

# 2015 Tourism Industry Outlook Survey

*Capitalising on growth market opportunities*  
*- A survey of industry leaders*



on behalf of **itjc**

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## 1. Top line Findings & Conclusions

Ireland's top tourism executives are positive about the state of the industry and are planning to exploit the opportunities for growth. The majority of businesses have strategies in place to adapt to a changed market place environment, making significant investment in expansion and thereby creating thousands of new jobs in the sector.

The opportunity for growth of the industry is considerable but not without its challenges which need to be addressed by policy and public sector investment in infrastructure, skills and enterprise supports.

Specific findings from the recent survey include:

- The overall view of the economic environment in the international marketplace is positive for sustained growth in demand for travel.
- There is an almost unanimous expectation of sustainable growth in tourism to Ireland over the next 2 to 3 years. 60% think the growth impact will be 'modest', with 40% expecting 'significant increases'. The expectation of sustainable growth is positive across most sectors of the industry.
- More than four out of five businesses are changing how they do business and adopting new marketing strategies, as almost 70% anticipate a change in their customer profile.
- Almost two out of three are planning to expand their business over the next 3 years to cope with anticipated profitable growth.
- Two out of three businesses foresee the number of employees increasing by 5% and 20% within 3 years, with a minority of businesses (8%) delivering more than a 20% increase in employment.
- The top 3 factors limiting growth in tourism, identified by industry leaders, are:
  - Capacity constraints
  - Labour constraints – skills shortages; costs; and overall supply
  - Increasing regulation and compliance costs
- The risks for the tourism sector, besides the external risks of economic and other conditions affecting the marketplace, are:
  - Price competitiveness of the Ireland offering (cited by 66%)
  - Under investment in tourism plant (61%) and infrastructure (54%)
  - The regulatory environment (49%)
- The best prospects for growth for the majority of businesses continue to be primarily in the established source markets, with selective opportunities in new and developing markets and specific market segments.

- **The Government's recently published *'People, Place and Policy – Growing Tourism to 2025'*, was most positively received for its statement of policy while not seen as particularly helpful to businesses in their planning for the future. The realism of the targets set for 2015 – 10 million visitors and €5 billion revenue – would appear to be endorsed by less than 30%, with one in three giving the targets a negative rating.**
- **On the proposed IAG bid for Aer Lingus almost 70% of respondents were 'broadly in favour', with 20% opposed and 12% undecided or 'don't know'.**

