

A Changed World For Irish Tourism

- facing up to the challenges of recovery



Executive Summary

itjc

Irish Tourist Industry Confederation

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EXECUTIVE SUMMARY

1. AN OVERVIEW

Irish tourism is facing its greatest challenge in several decades as a result of the impact of the recent global recession on international travel and the changing patterns of demand for holidays in Ireland. The short term outlook of slow economic recovery in Ireland's principal source markets suggests a continuing difficult trading period for most businesses, with recovery to pre-recession levels at least 3 to 5 years away. However, recovery is by no means assured.

Recovery will depend on success in restoring growth from the top 4 overseas source markets, most especially from Britain which has shown no growth in holidays to Ireland for most of the past decade, coupled with renewed growth in demand from the US, Germany and France. Failure to turn around the British market, due to its size, would stunt overall recovery.

The domestic market, which has proven more resilient in the current downturn and continues to underpin many businesses is capable of renewed growth. However, the domestic market cannot deliver the quantum of volume or value growth to compensate for a continued downturn in demand from overseas.

The quintessential appeals of Ireland – its people and scenery – continue to rank highly and deliver a satisfactory experience for overseas holiday visitors. However, improved competitiveness, continued availability of adequate and affordable air services, and smart marketing are the factors which have been identified as most likely to shape Ireland's ability to win back tourists. Exchange rates may restore some advantage to British and US visitors, but discounting and low yields are expected to continue to depress margins. Falling profits within the sector and a lack of funds for working capital and reinvestment pose serious threats to the ongoing ability to deliver a quality and improved value for money experience.

The market landscape is changing as the post recession consumer seeks better value, the travel industry adopts new business models, and technology continues to revolutionise how consumers plan, book and experience travel.

All forecasts point to renewed, albeit modest, growth in demand for intra-European travel, with leisure travel firmly established in lifestyle patterns and discretionary business travel showing signs of recovery. The opportunity undoubtedly exists for a return to growth, provided Ireland can effectively compete with timely strategic and tactical responses to evolving customer demand patterns in a changed market environment.

Tourism as an export industry can play an important part in restoring the Irish economy to growth. Tourism recovery is essential to the sustainability of many businesses and to maintaining employment and Exchequer receipts. The speed of recovery for Irish tourism will depend on the success or otherwise of winning market share in a slow growth environment.

The current situation calls for urgent action on a number of fronts if Ireland is to recover from this downturn and return to growth over the next three to five years.

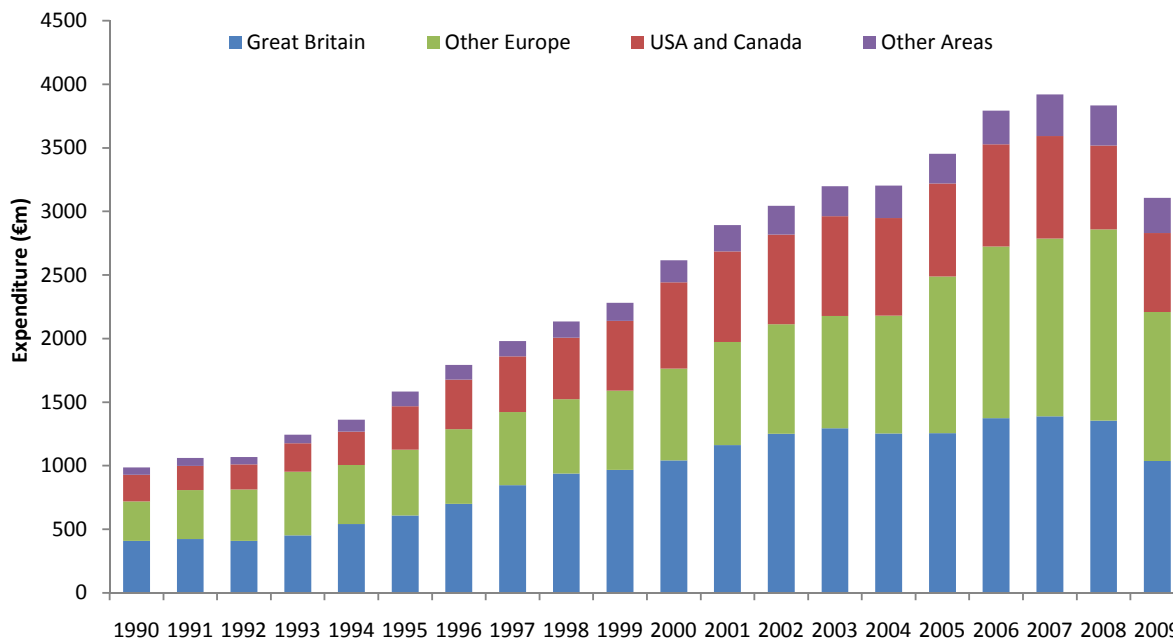
The primary focus for recovery is the holiday segment which is amenable to promotion.

2. THE CHANGED FACE OF IRELAND'S TOURISM

The current downturn in Irish tourism

Despite the downturn, tourism earned €5.4 billion in 2009 with receipts from out of state visitors at just under €4 billion, plus a further €1.4 billion spent by domestic tourists.

