

- 12.11 It is envisaged that the Tourism Strategy Group be led by the Ministry of Industries & Innovation and comprises members from each of the ministries illustrated above as their respective regulative and legislative remit has an impact on the tourism sector.
- 12.12 A number of private sector stakeholders should also be represented on the Tourism Strategy Group and these could be selected by the Icelandic Travel Industry Association and Meet in Reykjavik in order to represent the tourism sector from a business and operational perspective.
- 12.13 The Tourism Strategy Group would be responsible for overseeing and monitoring the implementation of the long-term strategy as well as governing the proposed Conservation Fund.
- 12.14 Furthermore, the Tourism Strategy Group would be responsible for co-ordinating and monitoring tourism statistics, market intelligence and research provided by institutions such as Statistics Iceland, the Icelandic Tourism Research Centre and Innovation Center Iceland.

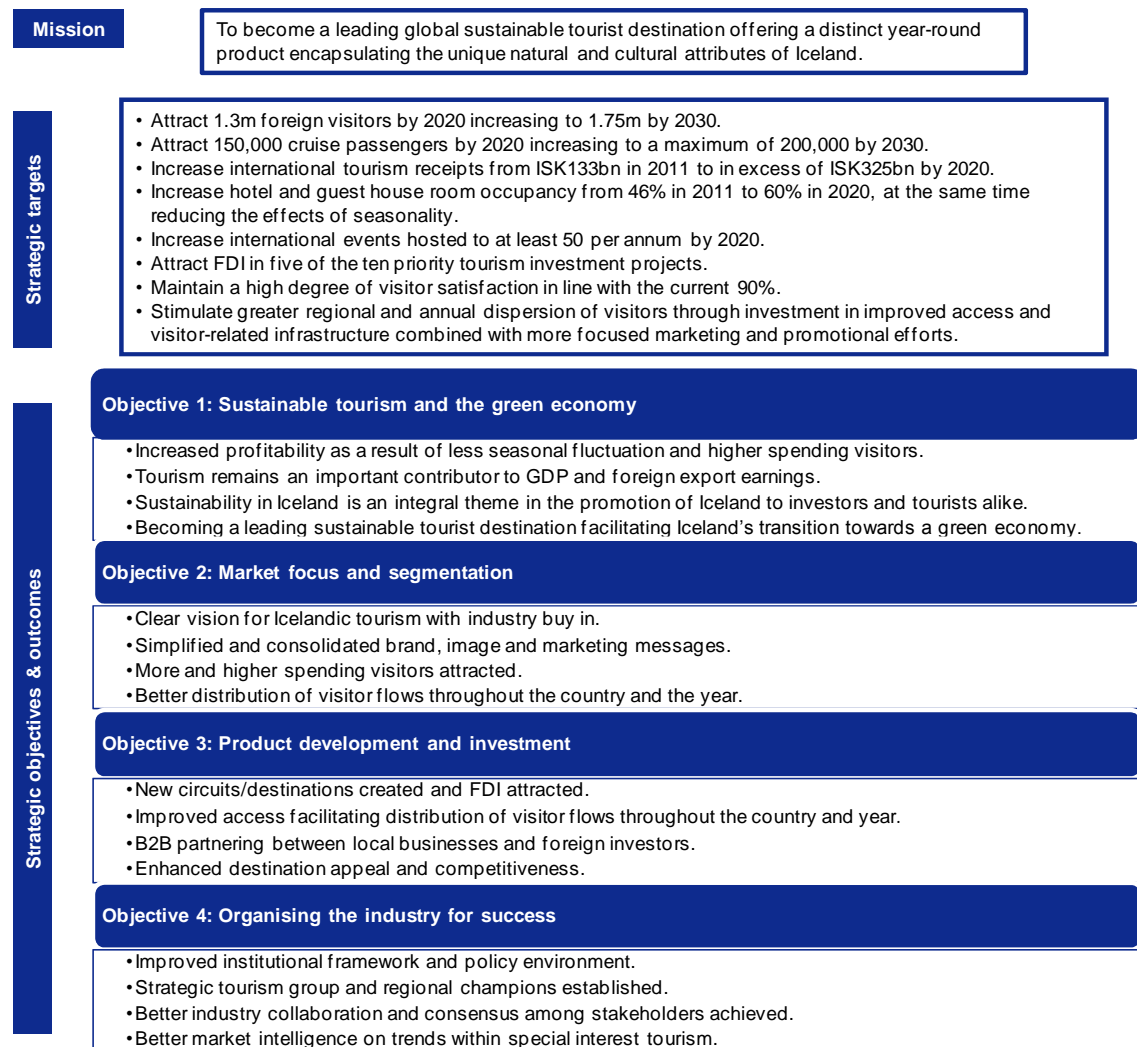


- 12.15 The Tourism Strategy Group should produce an Annual Review of the performance and progress of the Icelandic tourism industry against the identified targets and indicators.
- 12.16 In the long-term it is envisaged the Tourism Strategy Group will ensure a joined-up strategic approach to tourism development and build consensus among industry stakeholders.