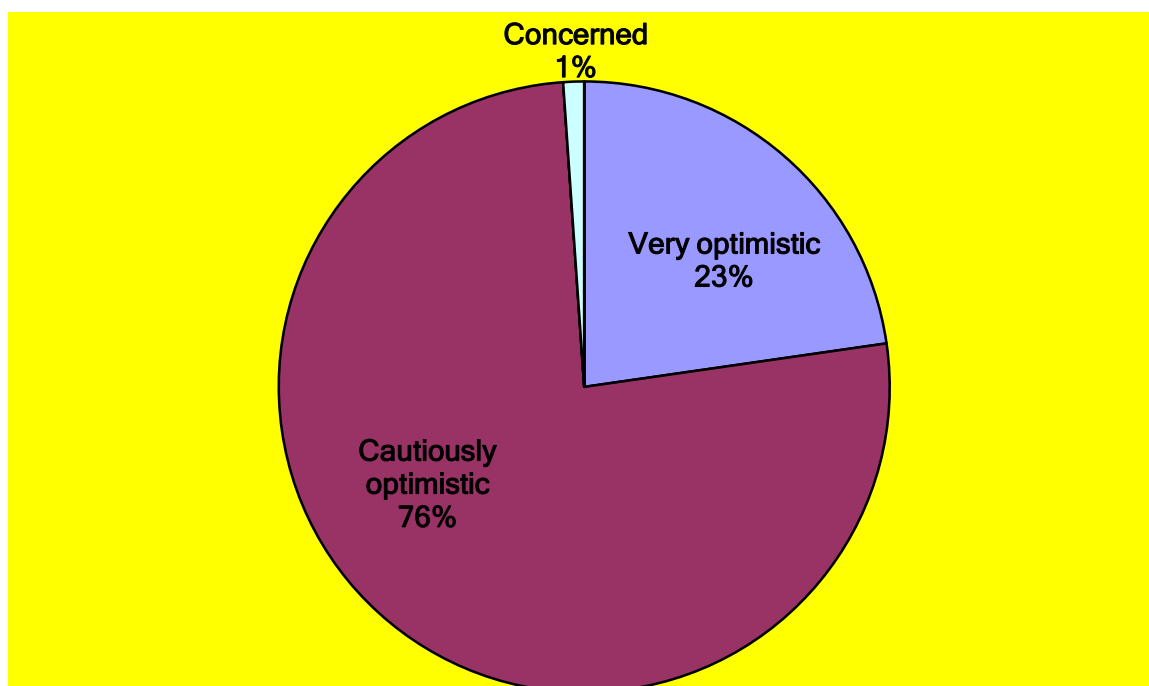
## 2. Detailed Findings

### 2.1 The global economy to drive demand for international travel

The overall view of the economic environment in the international marketplace is positive for continued growth in demand for travel.

Three out of every four respondents expressed themselves as 'cautiously optimistic' and almost one in four 'very optimistic' on the outlook for the global economy and its impact on demand for international travel over the next 2 to 3 years.

**Q** How would you describe your outlook for the global economy on demand for international travel over the next 2 to 3 years?



The positive outlook for the global economic environment translates into a confidence that the economy will continue to underpin growth in international travel.

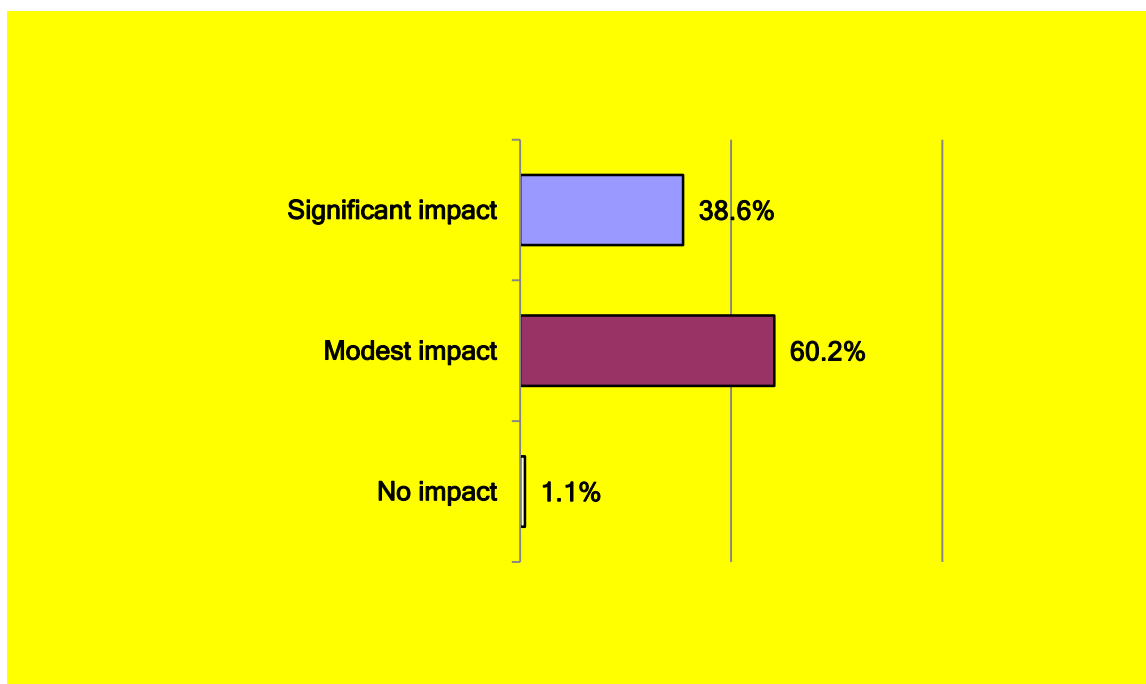
The findings emphasise the indisputable correlation between economic conditions in source markets and the level of demand for travel.

The responses show a welcome realism in that the majority of respondents are cautious in their expectations, despite the recent upsurge in overseas demand experienced by Ireland's tourism industry.

## 2.2 Irish tourism businesses planning for an upswing

There is an almost unanimous expectation of sustainable growth in tourism over the next 2 to 3 years. 60% think the growth impact will be 'modest', with 40% expecting 'significant increases'.

**Q** In the light of Ireland's current economic resurgence, to what extent are you factoring in a sustainable impact on the growth of tourism over the next 2 to 3 years?