Fig. 1: Overseas visitor expenditure in Ireland (€m) 1990-2009



Source: CSO/Fáilte Ireland

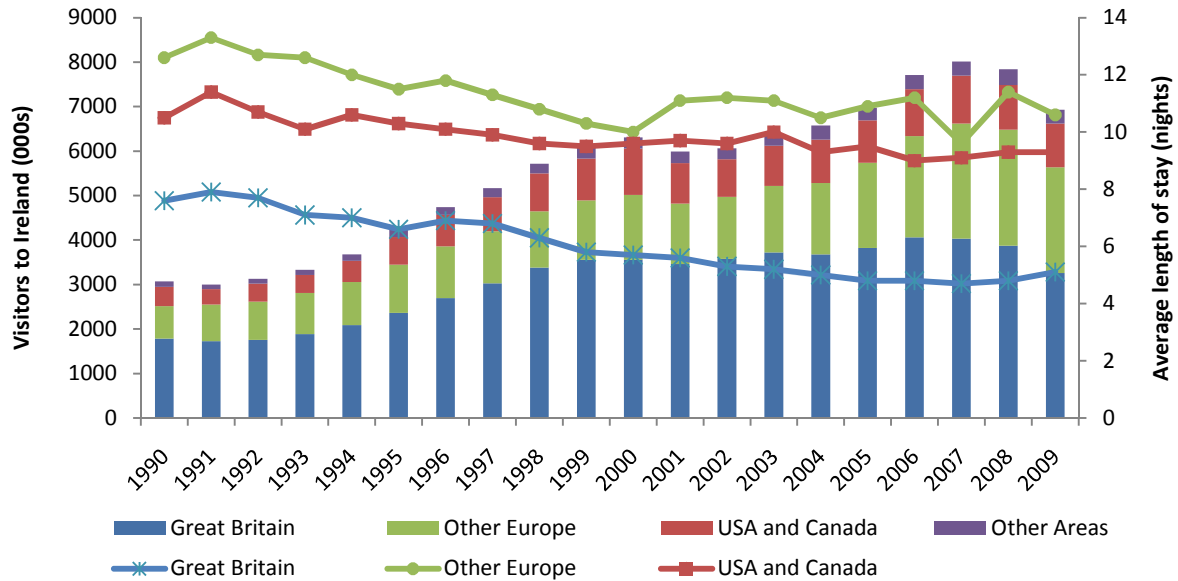
Ireland, in common with most of its competitors, has seen demand fall over the past two years after an extended period of continuous growth. The global economic recession has dampened demand for international travel, which resulted in Ireland welcoming 6.5 million visitors in 2009, almost 1.2 million fewer visitors than in the record year 2007. Within that total, there were 1 million fewer overseas holiday visitors in 2009 compared to two years earlier, a 27% drop from 4 million in 2007. Hotels, guesthouses and B&Bs suffered a 20% drop in bednights last year. The current outlook for 2010 suggests a further decline in visitors resulting in at least 1.5 million fewer visitors compared to three years ago.

The changing face of Irish tourism

The main driver of the growth in demand over the past two decades has been primarily economic prosperity in source markets, coupled with supply side factors such as the expansion of the range of attractive holidays on offer, new routes and cheaper airfares, and aggressive marketing.

Over the past decade the composition and characteristics of tourism in Ireland have changed. Growth in demand for Irish holidays came mainly from mainland Europe, while the average length of stay declined from all markets, but most noticeably from Britain.

Fig. 2: Composition by market of origin & length of stay x origin

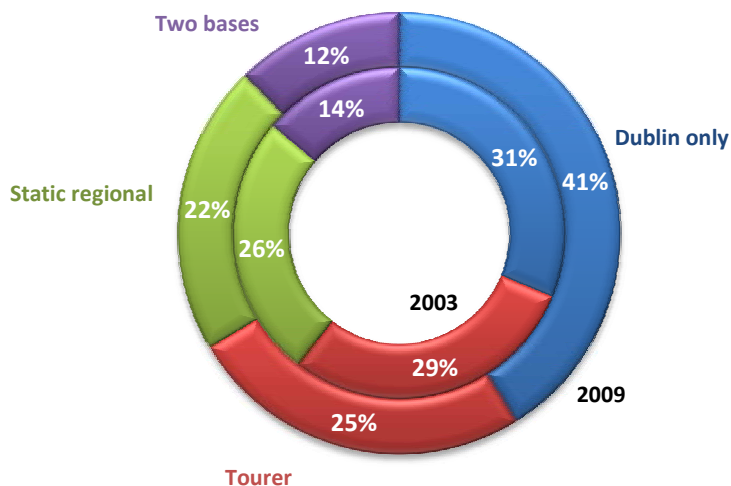


Source: Fáilte Ireland

Demand for holidays in Ireland changed significantly over the past decade and many of the changes have been well flagged in previous reports. In short Ireland became increasingly dependent on mainland European and Irish holidaymakers. Holiday makers from mainland Europe increased from 0.8 million in 2000 to a peak of 1.4 million in 2007, while over the same period holidays visits from Britain remained almost unchanged at close to 1.7 million each year and at around 0.7 million from North America. Over this period the purchasing power of the pound sterling and the US dollar deteriorated against the euro - by as much as 40% and 20% respectively between 2001 and 2008. Last year the number of holidaymakers from mainland Europe almost equalled that from Britain at close to 1.1 million. Interestingly, while the number of Europeans coming on holidays in 2008 and 2009 dipped, the volume of bednights was maintained, in contrast to sharp declines in holiday bednights from Britain and North America.

Holiday bednights in the country over the past decade increased in the greater Dublin area, while declining in most other regions – a function of the increasing popularity of Dublin, the growth in Dublin as a gateway, and a change in type of holiday taken by overseas visitors in Ireland.

Fig. 3: Change in type/location of holiday 2009 v 2003



Source: Tourism Ireland

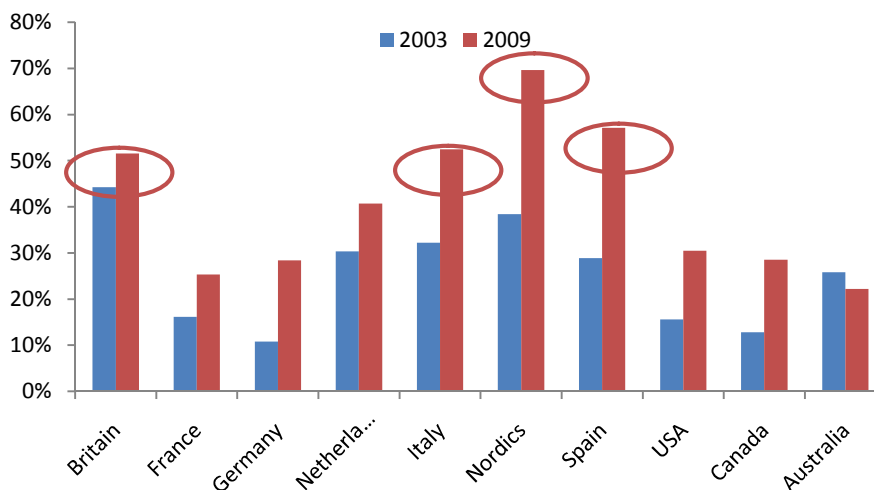
Between 2003 and 2009 the popularity of touring holidays and based holidays outside of Dublin declined, with the share of the holiday visitors to Ireland spending all their time in Dublin growing significantly. Despite the international trend towards more active holidays, the numbers of overseas visitors taking an activity holiday in Ireland, such as golf, fishing, equestrian and cycling, has been trending downwards, with walking the only activity sector showing growth.