## 13 Action plan and strategic priorities

13.1 In Figure 13.1 we summarise the strategic mission, targets, objectives and anticipated outcomes as outlined in the previous sections of this report:

**Figure 13.1 Strategic mission, targets, objectives and outcomes**



13.2 In the following we set out the recommended action plan for each of the four strategic objectives together with the anticipated outcomes and associated monitoring and performance indicators. The action plan contains 23 strategic priorities and associated actions together with timescales and lead organisation/s responsible for each action.

**OBJECTIVE 1: Sustainable tourism and the green economy – maximise the economic contribution of the tourism sector through green and sustainable growth. Create an enabling environment for sustainable and green investment.**

STRATEGIC PRIORITY	ACTION	TIMESCALE	LEAD ORGANISATION
1. Shift emphasis to value rather than volume to achieve balanced growth of tourism sector in the future.	<ul style="list-style-type: none"> <li>Review of current data and statistics collected.</li> <li>Establish market intelligence framework and destination toolkit to continuously analyse, monitor and evaluate performance and trends in key geographic source markets and segments.</li> </ul>	Year 1	Promote Iceland with Icelandic Tourist Board, Statistics Iceland and Icelandic Tourism Research Centre
2. Set realistic and measurable targets for growth in visitor numbers by geographic source markets and segments.	<ul style="list-style-type: none"> <li>Use market intelligence framework analysis to set and refine measurable targets for growth in visitor numbers by geographic source markets and segments</li> </ul>	Year 2-10 ongoing	Promote Iceland
3. Ensure sustainability is embedded when planning and developing tourism projects, rather than an add-on.	<ul style="list-style-type: none"> <li>Consider introducing GSTC destination criteria for sustainable tourism.</li> <li>Prepare best practice guide on planning for sustainable tourism.</li> <li>Encourage existing tourism enterprises to become part of the VAKINN quality and environmental system.</li> <li>Develop sustainable management plan for the cruise industry.</li> </ul>	Year 1	Promote Iceland
		Year 1-2	Icelandic Tourist Board with Planning Authorities
		Year 1-10	Icelandic Tourist Board
		Year 1-2	Ministry of Industries and Innovation with Cruise Iceland
4. Introduce fee for foreign visitors to Iceland, contributing towards a Conservation Fund, to be reinvested in site management and innovative sustainability and infrastructure projects.	<ul style="list-style-type: none"> <li>Prepare feasibility study on modus operandi including fee tariff, collection mechanism, fund management, allocation and governance.</li> <li>Introduce Conservation Fund.</li> <li>Develop site management plans for the ten most visited natural attraction.</li> </ul>	Year 1-2	Ministry of Industries and Innovation with Icelandic Tourist Board and Promote Iceland
		Year 3 onwards	Icelandic Tourist Board
		Year 2-4	Icelandic Tourist Board
5. Communicate sustainability achievements in order to raise awareness among industry stakeholders and visitors alike.	<ul style="list-style-type: none"> <li>Prepare stakeholder communications plan to raise awareness of sustainability efforts.</li> <li>Use sustainability efforts and achievement as key message in tourism marketing and promotion efforts.</li> </ul>	Year 1-10	Promote Iceland with Icelandic Tourist Board
		Ongoing	Promote Iceland
OUTCOMES		MONITORING & PERFORMANCE INDICATORS	
<ul style="list-style-type: none"> <li>Increased profitability as a result of less seasonal fluctuation and higher spending visitors.</li> <li>Tourism remains an important contributor to GDP and foreign export earnings.</li> <li>Sustainability in Iceland is an integral theme in the promotion of Iceland to investors and tourists alike.</li> <li>Becoming a leading sustainable tourist destination facilitating Iceland's transition towards a green economy.</li> </ul>		<ul style="list-style-type: none"> <li>International tourism expenditure increased to exceed ISK325bn by 2020.</li> <li>5% increase in average profitability of tourism industry enterprises by 2020.</li> <li>Tourism's contribution to GDP to remain at least 5.9%.</li> <li>Iceland to be ranked in the top ten in the Global Green Economy Index in terms of tourism sector performance by 2020.</li> <li>Reykjavik to be ranked in the top ten of meeting destinations in the Scandinavian Destination Sustainability Index by 2020.</li> </ul>	