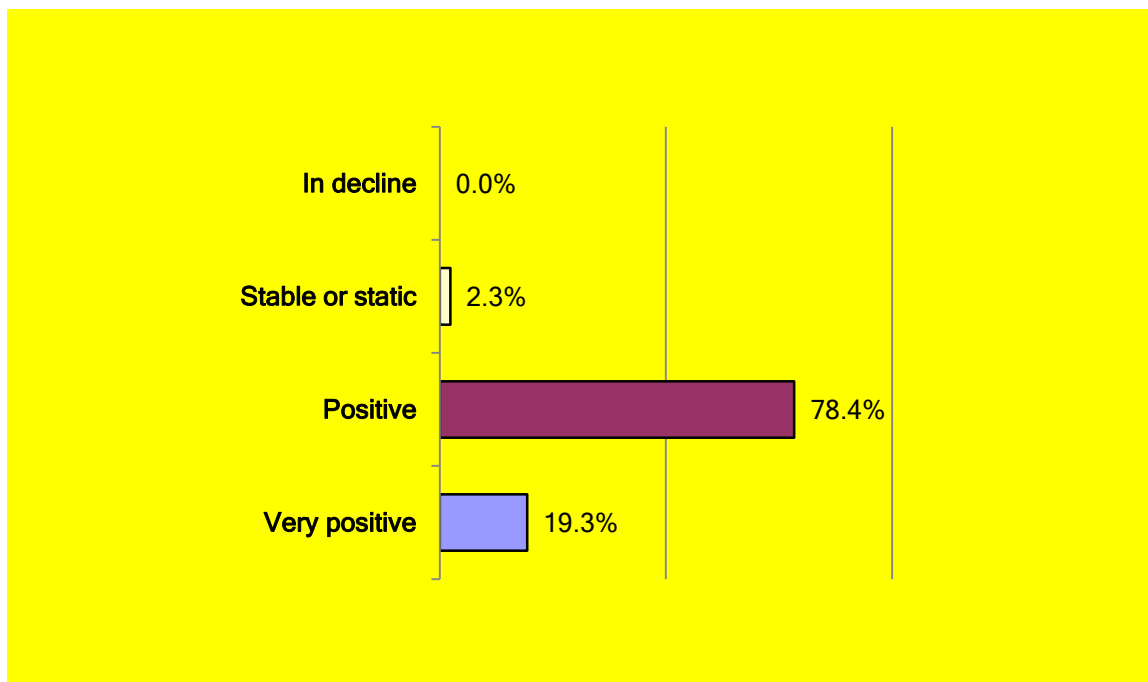
The positive outlook for Ireland's economy translates into an upbeat projection for growth in demand. For three out of five enterprises the expectation is that the economy will have a modest impact on their businesses, while two out of five are expecting a significant fillip.

The recovery in Ireland's economy not only has a positive impact on domestic demand, but also on the range of business input factors although the latter is not without a risk to competitiveness.

### 2.3 Bullish outlook for tourism and hospitality businesses

Almost all respondents were positive about the outlook for growth in their sector of the industry. Approximately 4 out of 5 are 'positive' with one in five 'very positive' in their outlook for growth. Only a small minority (2%) did not foresee growth for their sector of the industry.

**Q** In the light of Ireland's current economic resurgence, to what extent are you factoring in a sustainable impact on the growth of tourism over the next 2 to 3 years?



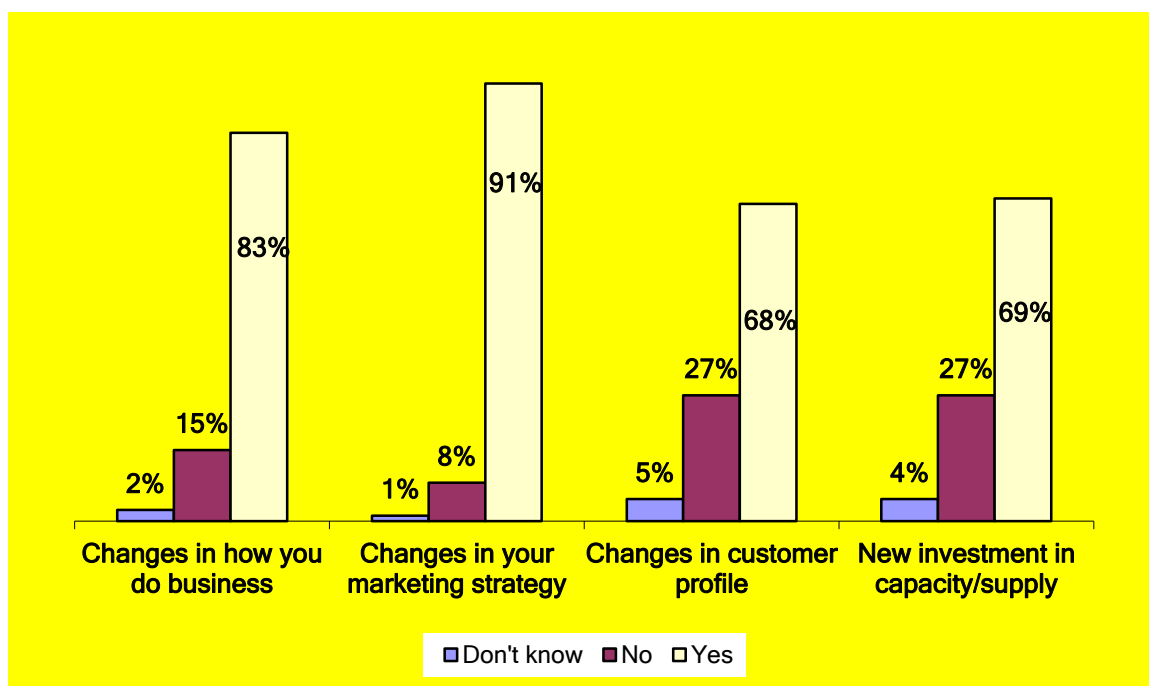
The confidence for growth within the industry appears to be consistent across most business sectors.