Dublin the destination of choice for more than two fifths of the market

More striking than the increase in the numbers visiting Dublin has been the share of the market for which Dublin is the destination of choice. Last year more than one in every two holiday trips to Ireland from Britain, Spain, Italy and the Nordics was to visit Dublin only, and perhaps surprisingly Dublin was the sole destination for almost one in every three Americans.

While the popularity of Dublin as a sole destination from Britain peaked in 2005, the growth in demand for 'Dublin only' trips from other markets has continued to grow the aggregate volume of visits and bednights to the city. The rate of growth in demand for Dublin has not only outpaced the rate of growth in the overall holiday market to Ireland in recent years but 'Dublin only' visits held up better over the past two years than the total holiday market to the country.

Fig. 4: 'Dublin only' as share of all holidays by source



Source: TTC derived from Fáilte Ireland and Tourism Ireland data

Fundamental changes in the British market to Ireland

Apart from the overall level of holiday demand for Ireland being stagnant for most of the past decade, Ireland has seen a number of other fundamental changes in demand from this market. The marked preference for travel by air has resulted in shorter stays and a halving in the number of British holiday visitors bringing their car to Ireland from over 760,000 in 2000 to 335,000 in 2008. While the popularity of Dublin was on the ascent up to 2005, that market, largely of younger visitors, is now in decline.

Perhaps most worryingly Ireland has become more dependent on repeat visitors. The share and absolute number of first time visitors and holidaymakers – a critical metric in destination promotion – has been in marked decline and at a faster rate than repeat visitors. First time holidaymakers accounted for 42% of demand in 2003, which has fallen back to 34% in 2009. In absolute numbers Ireland welcomed 753,000 first time holiday makers from Britain in 2003, compared to just over

half that number (383,000) last year. In contrast, over the period the number of repeat holiday visitors fell by 28%. Ireland has also become more dependent on the older end of the market.

The reaction of British visitors to the value of their holiday in Ireland has been worrying, with almost one in three considering it bad value for money last year, a fact which is likely to have an impact on word of mouth recommendations and the propensity to return for another visit.

The latest data indicates that the sharp fall off in demand for Ireland over the past 9 months reflects a loss of market share of outbound travel from Britain.

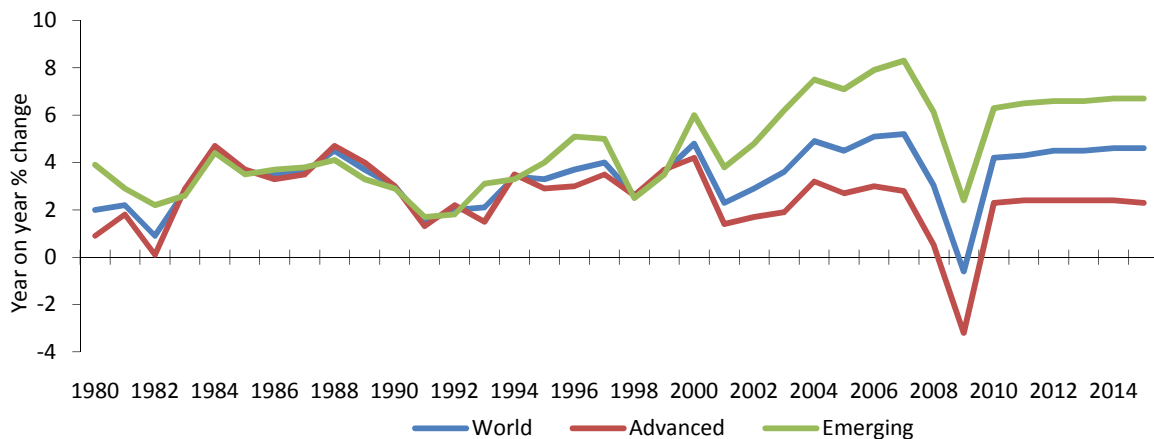
3. TRAVEL TRENDS & FORECASTS

Economic recovery key to renewed demand for travel

The primary determinant of demand remains the economy in each source market. The outlook for a slow, but fragile, economic recovery in most developed countries suggests that an upturn in demand for travel will also be slow. The euro zone crisis has the potential to at least stall the economic recovery underway in the developed world, while the continuing rise in unemployment is likely to dampen consumer confidence. Pick up in employment, while historically lagging economic recovery, may be more sluggish this time.

The IMF has recently raised its forecast for global economic growth this year, from 4.2 % to 4.6%, while warning that the risk of a slowdown had increased sharply. The forecast rate of growth in the developed economies of Europe and North America is closer to 2% per annum over the next three years. Worries about sovereign debt and budget imbalances in the developed world continue as big threats to the recovery in Ireland's top source markets.

Fig. 5: Real GDP growth: % annual change 1980-2015



Source: IMF

Oil prices have risen since mid 2009 driven largely by demand from fast growing emerging economies and now stand at close to €70 per barrel. Expectation is that the price of oil will continue to increase due to growing demand and possibly exacerbated by the impact of the oil spill in the Gulf of Mexico which may curb deep sea exploration and extraction.

The consumer, as well as being more cautious in spending, has also become more value conscious, particularly in respect of large ticket items, including holidays and travel. The expectation is that the international travel industry will find it difficult, if not impossible, to return to pre-recession price levels within the next two to three years. An exception to this is the

airline sector which is improving yields by reducing capacity, although fares are still below pre-recession levels on many routes.

A Changing Market Demographic

The demographic shifts, specifically the ageing population in western societies, are probably the most predictable factors likely to reshape the profile of tourism demand. The over 50 cohort, which accounts for an estimated 50% of consumer spending within the EU, is a fast expanding segment of the market, for example someone turns 50 in the UK every 40 seconds.

In the developed economies of Ireland's prime source markets, Britain, mainland Europe and North America, the changing age structure is a result of an increase in life expectancy and a declining birth rate, with greater numbers of older people and little, if any, growth in the overall population. In recent years a large part of the increase in demand for travel in the western world has been from those over 50, taking more leisure trips. Future growth in travel is likely to be largely dependent on the older end of the market.