**OBJECTIVE 2: Market focus and segmentation – simplify and consolidate brands in order to ensure a consistent image and messages across all channels. Attract 'high yield' 'low impact' visitors year round.**

STRATEGIC PRIORITY	ACTION	TIMESCALE	LEAD ORGANISATION
6. Develop a clear vision for tourism and decide where Iceland wants to be in 20 years' time.	<ul style="list-style-type: none"> <li>Refine proposed vision and determine the profiles of 'ideal' visitors to Iceland based on destination's natural attributes.</li> </ul>	Year 1	Promote Iceland with industry stakeholders
7. Simplify and consolidate brands in order to avoid confusion and encourage more efficient use of marketing resources.	<ul style="list-style-type: none"> <li>Build on success of 'Inspired by Iceland' and develop it into umbrella brand for Iceland based on vision and profiles of 'ideal' visitors to Iceland.</li> <li>Further development of joint promotion e.g. with film industry to raise awareness of Iceland.</li> </ul>	Year 2-10 ongoing	Promote Iceland
8. Assess and formulate measurable annual targets by geographical source markets and special interest segments.	<ul style="list-style-type: none"> <li>Use market intelligence framework and destination toolkit to assess and formulate annual targets by key geographic source markets and special interest segments.</li> </ul>	Year 2-4	Promote Iceland with Icelandic Tourist Board
9. Apply market intelligence in order to provide more focused messages and attract identified 'ideal' visitors, not only based on geography but also lifestyle.	<ul style="list-style-type: none"> <li>Develop focused messages, marketing and promotion activities and campaigns in order to achieve annual targets by key geographic source markets and special interest segments.</li> </ul>	Year 1-2	Promote Iceland
10. Extend season by focusing on MICE, Health & Wellness, Culture & Short-breaks, Food & Gastronomy as well as special interest tourism including fishing and bird watching.	<ul style="list-style-type: none"> <li>Develop specific marketing and promotion activities and campaigns to attract MICE, Health &amp; Wellness, Culture &amp; Short-breaks, Food &amp; Gastronomy and special interest tourism.</li> </ul>	Year 1-10 ongoing	Promote Iceland
11. Develop specific marketing collateral for MICE and special interest segments as well as for inward investment in tourism.	<ul style="list-style-type: none"> <li>Prepare destination manual for MICE detailing attractions, venues, hotels, excursions, transport and DMCs.</li> <li>Prepare marketing materials and collateral aimed the identified non-geographic segments and special interest tourism.</li> <li>Prepare tourism sector profile and associated information for inward investment purposes.</li> </ul>	Year 1- 10 ongoing	Promote Iceland with Meet in Reykjavik
OUTCOMES	MONITORING & PERFORMANCE INDICATORS		
<ul style="list-style-type: none"> <li>Clear vision for Icelandic tourism with industry buy in.</li> <li>Simplified and consolidated brand, image and marketing messages.</li> <li>More and higher spending visitors attracted.</li> <li>Better distribution of visitor flows throughout the country and the year.</li> <li>Broader geographic source market and segment appeal.</li> </ul>	<ul style="list-style-type: none"> <li>Vision for Icelandic tourism and profiles of 'ideal' visitors agreed by 2014.</li> <li>Inspired by Iceland developed into the umbrella brand by 2015.</li> <li>International tourism expenditure increased to in excess of ISK325bn by 2020.</li> <li>Increase in international events hosted to at least 50 per annum by 2020.</li> <li>Increase hotel and guest house room occupancy to 60% + by 2020 at the same time reducing the effects of seasonality.</li> </ul>		

**OBJECTIVE 3: Product development and investment – create alternative circuits to the Golden Circle in order to distribute visitor flows better and accommodate sustained growth year round. Make sustainability a core development and investment criteria.**