## 2.4 Businesses investing in the future and embracing new strategies for growth

The findings show an industry confident of growth and changing how they do business, marketing their product to changes in demand profiles and recognising the need for investment in capacity.

- More than four out of five businesses are changing how they do business and adopting new marketing strategies. 91% are changing their marketing strategy, while 83% are changing how they do business.
- Almost 70% anticipate a change in their customer profile
- Significantly 69% are planning to invest in expansion of capacity.

**Q** What does your current business strategy for the coming 2 to 3 years provide for?



The findings show that a majority of businesses are focused on transformation initiatives and are forward looking in challenging the current state of their operations, are better focused on their customer and on providing for expansion to cater for expected growth.

Investment, by just over two thirds of businesses, in expansion is a most positive indicator of commitment to driving profitable and sustainable growth across the industry.



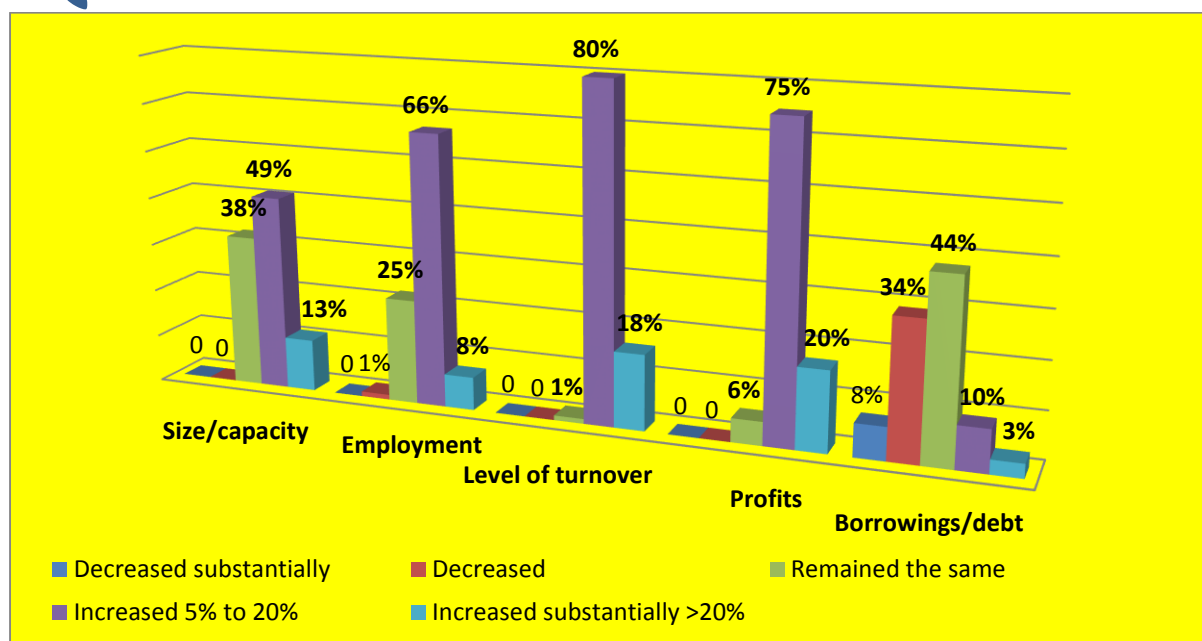
## 2.5 A significantly expanded industry by 2018