Table 1: Share of population 60 years and over

	2000	2020
UK	20.8%	24%
Germany	22.9%	30%
Spain	21.8%	28%
France	20.7%	29%
Ireland	15.1%	19%
USA	16.2%	22%

Sources: UN Population Division & Eurostat

Current trends in travel

A new search for authentic travel experiences is apparent, partly as a reaction to the pre-recession era of conspicuous consumption, which values the experience over simple material luxury. This trend is most noticeable amongst discerning and mid to upscale tourists.

Another apparent trend is a growing focus on the 'why' of travel rather than the traditional first question of 'where' to holiday. At the same time the ageing demographics of developed travel markets refuse to be defined by age while seeking increasingly active and enriching holiday experiences. This age group is also boosting 'Gran Travel' or multi-generational travel parties with grandparents travelling with their grandchildren.

The new interactive world also is having a major impact on travel and lifestyle experiences, with decisions being increasingly influenced by online communities, while instant and short lead time bookings are becoming more the norm. Leisure activities, such as sightseeing and visits to attractions, are becoming more interactive based on personal mobile technology.

"Bleisure" trips is one of the more recent trends as professionals are increasingly adding a few extra days holiday onto the end of a business trip, often inviting a partner along.

Concern for the environment is high amongst an increasing number of consumers and the subject of much public debate. However, as yet there is little evidence to suggest that the increasing environmental awareness is influencing people's travel choices or behaviour in regard to holidays, particularly if it means paying a higher price.

Nonetheless as the environment is a key component of the nature based experience offered by Ireland, conservation and the management of the environment is important in ensuring sustainable European demand. Some destinations, driven by consumer trends, are already adapting to a more sustainable green model, capitalising on new energy and communication technologies, while placing a greater emphasis on local inputs.

The changing landscape of the transport and travel sectors

Two major restructuring factors are firmly established in the airline sector as low cost carriers (LCCs) continue to gain market share in short-haul markets, while legacy carriers consolidate. Meanwhile with improvements in technology and shorter journey times, high speed rail is competing directly with many short-haul air services, particularly in Europe and is set to gain an increased share of the market.

The travel industry is also undergoing change, with the number of traditional travel agents in decline, the emergence of mega-multi-national tour operators, while online travel agencies, such as Expedia, and lastminute.com, continue to grow. In addition non-traditional distributors of travel, including supermarket chains and mail order companies, are emerging as niche players in some markets.

Cruise tourism is currently the fastest growth segment of the international travel market. Informal research would suggest an increase in the popularity of group travel, driven by lifestyle and demographic patterns, together with providing reassurance on security.

The online revolution

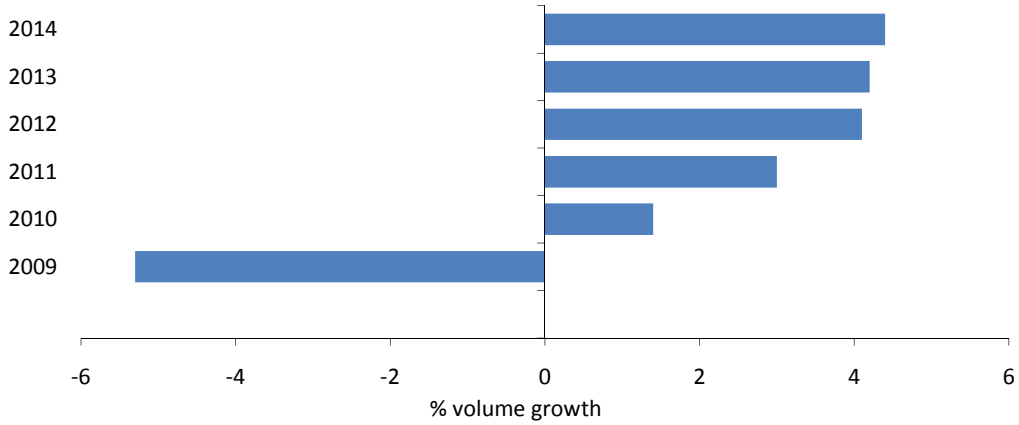
The recession has accentuated many online trends that were already apparent pre-crisis. Increasingly, the internet became the place to look for discounts and consumers sought information online before buying, tapping into price comparison websites, travel networking and social media sites. With more travellers using smart phones, travel applications are increasing in number, at the same time social media networks – blogs, Twitter, Facebook, podcasts and other forums – are increasingly used for travel. In effect social media is becoming the 'new word of mouth'. Google is the latest entrant into the travel business with a plan to build new flight search tools that focus on end-users but not planning to sell airline tickets.

ITIC's about to be published study '*Tourism and Travel Distribution in a Changed World*' contains a series of important messages and action points for tourism product providers, for industry bodies, the State agencies and tourism policy makers. The report finds that while traditional channels of distribution are still important they are making increasing use of the internet, as online travel agents (OTAs) continue to gain significant market share. Online sales have been most successful where price is the primary driver of choice, with direct sales by suppliers to consumers accounting for the lion's share. The overarching message of the report is the need for Irish tourism product providers to recognise the fundamental changes in distribution channels and to respond to the internet's increasing role in researching, planning and booking holidays. The report highlights a number of practical steps every provider, large and small, needs to take.

Latest travel forecasts

Western Europe and North America were hit hard by the crisis and tourist arrivals may take up to 5 years or more to fully recover, as consumers remain cautious and focus on other priorities over travel.

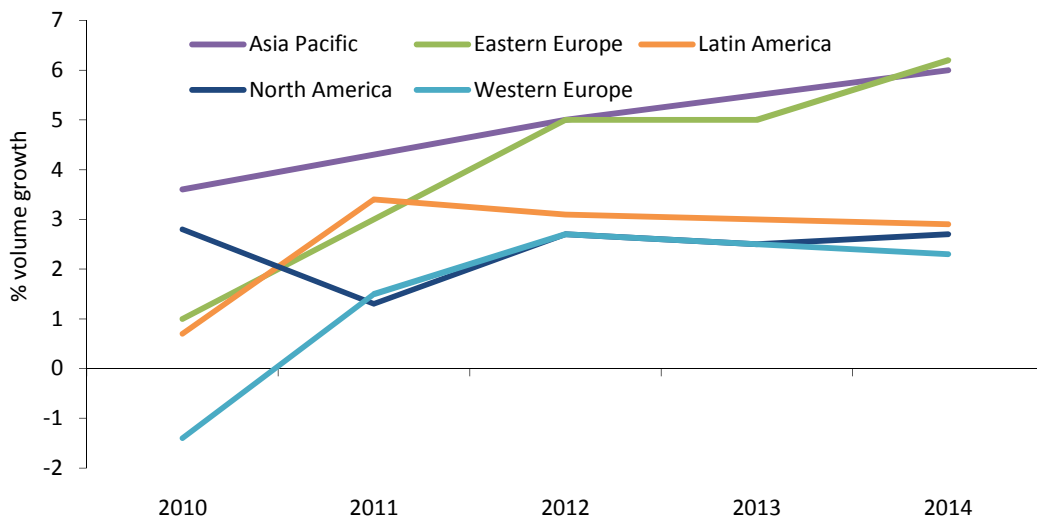
Fig. 6: Global arrivals forecast 2009-2014 (% volume growth)