STRATEGIC PRIORITY	ACTION	TIMESCALE	LEAD ORGANISATION
12. Encourage more competition in order to improve year-round access, especially during peak periods and the winter season.	<ul style="list-style-type: none"> <li>Attract more international airlines in order to improve frequency and range of destinations served within Iceland (eg Akureyri) and key geographic source markets.</li> </ul>	Year 2-4	ISAVIA with Ministry of Industries and Innovation
13. Attract FDI to develop new circuits/destinations in their own right offering a critical mass of accommodation, attractions and services year round.	<ul style="list-style-type: none"> <li>Identify and masterplan five to ten priority projects with potential to achieve transformational change perhaps through a PPP/PFI partnership.</li> <li>Use tourism sector profile and associated information for inward investment purposes.</li> </ul>	Year 1-10	Promote Iceland
14. Diversify range and quality of accommodation throughout the country.	<ul style="list-style-type: none"> <li>Work with tourism strategy group, developers and entrepreneurs to encourage development of diverse range and quality accommodation including high-quality lodges and boutique hotels.</li> <li>Match local businesses and foreign investors to facilitate B2B partnerships.</li> </ul>	Year 1-10	Promote Iceland with Icelandic Tourist Board
15. Facilitate development of high-quality 'investment ready' projects in order to appeal to the international investment community.	<ul style="list-style-type: none"> <li>Work with developers and entrepreneurs to prepare priority projects sufficiently to be 'investment ready'.</li> <li>Introduce 'investment ready' projects to international investment community.</li> </ul>	Year 1-10	Promote Iceland with Icelandic Tourist Board
16. Establish project development fund to support predevelopment enabling works and land acquisition if required.	<ul style="list-style-type: none"> <li>Assess feasibility of setting up project development fund including the possibility of it being part of the proposed Conservation Fund.</li> <li>Allocation of funds to priority projects.</li> </ul>	Year 1-2 Year 4 ongoing	Ministry of Industries and Innovation with Icelandic Tourist Board and Promote Iceland
17. Communicate success stories through case studies and PR to overcome reputation issues.	<ul style="list-style-type: none"> <li>Develop PR and communications plan aimed at international investment community with case studies and success stories.</li> </ul>	Year 1 ongoing	Promote Iceland
OUTCOMES	MONITORING & PERFORMANCE INDICATORS		
<ul style="list-style-type: none"> <li>Foreign direct investment attracted and new circuits/destinations created.</li> <li>Improved access facilitating distribution of visitor flows throughout the country and year.</li> <li>B2B partnering between local businesses and foreign investors.</li> <li>Enhanced destination appeal and competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>Number of airlines, frequencies and destinations served increased.</li> <li>Iceland successful in attracting at least five tourism-related FDI projects.</li> <li>Iceland successful in setting at least ten B2B partnerships between local businesses and foreign investors.</li> <li>Number of visitors to Iceland increased to 1.3m by 2020.</li> <li>Number of visitors spread more evenly throughout the year and country.</li> </ul>		

**OBJECTIVE 4: Organising the industry for success – improve industry collaboration through an improved institutional framework. Introduce a tourism strategy group to facilitate industry collaboration, consensus building and a joined-up approach to tourism development.**

STRATEGIC PRIORITY	ACTION	TIMESCALE	LEAD ORGANISATION
18. Improve the institutional framework and policy environment, to ensure consolidation and clear direction to all tourism industry stakeholders.	<ul style="list-style-type: none"> <li>Establish tourism strategy group to enable ‘whole-of-government’ approach to tourism policy; to comprise public and private sector representatives.</li> </ul>	Year 1 ongoing	Ministry of Industries and Innovation with Promote Iceland, Icelandic Tourist Board
19. Encourage better partnership working between public and private sectors with a view to achieving consensus.	<ul style="list-style-type: none"> <li>Establish strategic tourism sector cluster to facilitate collaboration and joint working between public and private sector.</li> </ul>	Year 1 ongoing	Promote Iceland with Icelandic Travel Association
20. Introduce regional champions to sponsor the development of special interest tourism clusters such as adventure MICE, cruise, Health & Wellness, Food & Gastronomy, Cultural Tourism & Short-breaks as well as sustainability.	<ul style="list-style-type: none"> <li>Establish each region as a champion for specific topic e.g. Reykjavik MICE and the North skiing.</li> <li>Develop market intelligence and action plans for each topic to feed into market intelligence framework.</li> </ul>	Year 1 ongoing	Promote Iceland with Regional Tourist Boards
		Year 1 ongoing	
21. Adopt two-pronged approach to tourism supporting and stimulating home-grown talent and entrepreneurs via clusters as well as attract FDI.	<ul style="list-style-type: none"> <li>Regional champions and clusters to identify local businesses demonstrating B2B partnership potential.</li> </ul>	Year 2 ongoing	Regional Tourist Boards with Promote Iceland
22. Improve and share knowledge between different parts of the country and types of stakeholders.	<ul style="list-style-type: none"> <li>Use regional champions and clusters as means to share knowledge between different parts of the country and types of stakeholders.</li> <li>Create industry/travel trade area on proposed ‘Inspired by Iceland’ webportal to communicate with stakeholders and share knowledge as well as market intelligence.</li> </ul>	Year 2 ongoing	Promote Iceland with Regional Tourist Boards
		Year 2 ongoing	Promote Iceland with Icelandic Tourist Board
23. Simplify approach to tourism planning and infrastructure development to ensure high-quality and sustainability of industry.	<ul style="list-style-type: none"> <li>Introduction of best practice guide on planning for sustainable tourism.</li> </ul>	Year 2 ongoing	Icelandic Tourist Board with Planning Authorities
OUTCOMES		MONITORING & PERFORMANCE INDICATORS	
<ul style="list-style-type: none"> <li>Improved institutional framework and policy environment.</li> <li>Better industry collaboration and consensus among stakeholders achieved.</li> <li>Better market intelligence on trends within special interest and tourism.</li> </ul>		<ul style="list-style-type: none"> <li>Tourism strategy group established.</li> <li>Regional champions and clusters established.</li> <li>Best practice guide on planning for sustainable tourism introduced.</li> </ul>	