The findings point to an expanded tourism industry where the majority of businesses will be more profitable and employing more people

- **Capacity:** Almost two out of three are planning to grow the supply side of their business over the next 3 years. Half of the businesses expect their capacity to increase by between 5% and 20% over the period, with one in eight planning for 20+% expansion. Two out of four expect their capacity to be largely unchanged in 3 years from now.
- **Employment:** Two out of three businesses foresee the number of employees increasing by 5% and 20% within 3 years, with a minority of businesses (8%) delivering more than a 20% increase in employment.
- **Turnover & profitability:** Almost 20% expect their turnover and profitability to grow by more than 20% within 3 years. 80% expect turnover to increase by up to 20% with 75% predicting that their operating profit will be up to 20% better.
- **Borrowing/debt:** 13% of businesses are planning to increase their borrowings, with 42% planning to reduce their level of debt and 44% maintaining borrowings at about the same level.



What does your current business strategy for the coming 2 to 3 years provide for?



Based on the responses it is possible to postulate a tourism industry in Ireland by 2018 which will see the level of turnover and profitability increase by upwards of 15% to 20%, which in turn will provide an projected 10% to 12% increase in employment – estimated over 20,000 new jobs.

The projections are based on sizeable investment in the sector, which will provide expanded capacity.

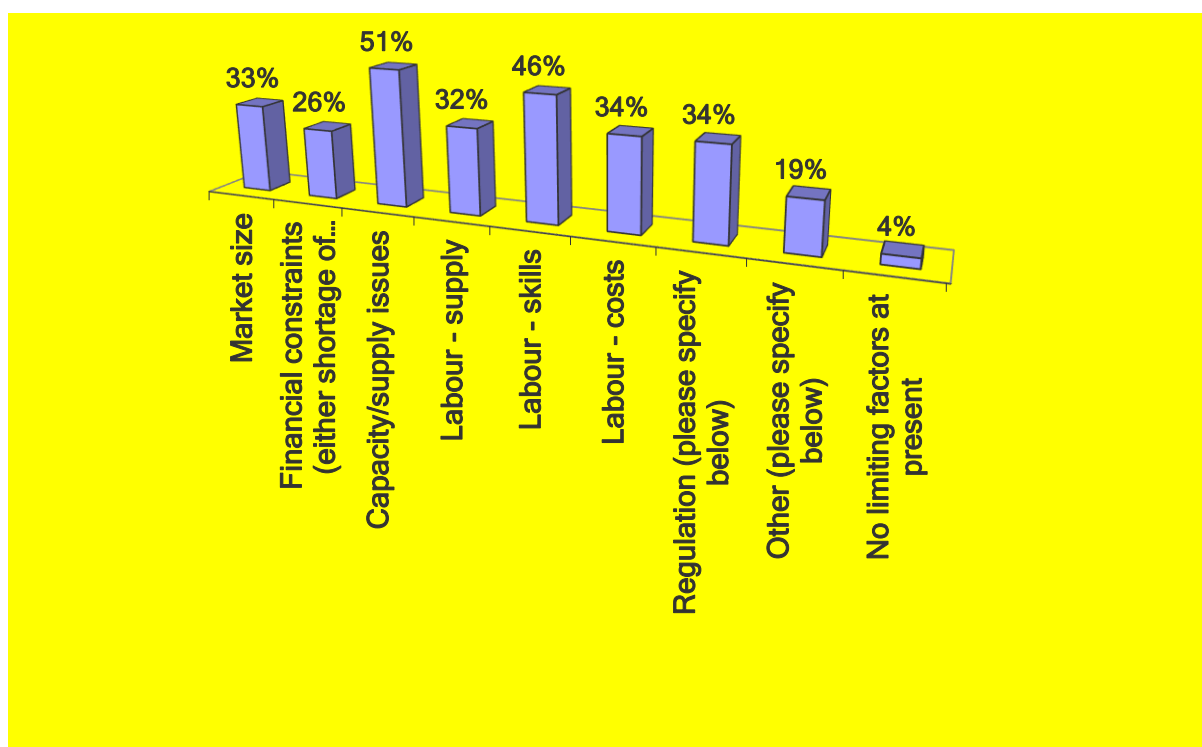
## 2.6 Current limitation on tourism growth

Limiting factors to tourism business growth as identified by industry leaders are ranked as follows:

1. Capacity/supply issues
2. Labour – skills; costs; and overall supply
3. Regulation
4. Market size
5. Financial constraints (either shortage of internal finance or difficulty of raising external finance)
6. Other issues, with 36 comments largely around costs factors including utilities, local authority rates and charges together with other compliance costs.