Source: Euromonitor International

While most recent forecasts see a return to growth in tourism worldwide next year followed by average growth at close to 4% per annum up to 2014, the outlook for European tourism is for a slower recovery. Western Europe and North America are expected to show the slowest growth in tourist arrivals over the next few years, estimated at close to +2% per annum after 2011, compared to growth of up to 6% per annum in Asia Pacific and Eastern Europe.

Fig. 7: Regional arrivals forecast 2010-2014 (% volume growth)



Source: Euromonitor International

Most of the expected growth in global tourism, including the fastest growing origin-destination pairs, is forecast to come from intra-regional travel. Intra-European travel will continue to represent the majority of arrivals in European countries – currently 82% of arrivals in Western Europe are Europeans travelling within the region. This clearly illustrates that volume recovery for Ireland will be contingent upon winning market share in Britain and mainland Europe.

4. HOW IS IRELAND PLACED FOR THE FUTURE?

The appeals & experience of an Irish holiday

Research shows that the Ireland holiday experience continues to deliver on the top three quintessential appeals of people, scenery and culture, with other aspects such as activities, food, and good internal transport adding to the satisfaction for some visitors. The vast majority of holiday visitors rate their Ireland experience highly against the distinguishing features and their expectations. Overall one in three (33%) holiday visitors report that the experience exceeded their expectations, rising to 46% for North Americans. The level of dissatisfaction in the overall holiday experience is extremely low at 5%.

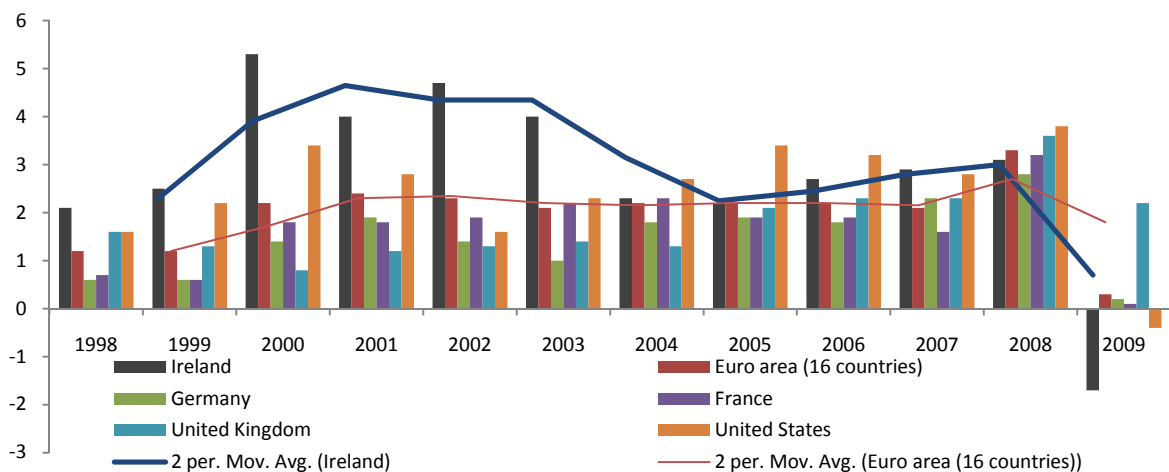
The No.1 negative aspect of the Irish holiday experience in recent years has undoubtedly been poor value for money, with one in five dissatisfied in 2009 – an increase on the previous year. Visitors from Britain and Germany are the most critical of high prices – two out of every five British visitors and one in three Germans. In fact the recession appears to have intensified the criticism compared to a year earlier, with a weakened pound sterling exacerbating the issue for British visitors.

Ireland's competitiveness

Prices

Price, not surprisingly, appears to be a major determinant of visitor satisfaction rating of the overall holiday experience and to colour their willingness to recommend a holiday in Ireland. The cost of living in Ireland has been a persistent disadvantage relative to competitor destinations in recent years. Ireland's loss of price competitiveness has been well flagged over the past decade as prices in Ireland rose more quickly than in most of Ireland's source markets and competitor destinations. From 1999 to 2008 the annual pace of price inflation ran well ahead of that within the eurozone, the UK and the US, although at a more modest rate from 2005 onwards. Since 2008 the fall in prices in Ireland, including many components of a holiday has helped to narrow the gap but has not eroded the price differentials. Recent Eurostat data shows that the prices of food and non-alcoholic beverages in Ireland are the second highest after Denmark in the EU at 29% above the EU average, while comparable prices in the UK are 3% lower than the average. Alcoholic beverages continue to be amongst the most expensive in Europe at 67% above the average. Unfortunately despite deep price reductions in hotels and other businesses, the perception of Ireland as a high priced destination is likely to continue until there is a reduction, or at least an extended pause in increases, on cost inputs including labour rates, utilities, insurance and local authority and other public sector charges.