## 14 Monitoring and evaluation

- 14.1 At the present time there is a lack of analysis and evaluation of the tourism industry's performance. Tourism industry statistics and performance data are not being applied to inform future development be it in terms of tourism policy, product development, marketing or promotion. Promote Iceland and the Icelandic Tourist Board need to adopt a robust approach to monitoring and evaluating the performance of the tourism industry on a regular basis in close co-operation with Statistics Iceland and the Tourism Research Centre. This can then in turn feed into the work of the proposed Tourism Strategy Group.
- 14.2 In order for the long-term strategy to be delivered successfully, it is crucial that progress is monitored and evaluated on a regular basis and that the results are actively used to keep the strategy on track and to refine and amend the strategy and its implementation when necessary. The introduction of the market intelligence framework and destination toolkit will be critical to the process.
- 14.3 In the following we present a monitoring grid for this purpose highlighting the performance indicators and key deliverables by each of the four strategic objectives together with evidence sources and frequency. This will need to be adapted and changed as the implementation of the long-term strategy progress.
- 14.4 We recommend that the monitoring grid is used as an internal evaluation tool by the Tourism Strategy Group on an annual basis and that the results presented in an annual review accessible to tourism industry stakeholders and other interested parties.
- 14.5 Furthermore, it is recommended that external evaluations are conducted at the mid-term and at the end of the strategy period. It is crucial that the monitoring and evaluation findings are communicated to both public and private sector stakeholders on a regular basis e.g. through an annual review.

Monitoring: performance indicators and deliverables	Evidence sources	Frequency
<b>Objective 1: Sustainable tourism and the green economy</b>		
<ul style="list-style-type: none"> <li>Review current data and statistics collected.</li> <li>Market intelligence framework and destination toolkit.</li> <li>Best practice guide on planning for sustainable tourism.</li> <li>Sustainable management plan for the cruise industry.</li> <li>Conservation Fund feasibility study and introduction.</li> <li>Annual audit of Conservation Fund.</li> <li>Site management plan for ten most visited natural attractions.</li> <li>Stakeholder communications plan for sustainability efforts and achievements.</li> <li>International tourism expenditure increased to in excess of ISK325bn by 2020.</li> <li>Average profitability of tourism industry enterprises increased by 5% by 2020.</li> <li>Tourism's contribution to GDP to remain at least 5.9%.</li> <li>Iceland to be ranked in the top ten in the Global Green Economy Index in terms of tourism sector performance by 2020.</li> <li>Reykjavik to be ranked in the top ten of meeting destinations in the Scandinavian Destination Sustainability Index by 2020.</li> </ul>	Promote Iceland, Statistics Iceland Promote Iceland, Statistics Iceland Icelandic Tourist Board Ministry of Industries and Innovation and Cruise Iceland Ministry of Industries and Innovation Ministry of Industries and Innovation Icelandic Tourist Board Promote Iceland, Icelandic Tourist Board Promote Iceland, Statistics Iceland Icelandic Travel Industry Association Statistics Iceland Global Green Economy Index  Scandinavian Destination Sustainability Index	2014 2014 2015 2015 2015 2016-2020 2015-2017 2014-2020 Annually Annually Annually Annually  Annually
<b>Objective 2: Market focus and segmentation</b>		
<ul style="list-style-type: none"> <li>Assess and formulate annual targets by geographic source markets and special interest segments using SMART.</li> <li>Destination Manual for MICE segment.</li> <li>Marketing materials and collateral aimed at identified special interest segments.</li> <li>Tourism sector profile and associated materials for inward investment purposes.</li> <li>Vision for Icelandic tourism and profiles of 'ideal' visitors agreed by 2014.</li> <li>Inspired by Iceland developed into the umbrella brand by 2015.</li> <li>International tourism expenditure increased to in excess of ISK325bn by 2020.</li> <li>Increase in international events hosted to at least 50 per annum by 2020.</li> <li>Increase hotel and guest house room occupancy to 60% + by 2020 at the same time reducing the effects of seasonality</li> </ul>	Promote Iceland  Meet in Reykjavik, Promote Iceland Promote Iceland Promote Iceland, Statistics Iceland Tourism Strategy Group Promote Iceland Promote Iceland, Statistics Iceland ICCA, Meet in Reykjavik Icelandic Travel Industry Association, Statistics Iceland	2014-2020  2013-2020 2014-2020 Annually 2015 2016 Annually Annually Annually