What factors are currently limiting your business ?



The findings from this survey clearly show that the constraints on growing the business are primarily on the supply side. The top finding is that current capacity is a limiting factor and further growth requires investment in expansion to cope for an increase in demand. The availability of a suitably qualified labour force, at cost levels comparable to competitor destinations, is also seen as a serious constraint on growth. Respondents identified the increasing burden of regulation and compliance costs as a limiting factor, which has a varied impact across sectors of the industry. It would appear that access to finance is improving although one in four businesses identified this as a current limitation on their enterprises.

## 2.7 Growth prospects are not without risks

Downturn in global economic growth (cited by 50%) and downturn in domestic economy (cited by 39%), followed by currency fluctuations (45%), were identified as the top external risks to the sector.

Top supply side risks:

1. Price competitiveness (cited by 66%)
2. Under investment in tourism plant (61%) and infrastructure (54%)
3. Regulatory environment (49%)



For each possible area of risk, please indicate how significant a risk these areas currently pose for your business over the coming 2 to 3 years?

		No risk/ Small risk	Neutral	Risk/ Serious risk	Risk Ranking
External risks	Downturn in global economic growth	14%	36%	50%	#1
	Downturn in domestic economy	30%	30%	39%	#2
	Level of overseas demand	20%	45%	35%	#3
	Level of domestic demand	31%	38%	30%	#4
Internal risks	Rising costs	8%	26%	66%	#1
	Under investment in tourism plant	14%	26%	61%	#2
	Under investment in infrastructure	19%	28%	54%	#3
	Regulatory environment	18%	33%	49%	#4
	Competition within sector	14%	45%	41%	#5

Not surprisingly on the external front any threat to the premise of sustained improvement or growth in the global economy, including exchange rates, is the top factor likely to impact demand. Almost two out of five businesses also identified the risk of a downturn in the domestic economy to the levels and value of demand for their services.

Ensuring the competitiveness of the Ireland offering is the No. 1 concern of businesses and the greatest threat to sustained growth. The danger of rising costs – labour and other inputs – leading to a loss of competitiveness against competing destinations is identified as the top risk to growing the sector. Businesses do not wish to see a repeat of the experience of the early noughties where Ireland, as a result of high wage and import inflation, effectively priced itself out of markets.

Failure to invest in the tourism plant – accommodation, attractions and services – or in enabling infrastructure, including communications and transport, represents an almost equally serious risk. Growth is predicated on attracting investment into public and private sector tourism experiences and services as well as ensuring adequate investment by the state in enabling infrastructure.

The level and cost of regulatory compliance together with state induced cost burdens are also high on the list of factors endangering the industry's ability to remain competitive.

## 2.8 Established markets are focus for growth

- North America, Britain and the domestic market continue to be regarded as the best prospects for delivering growth, with business tourism and group travel identified as good prospects alongside the general leisure market.
- The market focus broadens to include Europe and long haul markets when businesses are asked to rank their 2<sup>nd</sup> and 3<sup>rd</sup> 'best prospect' markets, with new emerging and developing markets being selectively targeted by Irish operators.

**Q** Which source markets or travel segments do you consider to offer the best opportunities for growth in your business over the next 3 years ?

**#1**

Business Tourism Germany Group Corporate  
 Domestic Ireland North America  
 Europe Market Britain

**#2**

Independent Travellers Leisure Australia Ireland  
 Market Great Britain Domestic  
 North America Europe Holidays Germany  
 Incentive Canada France