Fig. 8: Harmonised index of consumer prices - annual % change 1998-2009



Source: Eurostat / CSO

Quality

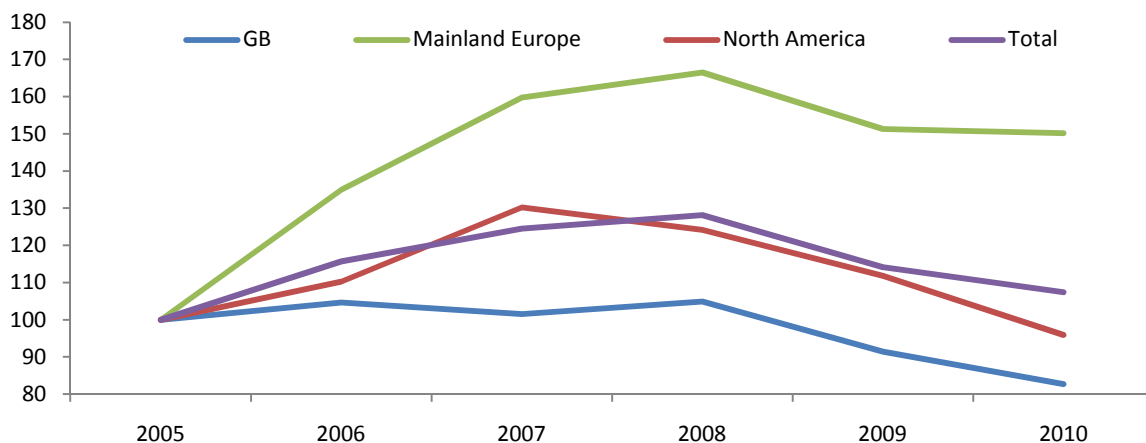
In contrast, visitors give a consistently high rating to quality and customer service to most components of their holiday with only a few exceptions. However, the current financial state of many businesses within the tourism and hospitality sectors is putting extreme pressure on the maintenance of quality and service standards. Recent cost containment measures, while necessary, may have a longer term impact on the range and quality of services provided for visitors. In addition, the absence of funds for investment will result in little or no new products coming on stream and only essential refurbishment being undertaken. Investment in training and development is also at risk.

While thankfully the standard of the tourism product has probably never been higher than at the start of the current downturn, there are already signs that the lack of profitability and investment is already having an impact. Many hotels are postponing refurbishment while the lives of car hire fleet and coach fleets are being extended. In short, the industry faces a particular challenge to maintain its excellent quality and service standards in the face of falling demand, reduced margins and lack of available finance.

Access to Ireland

Air services have become the dominant mode of access to Ireland, with 90% of holiday visitors now arriving by air. The share of the market travelling by ferries has dropped from 40% in 1997 to 10% today.

Fig. 9: Peak summer access capacity (available seats) indexed



Source: OAG/TTC

The growth in the level of services and the introduction of a range of low fare carriers is commonly credited with being one of the primary drivers of tourism to Ireland over the past two decades. However, over the past two years the level of air services to/from Irish airports has been contracting, in part due to over capacity in the market and a downturn in demand coupled with some changes to airline strategies in serving the market. Total available capacity on direct scheduled air services to Ireland for summer season 2010 is 6% down on last summer, with 10% fewer seats on cross-channel routes, 1% fewer on mainland European routes and 14% less on transatlantic services. This is the second successive summer of reduced capacity, following a 10% contraction last year. The aggregate of close to 316,000 seats per week in each direction takes capacity back to 2006 levels. Dublin Airport has experienced one of the sharpest contractions of air services across Europe, including the loss of several carriers in recent years. The duopoly of Ryanair and Aer Lingus now provide up to 90% of capacity on Irish routes.

Since competitive air services were such an important influence on growth over the past two decades, it is essential that Ireland maintains a good network of routes and attractive fares to encourage inbound tourism.

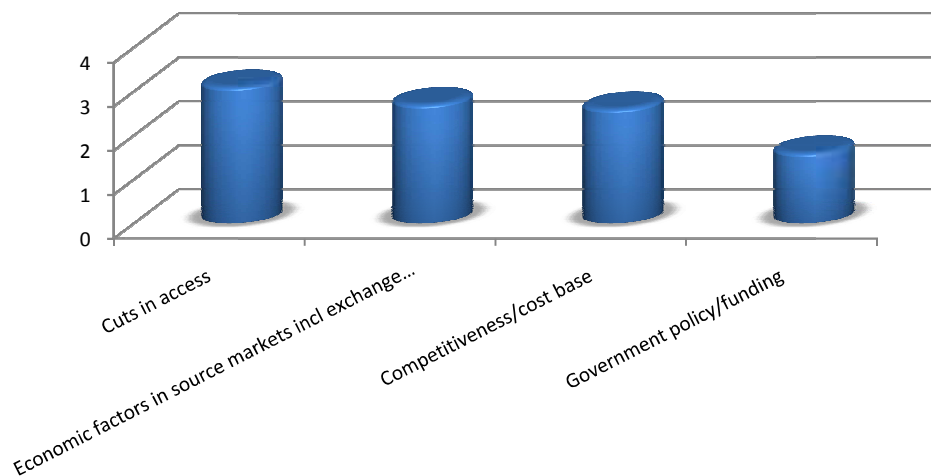
An Industry Perspective

Concerns for the immediate future

A survey of business professionals in the industry¹ revealed that their top concerns for the future are

- Ensuring adequate air services and competitive fares from key source markets to Ireland; and
- Addressing the lack of competitiveness of Ireland due to high input costs.

Fig. 10: Industry concerns and greatest threats to the recovery of Ireland's tourism



Source: TTC Industry Survey, June 2010

The industry recognise that better and cheaper access has in the past improved Ireland's attractiveness and driven demand from overseas, and are therefore concerned that the recent cutbacks in air services represents a threat to recovery. In addition the industry are very aware of the high price perception of Ireland overseas, and while many businesses have significantly reduced rates to compete, the fundamentals of the high cost economy in Ireland require to be addressed at a policy level by Government.

Mid-level concerns of the industry are focused on:

- Government policy and the continued availability of destination marketing funds;
- Maintaining an authentic visitor experience;
- Maintaining a quality product and service;
- Securing investment funding for maintaining the physical quality of the range of tourism products;
- Maximising efficiencies in the operations of the tourism agency structures.

The consensus view of the industry is the need to clearly focus on ensuring that Ireland can continue to deliver a quality and authentic experience giving value for money. While calling for adequate funds to be made available for destination

¹ Online Delphi Survey conducted in June 2010 on behalf of ITIC amongst selected 50 tourism professionals and industry representatives.