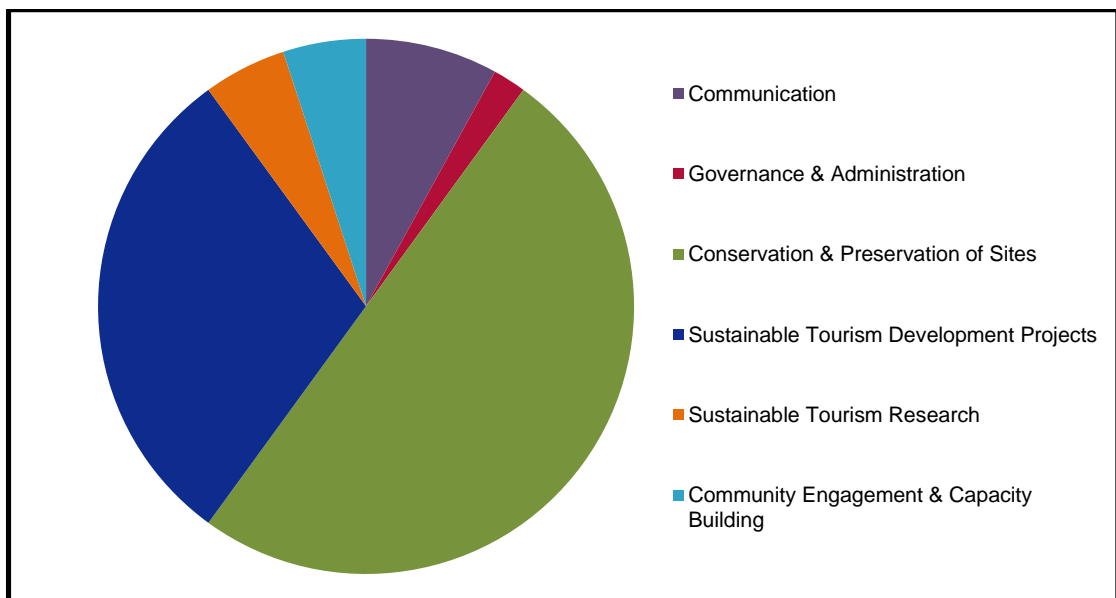
Monitoring: Performance indicators and deliverables	Evidence sources	Frequency
<b>Objective 3: Product development and investment</b>		
<ul style="list-style-type: none"> <li>Identify and masterplan five to ten priority projects for FDI.</li> <li>Assess feasibility of setting up project development fund.</li> <li>PR and communications plan aimed at international investment community.</li> <li>Number of airlines, frequencies and destinations served increased.</li> <li>Iceland successful in attracting at least five tourism-related FDI projects.</li> <li>Iceland successful in setting at least ten B2B partnerships between local businesses and foreign investors.</li> <li>Number of visitors to Iceland increased to 1.3m by 2020.</li> <li>Number of visitors spread more evenly throughout the year and country.</li> </ul>	Promote Iceland Ministry of Industries and Innovation Promote Iceland ISAVIA Promote Iceland Promote Iceland  Statistics Iceland Statistics Iceland	2013-2020 2015 Annually Annually Annually Annually Annually Annually
<b>Objective 4: Organising the industry for success</b>		
<ul style="list-style-type: none"> <li>Industry/travel trade area on proposed 'Inspired by Iceland' webportal.</li> <li>Tourism strategy group established.</li> <li>Strategic tourism sector cluster established.</li> <li>Regional champions and special interest clusters established.</li> <li>Best practice guide on planning for sustainable tourism introduced.</li> </ul>	Promote Iceland Ministry of Industries and Innovation Promote Iceland Promote Iceland Icelandic Tourist Board with Planning Authorities	2015 2014 2014 2014 2015