**#3**

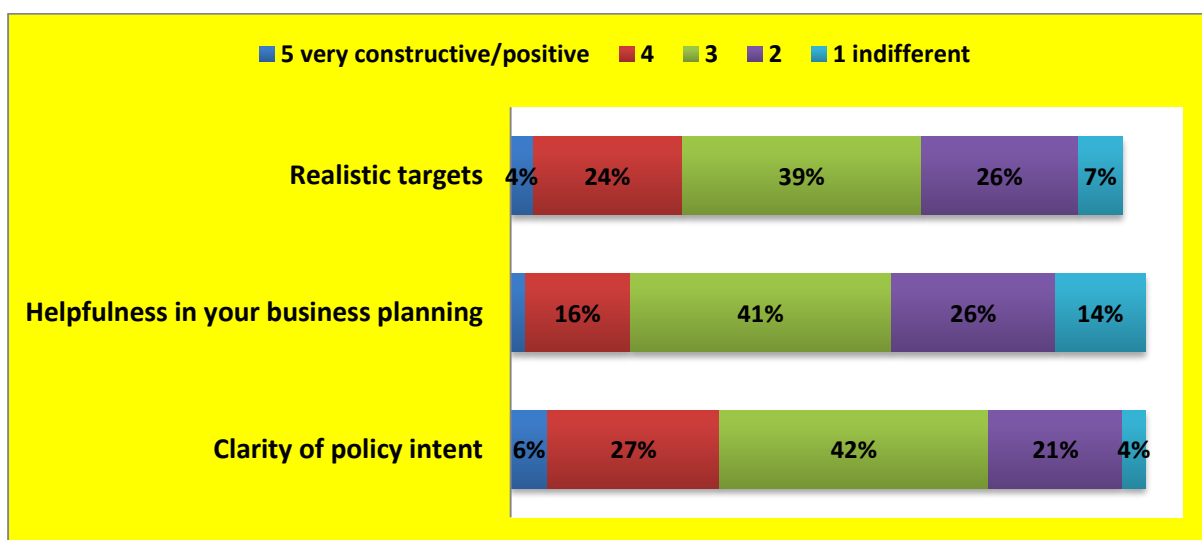
Business Leisure China European Asia Corporate  
 Europe Conference Germany Eastern  
 Market France Australia Domestic

The findings reflect the varying level of market dependency, and perceived opportunity of the range of businesses engaged in tourism. Not surprisingly the established source markets are the target of growth for the majority of businesses. North America is the top growth prospect for almost 40% of businesses, with 30% primarily focused on the British market. The relative importance of markets in mainland Europe and further afield are ranked below the two top source markets. The current favourable exchange rates for US dollar and British pound spending tourists are likely to influence businesses in their short to medium term marketing focus. While the general leisure market is undoubtedly the No. 1 volume growth prospect, the responses (including comments submitted) suggest a focus by businesses on value/yield rather than volume growth. Specifically business related travel – conferences and incentives – received frequent mention as did segments of 'above average yielding' leisure visitors.

## 2.9 Assessment of Government’s recently published Tourism Policy

- Overall, about 40% consider the publication of the policy as neither important nor unimportant in regard to providing clarity of policy; helpfulness in business planning; and setting realistic targets.
- One in three positively rated the statement of clarity of policy.
- Just under one in five (18%) gave a positive rating as being helpful for business planning, with two in five (40%) indifferent, and the balance (40%) ‘on the fence’.
- 28% rated the targets as realistic, with a higher proportion (33%) negatively rating this aspect.

**Q** How would you assess the recently published Government tourism policy in regard to the following aspects?



‘People, Place and Policy – Growing Tourism to 2025’ was positively assessed for its value in providing clarity of policy intent on the part of Government, although a quarter of respondents were negative in their assessment. Presumably this reflects a perceived lack of clarity and/or possible disagreement with the content.

As an aid to helping businesses to plan for the future, a sizeable proportion (40%) saw it as largely indifferent or unimportant to their enterprise.

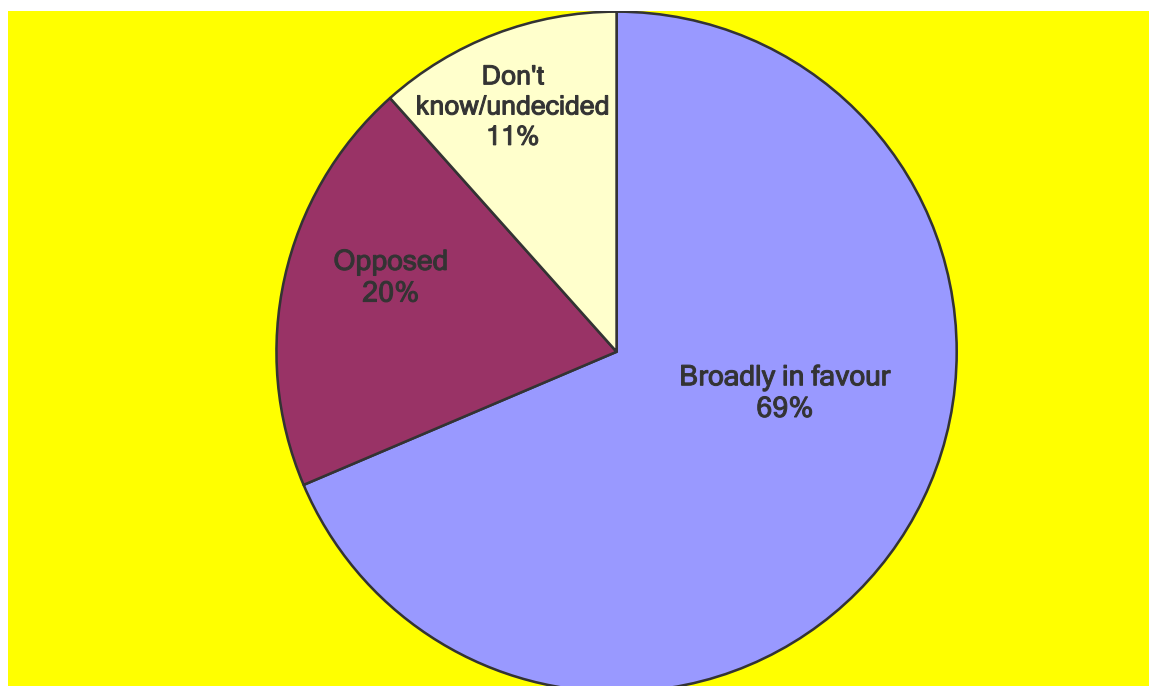
The realism of the targets set for 2025 – 10 million visitors and €5 billion revenue – would appear to be endorsed by less than 30%, with one in three giving the targets a negative rating.