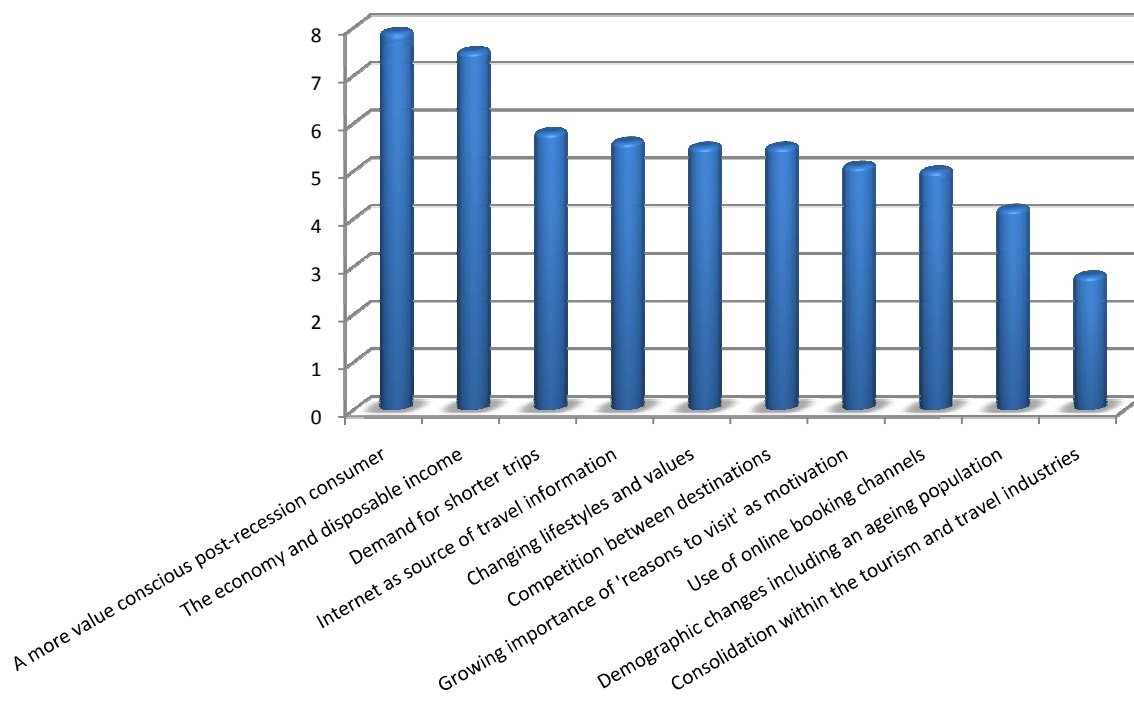
marketing, particularly in these challenging times, the aim is to ensure that marketing funds are allocated and utilised in the most cost effective and efficient manner with a transparent system for assessment and measurement in place.

Factors most likely to influence demand

An increasingly value conscious consumer coupled with the rate of economic recovery in key source markets have been identified by the industry as the primary influences on demand for Ireland over the coming 3 to 5 years.

Other influences in receding order of importance include a continued trend for shorter breaks; the role of online channels in facilitating travel; and increasing competition from Ireland's competitors in the top source markets.

Fig. 11: Factors having the biggest impact on demand in Ireland's source markets



Source: TTC Industry Survey, June 2010

The successful communication of reasons to visit Ireland, to a market that is undergoing lifestyle and demographic changes, will constitute one of the most powerful influences on demand.

Best market opportunities

- ❖ The British market is considered to offer the best opportunity for growth and is regarded as 'essential' to Ireland's tourism recovery. The size of the potential market in Britain, Ireland's largest and closest overseas source market sharing a common language, dictates the need to regain market share. Redressing the lack of growth and the recent downturn is seen as key to the speed and extent of the industry's recovery. Therefore failure to reverse the recent downturn in the British market would seriously jeopardise Ireland's ability to return to the level of visitors enjoyed in the mid-2000s. In addition, an important group of businesses, including carriers, are dependent on the performance of the market for survival. While not underestimating the challenges, the

industry is firmly of the view that Britain can yield more visitors for Ireland provided the potential market is correctly targeted with effective messages and offerings. The distribution channels and access are in place, with the market very well served by air and sea connections from a large number of gateways, together with a more favourable exchange rate.

- ❖ The domestic or home holiday market is also rated as a top priority for the immediate future, based on high dependency of many businesses on this market, most notably hotels. The continued success of the domestic market is necessary to support the range of tourism infrastructure and facilities needed to cater for overseas visitors. The spectacular growth in demand for leisure trips by Irish residents in recent years has established the short leisure break as a lifestyle characteristic, although currently suffering from a downturn due to economic conditions. The offerings in the home market are particularly attractive value-wise and well received by the customer. In the short term the aim should be to win market share as some consumers substitute trips in Ireland for travel abroad with the objective of capturing the demand for the future. However, growth in the domestic market will not substitute for continuing loss of overseas demand.
- ❖ Germany is viewed as the overseas market offering the next best potential. While the German travel market is mature with low annual growth, Ireland has the potential to win market share. The industry view is that Ireland is well positioned in Germany and has in place well established trade links in a market where the travel trade is still dominant. An opportunity is seen to exist to further grow demand for Ireland by penetrating defined segments and by leveraging the trade distribution channels to deliver growth. A key to this growth will be securing adequate airlift offering competitive fares from the main source areas in Germany.
- ❖ The US market is regarded as offering potential for recovery and growth based on the current demand patterns of an upturn in travel to Europe, and on Ireland's recent relatively good performance. The high spending American tourist is critical for many businesses in Ireland – hotels, B&Bs, car rental, coach tour operators and golf – as well as being the source of large numbers of touring visitors covering many regions of the country. The single largest perceived risk to renewed growth would be the lack of adequate airlift with competitive fares. An identified segment for promotion is the group tour market which distributors are anxious to recover, while incentive travel and conferences are also expected to yield further potential for Ireland.
- ❖ France is the fourth most important market for holiday visitors to Ireland which is seen as offering further potential. Ireland is regarded as being well positioned in the market with good access services and a product offering which has high consumer appeal. The market, like Germany, is important to tourism businesses in the west and is reckoned to offer some good potential to exploit niche opportunities.
- ❖ Other markets of lesser volume, including Italy, Spain, the Netherlands and the Nordics, together with Australia and the new emerging long-haul markets will continue to offer opportunities for Ireland. As the potential growth volumes in the short to medium term from these markets are likely to be more limited than the opportunities in the top source markets, the allocation of resources should be scaled proportionately. However, efforts to improve the appeal and facilitation of visitors should continue to be encouraged, as in securing a common UK/Ireland visa for travellers from outside the EU.

Which product, which markets?

The industry consensus based on the survey firmly identifies the key products and priority markets for each.

- Culture and heritage are deemed to be the primary appeal for Americans and mainland Europeans.