## 15 Indicative financial resourcing

- 15.1 In this section we briefly set out the proposed budget for the marketing of tourism. This is the annual amount that would be required to successfully promote the destination and is over and above any one-off costs required to initially deliver the promotions. Our initial estimate is based on current levels of expenditure when compared to 'similar' destinations, and will be subject to change following a more in-depth discussion with key stakeholders.
- 15.2 The current annual budget for Promote Iceland is ISK835m, of which Visit Iceland's public funding is approximately ISK200m. In addition the Inspired by Iceland campaign is 50/50 public/private funded with the public element capped at ISK300m per annum. The Iceland Naturally campaign is 60/40% public/private funded with the public element equating to ISK74m. The annual budget of the Icelandic Tourist Board was ISK308m in 2011. This makes up a total of ISK882m/€5.4m.
- 15.3 As an emerging destination it is crucial that Iceland has sufficient funds allocated to tourism marketing and promotion, market intelligence, investment in infrastructure as well as product development and sustainability. It is essential that long-term consistent and dependable funding is available if Iceland is to maintain and improve its competitiveness in the global tourism marketplace on a sustainable basis. In our view core public sector funding for tourism sector development, market research and intelligence as well as marketing and promotion needs to be in the region of **€7.5m - €10m per annum** if the aspirations for the industry are to be fulfilled on a sustainable basis. This works out at circa €5 - €7 per arrival by 2030. On top of that there is a requirement for investment in tourism-related infrastructure some of which could be also funded by the proposed Conservation Fund.
- 15.4 At the present time the core Visit Iceland funding is insufficient to make an impact with its annual budget less than a third of that of 'Inspired by Iceland'. As suggested we recommend that 'Inspired by Iceland' becomes the umbrella brand for Iceland and that the current functions of Visit Iceland are incorporated into this.
- 15.5 Should Promote Iceland take on the recommended extended remit associated with implementing the long-term strategy successfully then it will require additional secure core funding, which part of a conservation fund could well provide.
- 15.6 Additionally we have identified the need for the development of a market intelligence framework and destination toolkit which will require an initial upfront investment as well as ongoing funding. In New Zealand approximately €5m is spent annually on policy advice and research which includes the destination toolkit. It is clear that a significant amount will need to be invested in order to provide the robust market intelligence required to inform future marketing and promotional efforts with a view to maximising the return on investment.

- 15.7 Finally, there is the need to invest in the sustainable development of the tourism industry in terms of the best practice planning guide for sustainable tourism, a cruise industry management plan, site management plans for the ten most visited natural attractions as well as the investment in tourism-related infrastructure including the preparation of masterplans for priority projects. This will require substantial public sector investment which could be funded by the Conservation Fund. We note the 2013 to 2015 government allocation of ISK500m annually towards the development of tourist destinations, and the ISK250m to improve the infrastructure of national parks and nature reserves. This is a good start but can be further supported by a specific tourism sector fund, as it is likely that future expenditure is likely to exceed these allocations.
- 15.8 As discussed, there is already a precedent for charging visitors, for example, in Greenland cruise passengers are charged DKK600/approximately €80 and in the Galapagos Islands there is a USD100 approximately €80 national park service fee to visit the islands. Similarly, Bhutan charges a USD65 approximately €50 daily tourism royalty going towards alleviating poverty and subsidising education and healthcare for the country's residents.
- 15.9 If a Conservation Fund were to be considered then it will require a detailed feasibility study on its modus operandi including fee tariff, collection mechanism, fund management, allocation and governance. However, on a broad basis, assuming a Conservation Fund is introduced at €50 per international visitor and cruise passenger arrival, this could generate an estimated €72.4m by 2020 and €97.5m by 2030 based on our visitor forecast. In Figure 15.1 below show an indication of how a Conservation Fund's resources might be allocated.