These findings point to the urgent need to convene the proposed Tourism Leadership Group (TLG) in order to progress to the implementation phase in developing strategies and setting targets within a meaningful business cycle timeframe.

## 2.10 Majority in favour of IAG bid for Aer Lingus

Almost 70% of respondents were 'broadly in favour' of the proposed sale of Aer Lingus to IAG, with 20% opposed and 12% undecided or 'don't know'.

**Q** In regard to a possible bid by the International Airlines Group (IAG) for Aer Lingus, from what you have read of the debate, what is your view ?



After several weeks of publicity and debate surrounding the proposed bid from IAG to acquire Aer Lingus, the majority of respondents were in favour of the move, while a sizeable minority (20%) were opposed.

It is not possible to disaggregate the responses by location to see if there is a regional bias in the response to this question.

## 2.11 If one were 'tourism tsar'

The open ended question drew a range of suggestions which were consistent with the responses to earlier questions.

The priority actions clustered around:

- Safeguarding competitiveness through a range of measures including the retention of reduced VAT rate for the sector as a component of a benign fiscal environment.
- A positive investment environment to encourage expansion of capacity.
- A focus on the Ireland product/experience, encompassing rural and urban branded destination experiences.
- Ensuring adequate investment in destination marketing.



Finally, if you were 'tourism tsar' what would you do to sustain the recent growth in Ireland's tourism industry?



The following is a broadly representative sample of the 83 responses:

*“Offer value for money, keep competitive pricing and try to keep costs down”*

*“Invest in tourism infrastructure, support the takeover of Aer Lingus, increase funding to Tourism Ireland, develop policies that will resolve the skills shortage in the industry, retain the 9% VAT rate”*

*“Keep developing, marketing and investing in the tourism hubs such as the WAW etc.”*

*“Increase capital investment in Culture & Heritage projects as it is a key motivator for visitors”*

*“Harness the positive impact of the return to growth in the industry generally by ensuring tourism is sufficiently resourced by the exchequer to capitalize on growth from the main core markets and ensure that there is a capital investment programme for the life of the new Tourism Policy to improve existing plant and deliver 1-2 new projects of scale.”*

*“Designation of particular areas and locations in (Dublin) city centre is required for hotel development with appropriate capital investment scheme - short terms and strictly policed to ensure a positive impact.”*

*“Develop more attractions, such as the Wild Atlantic way”*

*“Create real KPI's for all government bodies to perform to and make them accountable.”*

*“(Reduce) commercial rates - clarity re minimum wage - no JLC.....encourage inbound through lowest possible costs making it attractive to fly into Ireland - strongly invest in key attractions - Wild Atlantic Way, Dublin.”*

*“Limited business taxation incentive to encourage ongoing investment in new hotels, venues and attractions.”*

*“Assign realistic investment to both capital projects and overseas marketing planned and confirmed in advance of a 5 to 7 year plan”*

*“Up the marketing spend”*

*“Keep developing the Ireland Brand worldwide”*



### 3. Survey methodology

The online survey, commissioned by ITIC, was conducted during April 2015 and reflects the views of 88 senior executives on key issues and trends in the industry. The response rate achieved was 82%.