- City breaks in Dublin are seen as very important offerings for the British, Irish and European markets. The successful marketing of Dublin, due to its appeal and recent success in attracting visitors to the capital, is viewed as necessary to any recovery of overall tourism to Ireland.
- A reversal of the continuous decline in touring holidays over the past decade is seen as best addressed by attracting more American, German, French and British visitors.
- The priority markets for promotable business travel (MICE) are identified as Britain, USA and Germany in that order. The sector is regarded as worthy of particular attention due to its high value, year round potential, while the opening of the Convention Centre Dublin (CCD) offers a new window of opportunity to capture a greater market share.
- Activity holidays are expected to continue to be dominated by Irish residents, with some potential for growth in demand from Britain and Germany
- Festivals and events are seen as good drivers of demand, especially in the Irish, British and mainland European markets;
- Golfing holidays are considered to offer opportunities for some growth in the US, British and Irish markets, assuming competitive pricing.

Activity	Market 1	Market 2	Market 3
Culture/heritage			/Other
City breaks			
Touring			
Business/incentive			
Activities/adventure			
Festivals/events			
Golf			

5. A STRATEGY FOR RECOVERY IN DIFFICULT TIMES

A Challenging Market Environment

The economic and travel outlook in each of Ireland's top 4 overseas and the domestic source markets points to a low growth environment, with progression from survival mode for the Irish tourism industry to recovery mode taking longer than that envisaged in the Tourism Review Group Report of 2009. All the indicators point to a slower and more fragile economic recovery. Growth in travel will undoubtedly come but is likely to be slow. However, some positive signs of renewed demand for international travel are beginning to appear in some source markets and segments.

The speed of recovery for Ireland's tourism will depend on the success or otherwise of gaining market share in a slow growth environment. This is essential to the sustainability of many businesses in the sector, and to maintaining employment and Exchequer receipts. Tourism as an export industry can play an important part in restoring the Irish economy to growth, provided that the necessary policy, strategic and tactical actions are taken to address the current set of challenges.

The key challenges which Ireland's tourism industry currently faces are:

- Competitiveness of the Irish offering in key source markets;
- Securing adequate and competitive air access services from all of the key source markets;
- Ensuring that the marketing of Ireland by the agencies and businesses is effective and maximises the use of available funding; and
- Recapturing a share of the own car market, especially from Britain, which would boost touring holidays and help regional dispersal.

A Strategy for Recovery – Key Recommendations

- ❖ **Concentrate on top producing markets:** In order to redress the downturn a strategy of a clear prioritisation of effort on the top 4 producing overseas source markets of Britain, USA, Germany and France is proposed – these markets typically produce three out of every four holiday visitors to Ireland. The strategy calls for a transparent allocation of resources – budgetary and human – commensurate with the recovery targets in these top markets, A 'hold and maintain' approach is proposed in all other source markets, with priority of remaining resources allocated to smaller producing markets in mainland Europe ahead of longer term potential in new long haul markets which are unlikely to yield short term gains.

Regaining tourist demand from Britain must be the top priority. Without winning back lost share and volumes from Ireland's top producing source market, recovery of tourism to Ireland will be stunted.

A short term results-driven approach is recommended, whereby a set of objectively verifiable indicators are agreed between the agencies and industry representatives to facilitate monitoring of progress in achieving a speedy turn around for Irish tourism.

- ❖ **Increase the marketing of Dublin as a distinct destination:** Dublin has been the top selling product in Ireland's tourism portfolio in recent years as well as proving more resilient in the recent downturn. Experience of recent years clearly demonstrates that Dublin has been the destination of choice for an increasing share of leisure visitors to Ireland, which reflects changing consumer preferences, the concentration of holistic appeal and

experience offered by the city, together with the ease of access from many points. Thanks to recent public and private sector investment in tourism infrastructure and facilities, the capital now holds more appeal and motivations to visit. City tourism continues to boom across Europe, with sizeable marketing investment devoted to attracting tourists to competitor urban destinations. Such campaigns are distinct from national destination campaigns in most other European countries. Dublin due to its market share would appear to warrant an increased investment in marketing campaigns, since on the basis of recent performance it is likely to underpin any recovery of tourism to the country. The recommendation is not intended to give rise to an urban rural divide but rather recognises the role of Dublin as a prime driver of Ireland's tourism performance. Besides, Dublin rather uniquely for an urban destination offers easy access to the countryside and will remain the most important gateway to Ireland.

- ❖ **Maintaining adequate access by air to Ireland:** The threat of further cutbacks in air services endangers recovery for Irish tourism. Air transport policy needs to ensure that measures do not militate against the continued viability of air services to/from Ireland. The abolition of the travel tax is essential to the viability of many services and to secure their continued operation. Greater engagement with air and sea carriers is recommended to ensure that a common strategy and a shared risk is pursued to secure adequate and competitively priced access services from the top 4 markets targeted for recovery.
- ❖ **Focus on developing and communicating better value for money offerings:** In order to redress the perception of Ireland as high priced destination more innovative pricing of holiday offerings will be required, which deliver better value for money. While discounting is expected to continue to be a feature in the international holiday market the challenge for Ireland is to communicate and genuinely deliver value-added to the consumer, as further discounting for many businesses is not a viable option. Support from Government to reducing the high cost base for tourism businesses, including labour rates, utilities, insurance and local authority and other public sector charges, is urgently required to allow Ireland to compete in the international marketplace.
- ❖ **Adopt a more granular approach to marketing:** In a diverse global market 'granular marketing' is an advantageous tool for destinations and tourism providers to create value for their guests, by developing offerings and promotional campaigns tailored to highly specific consumer behaviours. Such an approach would allow Ireland and its holiday offerings to achieve greater differentiation from the competition based on consumer needs and patterns of holiday behaviour. Greater engagement with the industry could provide a competitive advantage for Ireland in the top source markets and provide a vehicle to address the challenges facing the destination in selected segments.
- ❖ **Review agency arrangements for tourism:** A review of the State agencies involved in tourism is recommended, while cognisant of the all-Ireland remit of Tourism Ireland. The particular challenges facing Ireland in a changed market environment together with the restrictions on public funding and the need for the most effective marketing of the destination combine to suggest this is an opportune time to review the current organisational arrangements. Such a review has already been proposed in the Report of the Special Group on Public Service Numbers and Expenditure Programmes (An Bord Snip Nua) and the Tourism Review Group Report. Key criteria for the review might include a fit for purpose assessment, an efficiency audit as well as exploring opportunities for shared services.



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