**Figure 15.1 Indicative illustration of Conservation Fund resource allocation**



Source: PKF research

- 15.10 It is envisaged that the Conservation Fund would come under the remit of the tourism strategy group and be subject to an annual audit by the Icelandic national audit office to ensure maximum transparency and use of funds.

## 16 In summary

- 16.1 Over the past decade Iceland has experienced rapid expansion of its tourism industry. The country is now at a crossroads where as the destination matures the focus of tourism policy needs to shift away from focusing purely on increasing visitor numbers and international tourism receipts towards the creation of a sustainable destination that will remain competitive in the long term.
- 16.2 The rapid growth in visitor numbers, particularly cruise passengers, has started to cause some friction and congestion at key visitor sites within the Golden Circle. Thus there is a need for urgent action and sustained responsibility in regard to the preservation of both the natural environment and local culture.
- 16.3 Key visitor sites are increasingly at risk of saturation and therefore urgently require better site management and planning in order to ensure they are enhanced and preserved. If a Conservation Fund were to be introduced some of the proceeds could be allocated to site management and preservation in order to ensure the long-term sustainability of these as well as opening up new destinations to visitors.
- 16.4 Like elsewhere, the Icelandic tourism industry is complex in nature and as such it requires co-ordination of government at all levels as well as of the private sector businesses that both compete and co-operate with one another. At the present time there is a lack of consensus among many of these stakeholders and thus we recommend that a tourism strategy group is introduced in order encourage better stakeholder alignment and co-operation.
- 16.5 At this stage a clear and cohesive approach is therefore required in order to maximise the financial and socio-economic benefits that such a unique and much desired product deserves. A long-term strategy that is supported by all key stakeholders is consequently needed to provide focus and combined with a top down approach; there is no question that the desired outcomes can be delivered in protecting the product whilst ensuring its sustainability for generations to come.
- 16.6 It is clear that if Icelandic tourism is to continue to prosper there is a need to invest in the on-going development of the sector in terms of market intelligence, investment in tourism-related infrastructure as well as marketing and promotion.
- 16.7 Whilst throughout this report we make certain observations and recommendations, these will ultimately have to be tailored during the implementation phase. Nevertheless we consider that they ultimately provide a platform from which a final strategy can be produced.
- 16.8 In this section we set out a summary of the key messages which are contained within this report. It is the intention to discuss these further with stakeholders before a final strategy can be produced and budgets etc agreed in principle. Ultimately though it is the stakeholders

who will be challenged with delivering the long-term strategy within reasonable financial constraints.

### Key messages

- Iceland is a truly inspiring destination with great potential to offer unique and authentic tourism experiences if managed correctly.
- It has already achieved considerable success which provides a platform on which to build.
- The focus now needs to shift from volume to 'high yield' 'low impact' visitation, recognising a balance must be struck between the two especially in making the destination a year round visitor attraction.
- The areas outside of the Capital and South regions have tremendous development potential and could present great FDI opportunities.
- Tourism needs to embrace all relevant government departments and private sector stakeholders under one banner eg a tourism strategy group.
- All government departments and stakeholders should work together to ensure a clear and consistent message is delivered eg through the hugely successful 'Inspired by Iceland' brand.
- Consideration should also be given to a 'Conservation Fund' which will be used in site preservation, investment in strategic sustainable tourism projects, tourism research, communication and marketing. It will ensure long-term secure funding for the continued development of the tourism industry on a sustainable basis.

16.9 Our recommended mission statement and vision is set out in Section 8 of this report. The indicative budget is presented in Section 15. A combination of these factors should witness Iceland achieving a good balance of sustainable visitation year round.

### Strategic targets

- Attract 1.3m foreign visitors by 2020 increasing to 1.75m by 2030.
- Attract 150,000 cruise passengers by 2020 increasing to a maximum of 200,000 by 2030.
- Increase international tourism receipts from ISK133bn in 2011 to in excess of ISK325bn by 2020.
- Increase hotel and guest house room occupancy from 46% in 2011 to 60% in 2020, at the same time reducing the effects of seasonality.
- Increase international events hosted to at least 50 per annum by 2020.
- Attract FDI in five of the ten priority tourism investment projects.
- Maintain a high degree of visitor satisfaction in line with the current 90%.
- Stimulate greater regional and annual dispersion of visitors through investment in improved access and visitor-related infrastructure combined with more focused marketing and promotional efforts.